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# SERBIA

## Public Expenditure and Financial Accountability (PEFA) Performance Report: Repeat Assessment

June 29, 2015

Governance Global Practice (GGODR)  
Europe and Central Asia Region



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## **Currency and equivalent units**

(Exchange rate as of June 29, 2015)

Currency Unit = Serbian Dinars (RSD)

US\$1 = RSD 106.07

Euro 1 = RSD 120.70

## **Government fiscal year**

January 1-December 31

## **PEFA assessment period**

2011-2013

## **Weights and measures**

Metric system

## Abbreviations and Acronyms

AGA	Autonomous Government Agency	MoH	Ministry of Health
BSL	Budget System Law	MTEF	Medium Term Expenditure Framework
CAAT	Computer assisted auditing techniques	NBS	National Bank of Serbia
CC	Chamber of Commerce	PAR	Public Administration Reform
CHU	Central Harmonization Unit	PDA	Public Debt Administration
CoFoG	Classification of the Functions of Government	PE	Public Enterprises
CoM	Cabinet of Ministers	PEFA	Public Expenditure Financial Accountability
COSO	The Committee of Sponsoring Organizations of the Treadway Commission	PIFC	Public Internal Financial Control
CPI	Consumer Price Index	PIT	Personal Income Tax
CTA	Consolidated Treasury Account	PFM	Public Financial Management
Customs		PPL	Public Procurement Law
Code	Customs Code of the Serbian Republic	PPA	Public Procurement Administration
DBB	Direct Budget Beneficiaries	RoS	Republic of Serbia
DSA	Debt Sustainability Analysis	SAFE	Strengthening Accountability and the Fiduciary Environment Trust fund
ECA	Europe and Central Asia	SAI	State Audit Institution
EU		SAP	Systems and data processing software developed by the Government of Serbia
Delegation	Delegation of the European Union to Serbia	SCO	Swiss Cooperation Office
FMC	Financial Management and Control	SECO	Swiss State Secretariat for Economic Affairs
FMIS	Financial Management Information System	SEIO	European Integration Office, for cooperation with international organisations
FY	Fiscal/financial year	SCA	Serbian Custom Administration
GDP	Gross Domestic Product	SDU	Service Delivery Unit
GFS	Government Finance Statistics	SME	Small and Medium Enterprises
GFSM 2001	Government Finance Statistics Manual (IMF, 2001)	SNG	Subnational Government
IA	Internal Audit	SOE	State Owned Enterprise
IIA	Institute of Internal Auditors	SPIN	Serbian Personal Identification Number
IBB	Indirect Budget Beneficiaries	SSPF	State Social Protection Fund
IMF	International Monetary Fund	STA	Serbian Tax Administration
INTOSAI	International Organization of Supreme Audit Institutions	TIN	Tax Identification Number
IPA	Instrument for Pre-Accession Assistance	TML	Treasury Main Ledger
IPSAS	International Public Sector Accounting Standards	TREZAR	Treasury Information System
IPPF	International Professional Practice Framework on Internal Audit	TSA	Treasury Single Account system
ISSAI	International Audit Standards for Supreme Audit Institutions	UNDP	United Nations Development Programme
ISI	Institute for Social Insurance	USD	United States Dollar
LG	Local Government	VAT	Value Added Tax
MDAs	Ministries, Departments, Agencies	WB	World Bank
MFAD	Macro Fiscal Analysis Department		
MoE	Ministry of Education		
MoF	Ministry of Finance		

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## 2014 PEFA Performance Indicator Scores

PFM Performance Indicator		Overall Rating		2014 Dimension Ratings			
		2010	2014	i.	ii.	iii.	iv.
<b>A. PFM-out-turns: credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	<b>B</b>	B			
PI-2	Composition of expenditure out-turn compared to original approved budget	A	<b>D+</b>	D	A		
PI-3	Aggregate revenue out-turn compared to original approved budget	C	<b>C</b>	C			
PI-4	Stock and monitoring of expenditure payment arrears	B	<b>D+</b>	C	D		
<b>B. Key cross-cutting issues: comprehensiveness and transparency</b>							
PI-5	Classification of the budget	B	<b>A</b>	A			
PI-6	Comprehensiveness of information included in budget documentation	B	<b>C</b>	C			
PI-7	Extent of unreported government operations	B+	<b>NR</b>	NR	<b>B</b>		
PI-8	Transparency of inter-governmental fiscal relations	B	<b>B</b>	A	D	A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	<b>D+</b>	D	A		
PI-10	Public access to key fiscal information	A	<b>B</b>	B			
<b>C. Budget cycle</b>							
<b>C(i) Policy-based budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	A	<b>B+</b>	C	A	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	<b>C+</b>	C	A	D	C
<b>C(ii) Predictability and control in budget execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	B+	<b>C+</b>	C	B	C	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	<b>C+</b>	B	C	C	
PI-15	Effectiveness in collection of tax payments	D+	<b>D+</b>	D	A	A	
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	<b>D+</b>	A	D	A	
PI-17	Recording and management of cash balances, debt and guarantees	A	<b>A</b>	A	A	A	
PI-18	Effectiveness of payroll controls	C+	<b>C+</b>	B	A	A	C
PI-19	Competition, value for money and controls in procurement	B	<b>B+</b>	B	A	B	A
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	<b>C+</b>	A	C	C	
PI-21	Effectiveness of internal audit	B	<b>C+</b>	C	C	B	
<b>C(iii) Accounting, recording and reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	A	<b>A</b>	A	A		
PI-23	Availability of information on resources received by service delivery units	A	<b>A</b>	A			
PI-24	Quality and timeliness of in-year budget reports	A	<b>C+</b>	B	C	A	
PI-25	Quality and timeliness of annual financial statements	A	<b>D+</b>	A	B	D	
<b>C(iv) External scrutiny and audit</b>							
PI-26	Scope, nature and follow-up of external audit	C	<b>B+</b>	B	B	A	
PI-27	Legislative scrutiny of annual budget law	C+	<b>C+</b>	A	C	C	B
PI-28	Legislative scrutiny of external audit reports	D+	<b>D</b>	D	D	D	
<b>D. Donor practices</b>							
D-1	Predictability of direct budget support	D	<b>D</b>	D	D		
D-2	Financial information provided by donors for budgeting/reporting on project/program aid	D	<b>D</b>	D	D		
D-3	Proportion of aid managed by national procedures	D	<b>NR</b>	NR			

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The World Bank assessment team was comprised of Mr. Antonio Blasco (Co-team Leader, GGODR), Mr. Aleksandar Crnomarković (Co-team Leader, GGODR), Mrs. Kashmira Daruwalla, Mr. Jose Eduardo Gutierrez Ossio, Mr. Andrew Mackie, Mr. Nihad Nakaš, Mr. Hernan Pfluecker, Mrs. Mirjana Simić Bowen, Mrs. Jamie Lazaro and Mrs. Desanka Stanić. The specific roles of the team are described in Annex 6. The team received guidance from Mrs. Soukeyna Kane, Practice Manager, Governance Global Practice (GGODR). Valuable inputs were received from peer reviewers, including Mr. Frank Bessette (GGODR), World Bank, PEFA Secretariat, Mrs. Irene Frei, Mrs. Gabriela Schafroth and Mrs. Ana Pajković from SECO/SCO, Mr. Vladan Petrović from the European Union Delegation in Serbia and Mr. Milovan Filimonović from the Government of Serbia.

## Executive Summary

A Public Expenditure and Financial accountability (PEFA) repeat assessment was conducted in the Republic of Serbia (RoS) between November 2014 and May 2015 by an independent team of experts, led by the World Bank (WB). The assessment was financed jointly by the Strengthening of Accountability and the Fiduciary Environment (SAFE) Trust Fund of the Swiss State Secretariat for Economic Affairs (SECO), the European Union Delegation to Serbia (EU Delegation) and WB. Previous PEFA assessments were performed in 2007 and 2010.

The period covered by this Assessment (2011-2013) was dominated by the challenges posed by the aftermath of the global economic recession which affected macro-fiscal performances. Notwithstanding these challenges PFM improvements can be observed in strengthening legislative framework, and Budget classification, multi-year fiscal planning, procurement and external audit. In other areas such as the composition of expenditure out-turn compared with originally approved budget, expenditures arrears, oversight of fiscal risk, and effectiveness of tax collection, predictability in the availability of funds, application of public sector accounting standards application and legislative scrutiny of annual budget law and final accounts, further work is needed to improve PFM performance. The main findings of the assessment are summarized in the Figure 1.

*Figure 1. Summary of 2014 PEFA Performance Indicator Scores*

Budget Credibility	Comprehensiveness and transparency	Policy based budgeting	Predictability in control in budget execution	Accounting reporting and review	External scrutiny and audit	Donor Practices
Aggregate expenditures out-turn compared to original approved budget	Classification of the Budget	Orderliness and participation in the annual budget process	Transparency of taxpayers obligations and liabilities	Timeliness and regularity of accounts reconciliation	Scope, nature and follow-up of external audit	Predictability of direct budget support
Composition of expenditure out-turn compared to original approved budget	Comprehensiveness of information included in budget documentation	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Effectiveness of measures for taxpayers registration and tax assessment	Availability of information on resources received by service delivery units	Legislative scrutiny of the annual budget law	Financial information provided by donors for budgeting/ reporting on project/ programs aid.
Aggregate revenue out-turn compared to original approved budget	Extent of unreported government operations		Effectiveness in collection of tax payments	Quality and timeliness of in-year budget controls	Legislative scrutiny of external audit reports	Proportion of aid that is managed by use of national procedures
Stock and monitoring of expenditure payment arrears	Transparency of inter-governmental fiscal relations		Predictability in the availability of funds for commitment of expenditures	Quality and timeliness annual financial statements		
	Oversight of aggregated fiscal risks from other public sector entities		Recording and management of cash balances, debt, and guarantees			
	Public access to key fiscal information		Effectiveness of payroll controls			
			Competition, value for money and controls in procurement			
			Effectiveness of internal controls for non-salary expenditures			
			Effectiveness of internal audit			

A
B+
B
C+
C
D+
D
NR

### *(i) Integrated assessment of public financial management (PFM) performance*

#### **1) Credibility of the budget**

Despite country fiscal difficulties, revenues out turns improved during the assessment period and there were no significant variances between actual and budgeted figures. The Budget System Law (BSL), 2009 and its amendments of 2010 require the preparation of three-year projections. Previously, projections had been included in the Memorandum on the Budget and Economic and Fiscal Policy and since 2012 have been part of the Fiscal Strategy that is submitted and approved by the legislative. In practice, the medium term projections for the two following years following the budget year, are not considered and observed. Estimates and ceiling are mostly provisional, without clear evidence of being considered as the starting point in preparation of following years' budgets.

Macroeconomic instability affected fiscal projections and undermined the reliability of revenues and forecasts which resulted in deviations compared with approved budgets in the period covered by this Assessment. Even so, revenue out-turn as compared to the approved budget evidences marked improvement in recent years.

Improvements in budget estimates would be beneficial, as in most budget execution periods one or two supplementary budgets are prepared and approved.

Frequent changes in the organizational structure of government occurred during the assessment period. These changes happened during the fiscal year and necessitated splitting or aggregating the budget in-year execution according to the newly approved institutional structure. This has had an adverse impact such the variance was more than 10 percent in one of the three years under consideration.

Forecasts of macroeconomic parameters that are the basis for preparing the medium-term expenditure framework (MTEF) are often inaccurate, producing some overly optimistic GDP estimates that were then built into expenditures forecasts. The assignment of expenditure ceilings to budgetary heads is defined by the Ministry of Finance (MoF) with little coordination and input from beneficiary ministries and departments. As a result, the credibility of the MTEF as a base for planning and budgeting processes is diminished.

Although there are procedures in place to control and monitor expenditure arrears, significant arrears arose in the health sector, local self-government, and road maintenance during the assessment period. The government has implemented new measures that are expected to contribute to a progressive reduction in this problem.

#### **2) Comprehensiveness and transparency**

The comprehensiveness of information provided in in-year budget reports could be improved. The final accounts are presented with relatively complete fiscal and budget information however no information is provided on the previous years' out-turn and budget execution.

Serbia's budget classification is consistent with the international standard of Classification of the Functions of Government (CoFoG) including administrative, functional and economic categories.

Budget documentation includes macroeconomic assumptions, fiscal information, deficit financing, debt stock and implication of the budget implications of new policy initiatives, although the documentation lacks information on financial assets or the prior year's budget outturn and execution.

The in-year budget reporting system does not include comprehensive information during the year on indirect budget beneficiaries (although the final execution report includes most of this information); this renders it difficult to quantify the extent of operations that are not properly reported.

Fiscal risk monitoring has proved challenging in Serbia with more than 1,300 state-controlled enterprises, some of which receive Government subsidies that contribute to the fiscal stress.

### **3) Policy-based budgeting**

The BSL outlines the budget calendar, which was not fully complied with in the assessment period. Delays in the budget preparation process create bottlenecks that result in insufficient time allowed for certain stages of the process, which undermines the credibility, comprehensiveness, transparency and scrutiny of the budget process.

Investment decision are not well linked with sectoral strategies and their cost implication are rarely included in budget estimates.

### **4) Predictability and control in budget execution**

Revenue collection agencies need to effectively promote voluntary compliance even with the existence of comprehensive tax laws, guidelines, and procedures. Tax-payers continue to have a perception of that tax agencies take discretionary or judgemental decisions during audits. Revenues' flow of funds is adequately managed and monitored daily.

A recently revamped tax appeal mechanism aims for improve tax efficiency and efficacy in the tax collection system. Taxpayers are registered in a single database, which is linked with other registration systems. Penalties deriving from tax non-compliance are not applied consistently and therefore have little impact on tax compliance. There is room for improvement in tax collection of tax arrears.

Transaction controls imposed and exercised by the Treasury within the context of the Financial Management Information System (FMIS) are sound. They effectively controls commitments to actual available cash in the framework of the approved/ available annual appropriation and quotas issued by the Treasury for cash management purposes. Nevertheless, budget beneficiaries can assume commitments up to their budget appropriations for the year, while the Treasury is not providing them with data on which commitments will be settled based on availability of funds. This poses a risk of slippage of the following years' payments which could result in the creation of further expenditures arrears.

Entering into multi-annual commitments/contracts is subject to Government's approval and allows budget beneficiaries to enter into commitments up to their multi-year expenditure ceiling as defined in the Fiscal strategy. However, it is not clear whether this limitation has been respected in practice. The Treasury does not keep records of multi-year commitments, only of the portion to be paid in the current year. The absence of a system monitoring for multi-annual commitment creates the risk that budget beneficiaries will accumulate significant expenditure arrears.

A new Public Procurement Law has been adopted which brings the Serbian public procurement legislation more closely in line with the European Union (EU) Procurement Directives. However, there is still room for further improvement; the Law does not require publication of procurement plans and reports on the Public Procurement Administration (PPA) portal.

Serbia has made also more good progress in introduction of Public Internal Financial Control (PIFC). This is primarily reflected in a comprehensive legislative framework which is largely aligned with best European practices. Progress is uneven across different institutions as evidenced by Supreme Audit Institution (SAI) reports and will require further systematic attention by those charged with its implementation. The Internal Audit (IA) function has been significantly strengthened by provision of training and certification by the Central Harmonization Unit (CHU) of the MoF.

#### **5) Accounting, recording and reporting**

Accounting information is comprehensively maintained in the General Treasury Ledger, reflecting the full range of budget classifications. The accounting system provided by the Treasury enables timely and comprehensive reporting on budgetary transactions for direct budget beneficiaries covered by the Financial Management Information System (FMIS). From 2014 foreign-financed project loans have been included in the in-year reporting. Coverage of FMIS has still not been expanded to include indirect budget beneficiaries. However, most Government bank accounts are managed by the Treasury Administration and are reconciled daily. Bank accounts in foreign currency that are held in commercial banks (in absence of foreign-currency treasury account) and are regularly reconciled.

By-laws governing the application of public sector accounting standards are not consistent among themselves (as for example whether prescribed cash-basis International Public Sector Accounting Standards (IPSAS) are to be applied directly or indirectly). The standards applied in practice in national accounting are not explicitly disclosed in published annual financial reports. This had not affected the Final Accounts that provide comprehensive information on revenue, expenditure and financial assets/financial liabilities. Information on non-financial assets is of substantially lower quality, as evidenced in the work of the SAI.

#### **6) External scrutiny and audit**

The performance of public sector external audit has made progress since 2010 PEFA assessment. Significantly higher resources in the SAI and extensive technical support provided by a twinning project<sup>1</sup> have helped increase the audit coverage and provided closer alignment

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<sup>1</sup> Implemented with Netherlands Court of Audit and Office of Auditor General of the United Kingdom.



with the International Standards of Supreme Audit Institutions (ISSAIs). Quality control over the external audit work still needs to be fully developed.

Although there is no statutory deadline for submission of the audit report on the Final Account to the legislature, the SAI has managed to audit the final account within 12 months of the period. Timing of the submission of the audited final account to the National Assembly is in December and coincides with the deliberation of next year's budget proposals in the legislature. The timing of submission limits the usefulness of the audit reports as a source of information for legislative scrutiny.

The legislature has scrutinized the budget legislation, including the medium-term fiscal framework and priorities as well as details of expenditure and revenue. There is a lack of specific procedures and deadlines for scrutiny of the audit reports by the National Assembly and its Committee for Finance, Budget and Control over the Use of Public Resources. To date, no hearings on the findings documented in SAI reports have been held. Although the legislature has examined the SAI Annual Activity Report, it has not deliberated on the final accounts for a number of years. Accordingly, the legislature has not issued recommendations to the executive.

Clear rules continue to be in place for in-year budget amendments without prior legislative approval and these have been usually respected in practice.

*(ii) Assessment of the impact of PFM characteristics*

The three main objectives of any PFM system are to support macro fiscal stability; help with the mobilization and allocation of public resources; and to support an efficient service delivery by the public sector.

A brief summary of the impact of the identified weaknesses of Serbia's PFM system is presented below.

*Aggregate Fiscal Discipline*

Although there are commitments control in place, especially at the central government level, the overall control over public finances has proven challenging as the fiscal position was undermined by the materialization of fiscal risks. There is a strong cash flow control on budgetary funds in place but is not sufficient to monitor the financial position of the entities of the general government as they received and manage other sources of resources. Fiscal risks associated with state-owned enterprises (SOEs), sub-national government (SNGs) and indirect budget beneficiaries (IBBs) are particularly challenging for the Government, which is taking actions in this regards such as the monitoring on SOEs performed by the Ministry of Economy.

*Strategic Allocation of Resources*

Although there is a Fiscal Strategy with a medium term perspective in place where the implication of new policies is discussed, the budget process does not have a strong link with policy or a strategic focus. The investment program face challenges in its implementation and the recurrent cost associated with investment projects is not always discussed upfront.

## *Efficient Service Delivery*

With the current implementation of the programmatic budget Serbia is transitioning from a PFM system focused on controls, rather than on efficiency or effectiveness of service delivery, towards an output approach. Recently introduced performance auditing has the potential to facilitate refocusing from compliance to performance and value for money.

### *(iii) Prospect for reform planning and implementation*

The Government is engaged in an important effort on PAR and PFM reform to modernize and strengthen its PFM system so as to implement a more modern financial resource management framework that promotes economic and social development and meets the needs of its citizens.

It is foreseen that forthcoming PFM reforms will be elaborated in a specific sub-sector strategy, to be prepared pursuant to the Government's broader PAR Strategy for the period 2015-2019. There is significant support for PFM reforms from the International Monetary Fund (IMF) and World Bank, EU, United Nations Development Program (UNDP) and various bilateral partners including Swiss State Secretariat for Economic Affairs (SECO).

### *(iv) Overview of performance changes (2010 and 2014)*

This is the third time the PEFA methodology has been applied in Serbia that was applied before in 2007 and 2010. When comparing this PEFA assessment with that performed in 2010, it should be kept in mind cores that not all of the scores are directly comparable for the following reasons:

For indicators PI-2, PI-3 and PI-19 the methodology for scoring and calibration was revised by PEFA Secretariat in January 2011. In other cases, a different interpretation of the PEFA framework based on the latest methodological guidance from the PEFA Field Guide and consultation on specific cases has resulted in a different score than that in 2010 notwithstanding the absence of change in actual PFM performance. The following table summarize the changes in the performance scores compared to the 2010 PEFA assessment where the performance is shown in columns and the scores comparison in the rows.

**Table 1. Changes in Scores Comparison 2010-2014**

Score	Performance			Total
	Improved	No Change	Deteriorated	
Improved	PIs 5, 12, 19, 26			4
No change	PIs 18, 20, 22	PIs 1, 3, 8, 9, 15, 17, 23,		9
Deteriorated		PIs 6, 10, 11, 13, 14, 16, 21, 24, 25, 27, 28	PIs 2, 4	14
Not Rated		PI 7		1
Total	7	19	2	28

■ Different interpretation/ information issues; PIs 2, 3 and 19 Methodology was reviewed in 2011.

Source: PEFA Assessments 2010 and 2014.

In total, performance has improved on seven PIs. In three PIs this led to higher scores:

- PI-5 (classification of the budget) – where updated standard classification framework, consistent with GFS/COFOG, and budget codes table have been in use since December 2011.
- PI-12 (multi-year perspective in fiscal planning, expenditure policy and budgeting) – where improvements are noted with handling of the debt sustainability analysis.
- PI-26 (external audit) – where the increased capacities of the SAI led to greater coverage and establishment of an effective system for follow-up on audit recommendations.

The higher score assigned for PI-19 is not directly comparable to the 2010 assessment because of a change of methodology. However, considerable progress has been made in public procurement reform. The current public procurement legislation has increased transparency, further defined the system for public procurement, regulated procurement planning, organized a register of bidders, and improved the procurement complaints mechanism

In the following three PIs the scores have remained unchanged notwithstanding the improvements in performance:

- PI-18 (payroll) – where the increased capacities of the SAI and internal audit units led to greater audit coverage of payroll operations,
- PI-20 (internal controls for non-salary expenditure) – where a comprehensive legislative framework for financial management and control is in place and substantive training efforts are expected to reap benefits,
- PI-22 (accounts reconciliation) – where evidence is now available of timely reconciliation of foreign currency accounts not managed by the Treasury.

The main deterioration in performance and corresponding scores can be seen on two PIs:

- PI-2 (composition of expenditure out-turn) – where the variance of expenditure for two out of three years was higher than the framework threshold.
- PI-4 (expenditure payment arrears) – where there are significant data gaps on arrears and no evidence to confirm significant reduction in the assessed period.

In six PIs both performance and scores have remained unchanged from the 2010 assessment.

For the remaining 12 PIs, performance has generally remained unchanged but the scores have deteriorated. As noted above, this is a function of different information available at the time of the 2014 assessment and different interpretation of available information, resulting primarily from extended clarification and guidance in the PEFA Fieldguide.

One PI (D-3) remained not rated as the available information was not sufficient to determine a score.

Annex 7 presents the details on the comparability of scores and changes in performance since the 2010 PEFA assessment.

# **SERBIA: Public Expenditure and Financial Accountability (PEFA) Performance Report: Repeat Assessment**

## **1. Introduction**

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### *1.1 Background and objectives*

The objective of this PEFA repeat assessment<sup>2</sup> is to provide the Government of Serbia with an evaluation of the performance of its public financial management (PFM) arrangements and practices, including identification of areas that fall short of internationally accepted good practice, as a potential input for the preparation of a PFM reform action plan.

### *1.2 Process of assessment and report preparation*

This assessment has been performed by a team of World Bank (WB) staff and international consultants with experience in PEFA assessments.<sup>3</sup> The assessment was financed jointly by the Strengthening of Accountability and the Fiduciary Environment (SAFE) Trust Fund of the Swiss State Secretariat for Economic Affairs (SECO), the European Union, and the WB.

Government involvement in the PEFA assessment was coordinated by the Ministry of Finance (MoF), which assisted with logistics and communications with other Government bodies and public sector institutions. The MoF followed up on requests for data and documents from other organizations and ensured that staff were included and adequately briefed for meetings. The MoF also coordinated comments on the draft report. The Team is particularly indebted to His Excellency Mr. Dusan Vujovic, Minister of Finance, and Mr Milovan Filimonović, State Secretary at the Ministry of Finance, for their support to the project and the extensive time committed to the preparation of the Report.

#### 1.2.1 Methodology

The PEFA Performance Measurement Framework is an integrated monitoring system that allows measurement of PFM performance over a specific time period (in the case of this report, principally from 2011-2013). The Performance Measurement Framework covers 31 performance indicators (PIs), 28 of which are structured into three categories of national practice—PFM system out-turns, cross-cutting features of the PFM system, and the budget cycle—and 3 of which are donor-specific indicators.

The PEFA framework applies a scoring system to the PIs on a scale from A to D (high to low) using methodologies, guidance, and practical tools prescribed or issued by the PEFA Secretariat.<sup>4</sup> The report provides background information, procedures, and processes related to the relevant indicators to provide context and to support the scoring. It also includes a review

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<sup>2</sup> Comparisons in this report refer to the PEFA assessment performed in 2010:

<http://www.mfin.gov.rs/UserFiles/File/dokumenti/PEFA%20Serbia%202010%20ENG.pdf>

<sup>3</sup> Assessment team composition and roles are described in Annex 6.

<sup>4</sup> PEFA Secretariat, Public Financial Management Performance Measurement Framework, Washington, DC, January 2011. The guidance and tools used include the PEFA Fieldguide, Good Practice when Undertaking a Repeat Assessment, PEFA CHECK, Concept Note and Terms of Reference Checklist, and Good Practices in Applying the PFM Performance Measurement Framework. These materials were accessed from the PEFA Secretariat website: [www.pefa.org](http://www.pefa.org).

of economic and fiscal developments, institutional arrangements, and legal and regulatory frameworks to explain the broader operating context of the PFM system.

The assessment is based on review of published macroeconomic and fiscal data of the central government, documents relating to the operation of PFM systems, research studies on various aspects of fiscal and financial management, and interviews with government officials in relevant ministries, directorates, departments, and other institutions to collect information for scoring the PIs.

The following comprises the activity timeline for the preparation of this PEFA report.

1. Drafting and review of the PEFA concept note (October 2014).
2. Fieldwork, first mission (November 2014).
3. PEFA introductory seminar on November 12, 2014 for more than 40 participants (mainly from MoF, other central government entities, EU Delegation, SECO, and WB).
4. Meetings and working sessions between team members and Government counterparts in all entities relevant to the PEFA assessment (November 2014).
5. Aide memoire explaining main activities, findings and next steps sent to the Government by WB (December 2014).
6. Informal discussion of preliminary draft assessment for all indicators with MoF (February 2015).
7. Second field mission for discussions with key stakeholders on detailed elements of report and methodological issues (May 2015).
8. Draft report, (validation version) provided to Government and peer reviewers (June 2015).
9. Revised report prepared and submitted for quality assurance to PEFA Secretariat and WB management (June 2015).
10. Final report provided to the Government (October 2015).
11. Government publication of the final PEFA report on the MoF website (estimated: 2015).

### 1.2.2 Structure of the report

The remainder of the report is structured as follows:

- Section 2 provides background information and the economic and fiscal context for the assessment.
- Section 3 explains the scores for all 31 indicators.
- Section 4 describes the Government's PFM reform program.
- Annexes 1-8 provide more detailed reference materials.

### 1.2.3 Quality control process

Report quality was assessed by the PEFA Secretariat and peer reviewers. The Secretariat reviewed the draft report to establish the consistency of the assessment against the PEFA methodology and ensure that PEFA CHECK quality assurance requirements were applied. Further details of these processes are provided in Annex 5.

### 1.3 Scope

This PEFA repeat assessment covers the State budget for the central government.<sup>5</sup> The main PEFA assessment is designed to cover all central government institutions, irrespective of their location or their territorial-administrative coverage as defined in the methodology. The central government comprises a central group of ministries and departments (and in some cases de-concentrated units such as provincial administrations), that make up a single institutional unit.

## 2. Country Background Information

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This section provides general information about Serbia, the core characteristics of the country's PFM system, and ongoing reforms. The Republic of Serbia is a landlocked Balkan country with a population of 7.2 million. It is a multi-party democracy (all resident citizens over the age of 18 are eligible to vote) headed by a president who serves a five-year term (and is constitutionally limited to two terms) and who appoints a prime minister as Head of the Government from within the 250-member unicameral National Assembly (members of which serve four-year terms).

### 2.1 Economic context, development and reforms

Although Serbia is classified as an upper-middle income country, it faces significant challenges to maintain and improve competitiveness and living standards. Economic growth was strong during the early and mid-2000s, with economic reforms helping to stimulate new export dynamism and significant domestic demand. However, the expansion was also fuelled by domestic consumption, large capital inflows, and a credit boom; the 2008 downturn left Serbia looking for new sources of growth. Like many countries in the region, the challenge for Serbia has been to translate tenuous economic recovery into jobs and poverty reduction in a difficult domestic and regional environment. Both unemployment and poverty rates saw sharp reversals in the wake of the crisis: unemployment rose from below 15 percent in 2008 to nearly 25 percent in 2012, increasing most among the lowest income earners, and poverty jumped from about 6 percent in 2008 (after falling by more than half since 2002) to more than 9 percent in 2009. To address these economic and social challenges, Serbia must improve competitiveness and the efficiency and outcomes of its social spending.

In 2014, the Serbian economy fell into recession for the third time in six years. After a recovery in 2013, the economy has contracted approximately 2 percent as the devastating floods of May of 2014 took a heavy toll on industrial production.

Further information on general economic developments in Serbia can be found on the World Bank webpage<sup>6</sup> and IMF staff reports for Article IV consultations.<sup>7</sup>

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<sup>5</sup> For further discussion on the definition of Government see: Definitions of Government in IMF-Supported Programs, IMF, May 2013.

<sup>6</sup> [http://data.worldbank.org/country/serbia#cp\\_fin](http://data.worldbank.org/country/serbia#cp_fin).

<sup>7</sup> For example, IMF, *Staff report for the 2013 Article IV consultations*, July 2013. <http://www.imf.org/external/pubs/ft/scr/2013/cr13206.pdf>.

**Table 2. Macroeconomic Indicators, 2011-2013**

	2011	2012	2013	2014
Real GDP growth (%)	1.4	-1.0	2.6	-1.8
Current Account Balance (% of GDP)	-8.6	-11.5	-6.1	-6.0
Inflation (CPI, annual)	7.0	12.2	2.2	1.7
General Government Balance (including amortization of called guarantees) (% of GDP)	-4.9	-7.2	-5.6	-6.7
Public and Public Guaranteed (PPG) debt (eop) (% of GDP)	45.4	56.2	59.6	71.0

Source: PEFA team based on IMF, National Bank of Serbia, and WB data.

## 2.2 Development and reforms

### 2.2.1 Development and poverty reduction strategies

Impressive declines in poverty achieved throughout the 2000s reversed abruptly with the 2008 global economic and financial crisis. The poverty headcount fell by more than half from 14 percent in 2002 to 6.6 percent in 2007, according to World Bank Living Standards Measurement Survey (LSMS) data.<sup>8</sup> Considerable and sustained economic growth during this period as well as the growth of pensions, other social transfers, and international remittances led to a substantial decline in poverty in Serbia during 2002-2007. Whereas economic growth prior to the crisis contributed to poverty reduction and shared prosperity, this progress has declined sharply since 2008.

Serbia opened negotiations for European Union (EU) accession in January 2014. This process includes identification of goals and objectives for Instrument for Pre-Accession Assistance (IPA) support, including public administration and PFM reform, as a core component in relation to Chapter 32 (Financial Control) of the *acquis communautaire*,<sup>9</sup> and as described in the Pre-accession Economic Program for 2014 of the Government of Serbia.

### 2.2.2 Fiscal policy and fiscal development

Serbia's consolidated general government fiscal balance has deteriorated since 2008. Revenues fell over the period 2008-2011, but have recovered in part as a consequence of increases in the VAT rate. Expenditures, on the other hand, have steadily grown since the crisis. As result, there was a deterioration of the general government fiscal deficit from around 2.6 percent of GDP in 2008 to the peak of about 7.2 percent of GDP in 2012, which subsequently declined to 5.6 percent in 2013. The decline in fiscal deficit in 2013 was primarily due to cuts in capital expenditures and subsidies and introduction of new rules for the indexation of salaries and pensions in the public sector, which lowered the wage bill and spending on pensions.

<sup>8</sup> The World Bank LSMS research project was initiated in 1980 to enable policymakers to move beyond simply measuring rates of unemployment, poverty, and so forth, to understanding the *determinants* of these observed social sector outcomes. The program is designed to help policymakers identify how policies could be designed and improved to positively affect outcomes in health, education, economic activities, etc.

<sup>9</sup> That is, the accumulated legislation, legal acts, and court decisions which constitute the body of European Union law.

**Table 3. Fiscal Performance (in 000 RSD)**

	2011	2012	2013	2014
<b>Revenues and expenditures</b>				
<b>TOTAL REVENUES</b>	<b>744,761.20</b>	<b>788,505.00</b>	<b>812,080.70</b>	<b>881,083.30</b>
Tax revenues	646,597.70	686,828.30	723,389.60	770,958.10
Non-tax revenue	96,222.10	99,288.50	87,338.00	103,668.60
Grants	1,941.40	2,388.30	1,353.00	6,456.60
<b>TOTAL EXPENDITURES</b>	<b>877,295.10</b>	<b>980,381.60</b>	<b>985,749.50</b>	<b>1,057,442.00</b>
Current expenditures	824,060.50	930,789.20	952,376.10	1,012,290.80
Capital expenditures	28,585.40	34,456.60	21,170.30	31,238.50
Net Lending	24,649.20	15,135.80	12,203.10	13,912.70
<b>BUDGET surplus / deficit</b>	<b>-132,533.90</b>	<b>-191,876.60</b>	<b>-173,668.90</b>	<b>-176,358.70</b>
<b>Financing</b>				
<b>FINANCING OUTFLOWS</b>	<b>293,949.40</b>	<b>339,365.90</b>	<b>423,576.30</b>	<b>412,084.20</b>
Debt repayment	290,540.30	308,541.00	410,479.50	404,898.40
Acquisition of financial assets	3,409.10	30,824.80	13,096.80	7,185.80
<b>FINANCING INFLOWS</b>	<b>461,589.90</b>	<b>551,555.00</b>	<b>644,118.80</b>	<b>606,335.10</b>
Borrowing	457,387.20	529,737.30	639,816.00	603,978.70
IMF resources	0	0	0	0
Privatization proceeds	3,093.60	20,431.10	1,963.80	622.2
Receipts from repayment of loans	1,109.10	1,386.60	2,339.00	1,734.20
TOTAL revenues minus total expenditures	35,106.60	20,312.60	46,873.60	17,892.30
<b>NET financing</b>	<b>132,533.90</b>	<b>191,876.60</b>	<b>173,668.90</b>	<b>176,358.70</b>

Source: Financial Bulletin Dec 2014

**Table 4. Fiscal Performance (in % of GDP)**

	2011	2012	2013	2014
<b>Revenues and expenditures</b>				
<b>TOTAL REVENUES</b>	<b>21.86%</b>	<b>22.00%</b>	<b>20.95%</b>	<b>22.68%</b>
Tax revenues	18.98%	19.16%	18.66%	19.85%
Non-tax revenue	2.82%	2.77%	2.25%	2.67%
Grants	0.06%	0.07%	0.03%	0.17%
<b>TOTAL EXPENDITURES</b>	<b>25.75%</b>	<b>27.35%</b>	<b>25.43%</b>	<b>27.23%</b>
Current expenditures	24.18%	25.97%	24.57%	26.06%
Capital expenditures	0.84%	0.96%	0.55%	0.80%
Net Lending	0.72%	0.42%	0.31%	0.36%
<b>BUDGET surplus / deficit</b>	<b>-3.89%</b>	<b>-5.35%</b>	<b>-4.48%</b>	<b>-4.54%</b>
<b>Financing</b>				
<b>FINANCING OUTFLOWS</b>	<b>8.63%</b>	<b>9.47%</b>	<b>10.93%</b>	<b>10.61%</b>
Debt repayment	8.53%	8.61%	10.59%	10.42%
Acquisition of financial assets	0.10%	0.86%	0.34%	0.19%
<b>FINANCING INFLOWS</b>	<b>13.55%</b>	<b>15.39%</b>	<b>16.62%</b>	<b>15.61%</b>
Borrowing	13.42%	14.78%	16.51%	15.55%
IMF resources	0.00%	0.00%	0.00%	0.00%
Privatization proceeds	0.09%	0.57%	0.05%	0.02%
Receipts from repayment of loans	0.03%	0.04%	0.06%	0.04%
TOTAL revenues minus total expenditures	1.03%	0.57%	1.21%	0.46%
<b>NET financing</b>	<b>3.89%</b>	<b>5.35%</b>	<b>4.48%</b>	<b>4.54%</b>

Source: Prepared by the PEFA team with information from the Financial Bulletin Dec 2014



## 2.2.3 Allocation of resources

*Table 5. Actual Budgetary Expenditures by Economic Classification, 2011-2014 (in %)*

	2011	2012	2013	2014
<b>Current Expenditure</b>	71%	72%	68%	73%
<b>Current expenditures</b>	<b>70.36%</b>	<b>70.53%</b>	<b>67.58%</b>	<b>68.89%</b>
Expenditures for employees	18.36%	20.38%	21.36%	21.37%
Purchase of goods and services	5.52%	5.86%	5.63%	6.38%
Interest payments	3.44%	5.39%	7.62%	9.42%
Subsidies	4.80%	7.39%	6.34%	8.16%
Current and capital transfers	29.49%	30.99%	29.85%	29.69%
Social assistance	7.39%	7.89%	9.25%	9.20%
Other current expenditures	1.35%	1.57%	1.26%	2.22%
<b>Capital expenditures</b>	<b>2.44%</b>	<b>2.94%</b>	<b>1.81%</b>	<b>2.67%</b>
<b>Debt repayment</b>	<b>24.81%</b>	<b>26.34%</b>	<b>35.05%</b>	<b>34.57%</b>
<b>Net Lending</b>	<b>2.10%</b>	<b>1.29%</b>	<b>1.04%</b>	<b>1.19%</b>

Source: Public Finance Bulletin - Dec 2014

*Table 6. Actual Budgetary Expenditures by Functional Classification, 2011-2014 (in percentage)*

	2011	2012	2013	2014
Social Protection	27.13%	27.22%	25.65%	23.64%
General Public Services	34.89%	36.42%	41.79%	42.99%
Defense	6.14%	3.90%	3.78%	3.79%
Public Order And Safety	7.53%	7.84%	7.39%	7.31%
Economic Affairs	8.55%	9.36%	7.25%	8.98%
Environmental Protection	0.40%	0.48%	0.24%	0.33%
Housing And Community Affairs	0.45%	0.52%	0.32%	0.45%
Health	0.62%	0.69%	0.49%	0.98%
Recreation, Sports, Culture And Religion	0.90%	0.78%	0.73%	1.34%
Education	13.39%	12.79%	12.35%	10.20%

Source: Budget Execution Reports (2011, 2012, 2013), Budget proposal 2014

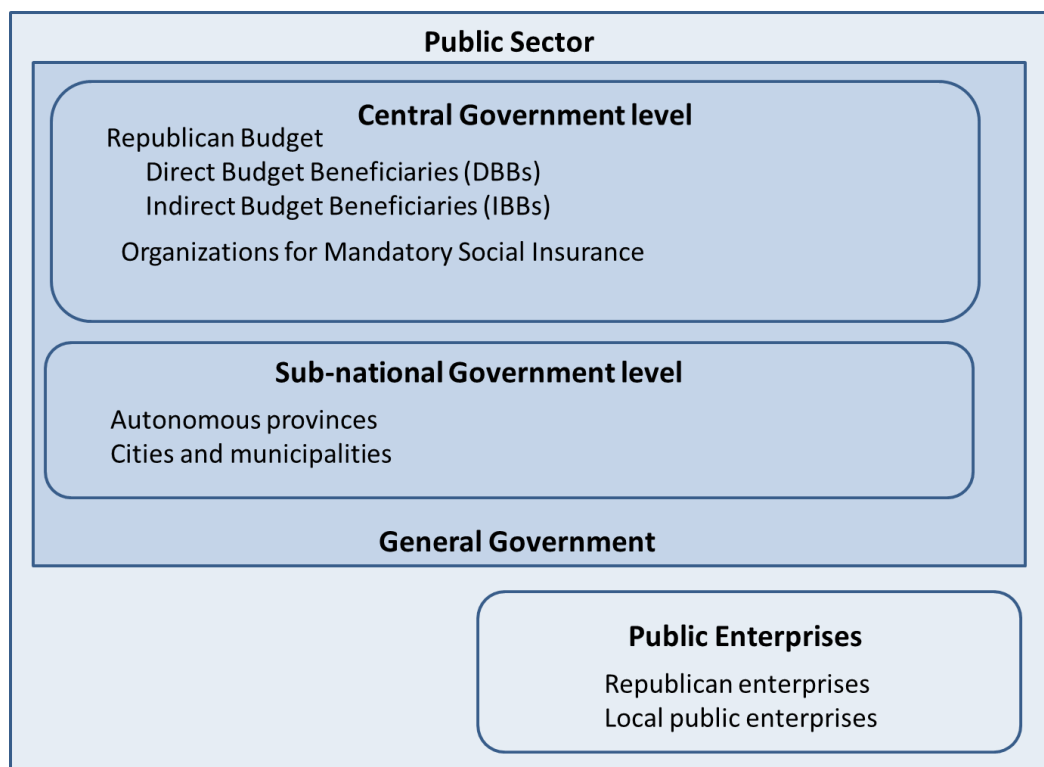
State owned enterprises (SOEs) represent a large proportion of the Serbian economy and received substantial subsidies from the Government. About 1,300 companies remain under state control in Serbia, with either majority ownership or effective management in state hands. These companies employ about 280,000 workers, representing about 16 percent of formal employment<sup>10</sup> in Serbia and receive substantial subsidies from the Government through the Republic of Serbia budget or local government budgets.

<sup>10</sup> <http://www.fren.org.rs/node/304?lang=en>.

### 2.3 PFM legal and institutional framework

The high-level legal and institutional framework for public financial management (PFM) in Serbia is established in the Constitution of the Republic of Serbia approved by referendum in October 2006. The framework comprises three branches with specific powers over other branches.<sup>11</sup> The legislative branch is represented by the National Assembly with 250 members who are elected every four years. The executive branch is led by the President of the Republic, who is elected every five years. The president is supported by a Prime Minister<sup>12</sup> who is proposed by the President to the National Assembly for the same term of the National Assembly that approved his/her election. The judicial power, independent from the executive, is exercised by the courts.

**Figure 2. Republic of Serbia High-Level Institutional Structure**



Source: PEFA team.

#### 2.3.1 Legal framework for public financial management

The highest national legal act with provisions regulating PFM is the Constitution of the Republic of Serbia. The respective articles of the Constitution deal with taxes (Article 91), budget (Article 92), public debt (Article 93), balanced development (Article 94), National Bank of Serbia (Article 95) and the State Audit Institution (Article 96). In general, the responsibilities of the Republic of Serbia in the area of PFM are covered in Part 4 and include “control of legality of managing resources of legal entities; financial audit of public finances; collection of statistical and other data of public interest.”

<sup>11</sup> [http://www.srbija.gov.rs/cinjenice\\_o\\_srbiji/ustav.php](http://www.srbija.gov.rs/cinjenice_o_srbiji/ustav.php)

<sup>12</sup> In Serbia the term Government is used as well for referring to the President Cabinet of Minister.

The primary organic PFM law in Serbia is the Budget System Law. The annual budget is presented out in the Law on Budget of the RoS. On the budget preparation and execution side, the Budget System Law<sup>13</sup> regulates preparation and review of fiscal strategy, fiscal rules, planning, preparation, adoption, and execution of the Budget of the RoS; planning, preparation, adoption, and execution of the budget of autonomous provinces and local self-government units (local government budget); preparation and adoption of financial plans of the organizations for mandatory social insurance;<sup>14</sup> budget accounting and reporting, financial management, control and internal audit of public funds beneficiaries, beneficiaries of the budget of the Republic of Serbia, beneficiaries of the local government budget, and financial plans of organizations for mandatory social insurance; scope of work and organization of the Treasury Administration, as an authority within the Ministry of Finance, and local government treasury, and other issues relevant for the functioning of the budget system. The Budget System Law (BSL) provides for a calendar for budget formulation, accounting, and reporting.

The legal framework for administration of taxes is covered in the respective laws for each type of tax (e.g., Value Added Tax Law, Customs Tariff Law, etc.), and accompanying regulations, decrees, and by-laws.

With respect to local government, the relevant law is the Law on Local Government Finance.<sup>15</sup> This Law stipulates local government taxation and charges, shared taxes and charges (with central government), and how transfers from central government to local government are determined and regulated.

The primary source of Serbian public procurement law is the Public Procurement Law (PPL) of 2012.<sup>16</sup> The PPL applies to procurement of goods, works, and services purchased by central and local government authorities, SOEs, and legal persons that use funds provided by the Government of Serbia or local self-governments. Effective April 2013, the new PPL represents a step toward conformity with EU standards in the field of public procurement.

Work of the public sector external audit is regulated by the Law on State Audit Institution (SAI).<sup>17</sup>

Legislative oversight is covered in the Constitution, the Law on the National Assembly,<sup>18</sup> and the National Assembly's Rules of Procedure. Particular aspects of the National Assembly remit with respect to the work of the SAI are covered in the Law on the State Audit Institution.

The PFM legislative framework since the time of the last PEFA assessment has been marked by frequent changes and amendments. A number of the primary laws referenced above have been subject to amendments or have been replaced by new legislation.

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<sup>13</sup> Official Gazette of RS, no. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, and 63/2013.

<sup>14</sup> Republican Fund for Pension and Disability Insurance, the Republican Office for Health Insurance, National Employment Service, and the Military Health Fund.

<sup>15</sup> Official Gazette of RS, no. 62/2006, 47/2011, 93/2011, 99/2013, and 125/2014.

<sup>16</sup> Official Gazette of RS, no. 124/2012.

<sup>17</sup> Official Gazette of RS, no. 101/2005, 54/2007, and 36/2010

<sup>18</sup> Official Gazette of RS, no. 9/2010

### 2.3.2 Institutional framework

The National Assembly approves the Annual Law on the Budget of the Republic of Serbia and the financial plans of the organizations for mandatory social insurance and the Law on the Final Account of the Budget of the RoS. The National Assembly has a specialized body for budget and finance, the Committee on Finance, State Budget and Control of Public Spending. The National Assembly is also charged with adoption of the audited public accounts.

The Fiscal Council of the RoS is an independent expert body accountable to the National Assembly. Its role is to assess the credibility of the fiscal policy from the perspective of observance of the set fiscal rules and to ensure transparency and accountability in managing of the fiscal policy (including opinions, analyses, and assessments).

The Ministry of Finance formulates and implements the fiscal policy, prepares the Fiscal Strategy, manages the annual budget preparation process (which includes determining the macro framework), holds budget hearings and prepare the annual budget for presentation to the National Assembly. The Ministry of Finance liaises with ministries, departments, and agencies (MDAs) and Local Governments with respect to the budget preparation process.

The Ministry of Finance consists of 10 sectors and other number of organizational units outside of the main sectors. There are seven administrations that operate under the authority of the Ministry of Finance: Tax Administration, Customs Administration, Treasury Administration, Public Debt Administration, Tobacco Administration, Anti Money Laundering Administration and Free Zone Administration.

The Treasury Administration manages cash resources, budget execution, the payroll, accounting, and reporting through the Consolidated Treasury Account System and FMIS. Internal financial control is implemented through financial management and control and decentralized internal audit in the beneficiaries, with harmonization managed and performed by the Ministry of Finance. In addition, the Ministry of Finance conducts budget inspections.

The main agencies related to tax collection<sup>19</sup> are the Serbia Tax Administration, the Institute for Social Insurance, the Serbia Customs Administration, and the Tobacco Administration.

The annual financial statement of the Republic of Serbia and annual financial statements of the organizations for mandatory social insurance are subject to external audit, in compliance with the provisions of the Law on State Audit Institution. In addition to audits of financial statements and regularity audits, the SAI has recently introduced performance auditing.

Application of the Public Procurement Law is supervised by the Public Procurement Administration. The Republic Commission for the Protection of Rights in Public Procurement Procedures is an independent entity responsible for review of complaints about the procurement procedure.

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<sup>19</sup> Serbia has a unified system for collection of taxes and contributions that is administered by the tax agency, what is described herein are the agencies involved in tax collection, not the tax collection flow of funds itself.

### 2.3.3 Special PFM features

Recently the institutional framework in Serbia has been marked by frequent in-year changes to the organizational structure of government units. In addition to new budget beneficiaries being established or abolished, there have been frequent mergers and splits, even within principal ministries. Every year in the period under analysis has ended with a different number of institutions from the ones agreed during the budget approval process.

#### *Direct and Indirect Budget Beneficiaries*

The budget system in the Republic of Serbia recognizes two types of budget beneficiaries: direct and indirect. Direct Budget Beneficiaries (DBBs) are the bodies and organizations of the Republic of Serbia. Indirect Budget Beneficiaries (IBBs) are the judicial bodies, budgetary funds, local communities, public enterprises, other funds and directorates established by local governments which are financed from public revenues whose purpose is established under separate laws; institutions established by the Republic of Serbia, or the local government, where the founder, through a DBBs, exercises legally defined rights in terms of managing and financing. IBBs budgets are included in the DBBs overall budget at central government level although they have some independence in the use of other sources of financing (including own revenues). For example, the schools budget (as IBBs) is included in Ministry of Education budget by type of expenditure (e.g., salaries). Other levels of government (for example, at municipal level) have their own IBBs.

#### *Treasury functions*

The first characteristic feature of the PFM system in RoS is the role and function performed by the Treasury.

The Consolidated Treasury Account System (CTAS) is the single account of the consolidated treasury accounts of the Republic of Serbia and local government treasuries for RSD, used for execution of payments between beneficiaries of budget funds, beneficiaries of Mandatory Social Security Insurance Organizations and other beneficiaries of public funds included in the CTAS, from one side, and entities not included in the CTA System, on the other side, accounting for interbank payments. The custody over the Consolidated Treasury Account System rests with the National Bank of Serbia.<sup>20</sup>

The CTAS serves as the government-operated payments system for the public sector in Serbia. All budget beneficiaries, irrespective of how they are classified, have accounts/subaccounts in the CTAS for their budget funds.

The Treasury-operated FMIS encompasses accounting and budget execution functions. On the accounting side, the Treasury Main Ledger (TML) is maintained using the SAP software. From the accounting perspective, the TML covers all CTA accounts.

On the budget execution side, the System for Budget Execution (SBE) is a collection of recording accounts used to register the executed payments and realized revenues for all payment request transactions from sub-accounts for the execution of the Budget of the

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<sup>20</sup> BSL, Article 2, item 39

Republic of Serbia that is a part of the CTA. Article 9 of the Rulebook on Budget Execution System elaborates on the role and purpose of the budget execution system in managing the CTA (including the Registry of SBE Users). SBE encompasses the budget execution functions for the accounts of all DBBs but not of IBBs. Earlier plans to sequentially extend the FMIS coverage to all IBBs have been delayed.

***Definition of central government***

Coverage of central government, as defined in the Budget System Law, includes the Budget of the Republic of Serbia and extra-budgetary funds, including the social security funds<sup>21</sup>.

The Annual Law on the Budget of the Republic of Serbia excludes the data on social security funds and they submit their separate financial plans for adoption by the legislature and report outside of the Final Account of the Republic of Serbia. The Budget of the Republic of Serbia and the financial plans of the social security funds and the annual financial statements adhere to a harmonized calendar for submission into the parliamentary procedure.

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<sup>21</sup> BSL, Article 2, item 11

### 3. Assessment of the PFM Systems, Processes and Institutions

#### 3.1 Budget credibility

##### PI-1. Aggregate expenditure out-turn compared to original approved budget

Rationale for this indicator:

*PI-1 assesses the reliability of expenditure plans as a guide to budget out-turns. The closer out-turns are to approved budgets, the more reliance can be placed on initial budgets approved by parliament. Large and unpredictable variations reduce the confidence of parliaments and the public in government's ability to prepare credible and robust budgets.*

This indicator under the PEFA methodology use the consolidated budget figures as they closely reflect total central government expenditure. Under this methodology, donor-funded projects and debt service payments are excluded from the consolidated amounts in the calculations.

##### *(i) Difference between actual primary expenditure and the originally budgeted primary expenditure*

An updated Rulebook on Budget Execution System and a Budgetary Framework establishing a single Budget Classification and Chart of Accounts for the entire government has been in effect since January 2012 to facilitate application of the previous Rulebook whose original text dates from 2007 and which was subsequently amended on more than one occasion. The budget approved by the National Assembly allocates budgetary resources to entities (Budget Heads), and in some cases, establishes the distribution of budgetary resources among operating units or programs of the entity.

This indicator is designed to measure the validity of the budget estimates by comparing the approved budget with the executed budget. Table 7 shows how the budget totals changed in the years 2011-2013. Detailed calculation information can be found in Annex 2.

In each year of the period under analysis the government's organizational structure underwent changes. Some ministries were divided into two or more entities, and new entities were created. These changes affected budget execution and led to budget underspending in 2011, or to a significant redistribution of funds between entities generating high variations between budgeted amounts and those executed.

**Table 7. Deviation between Actual and Originally Budgeted Expenditure (millions RSD)**

	2011	2012	2013	
<b>Annual Budget Law Data</b>				
Total budget expenditures	1,413,349.420	1,383,262.448	1,491,762.388	
Payments of Public Debt (interest)	45,636.001	58,902.101	90,006.635	
<b>Total primary expenditures</b>	<b>1,367,713.419</b>	<b>1,324,360.347</b>	<b>1,401,755.663</b>	
<b>Budget Execution as Reported at the End of the Year</b>				
Total budget expenditures	1,244,401.237	1,389,000.657	1,472,697.811	
Payments of Public Debt (Interest)	40,389.363	63,205.263	57,467.710	
<b>Total primary expenditures</b>	<b>1,204,011.874</b>	<b>1,325,795.394</b>	<b>1,415,230.101</b>	
<b>Comparing Primary Expenditures Figures</b>				
Difference: Law vs. Executed	RSD million	163,701.545	-1,435.046	13,474.438
	% (Law)	11.97	-0.11	-0.96

*Sources:* Budget Law (2011, 2012, 2013); Year-end Budget Execution Reports (2011, 2012, 2013).

**Score B.** In no more than 1 of the last 3 years has actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 percent of budgeted expenditure.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-1</b>	<b>B</b>	<b>B</b>	<b>Scoring Method M1</b>			
(i)	B	B	Only in one year 2011 did the actual expenditure deviated more than 10% of initially budgeted expenditures.	Standard Classification Framework and budget codes table uses updated rulebook enacted in December 2011.	- Comparable data of budget execution (2011, 2012 and 2013). - Quantifying the deviation between actual expenditure and budgeted expenditure.	- Budget Law (2011, 2012, 2013). - Year-end Budget Execution Reports (2011, 2012, 2013).

## PI-2. Composition of expenditure out-turn compared to original approved budget

### Rationale for this indicator:

*PI-2 assesses the reliability of expenditure composition between main expenditure categories. It complements PI-1 as a guide to the reliability of budget estimates for predicting budget out-turns. The methodology for this indicator has changed since the last assessment with the addition of a second dimension relating to charging of expenditure to the contingency reserve. This new dimension provides an indication of how well governments are able to manage within normal approved budget allocations without relying on substantial contingency funds.*

The methodology was revised by the PEFA Secretariat in January 2011; therefore direct comparability with the 2010 assessment is not feasible. Table 8 shows the impact of the methodological changes on the scores of this indicator. Applying the prior and the new methodology to the values used in the 2010 Assessment, the score of this indicator changes from A to B+, and the score of the first dimension changes from A to B.

**Table 8. Impact of Change in the PEFA Methodology in the Measurement of PI-2 Indicator**

PEFA version	Fiscal Year	PI-1 Total expenditure deviation (%)	PI-2.i Composition variance (%)	PI-2.ii Contingency share (%)	PI-2 score
2008	2007	8.6	0	NA	A
	2008	8.2	0		
	2009	5.6	0		
2011	2007	8.6	7.4	0	B, A = B+
	2008	8.2	7.7	0	
	2009	5.6	5.0	0	

*The composition variance data from 2007, 2008 and 2009 derive from the 2010 PEFA final report*  
*Source: PEFA Assessment Report 2010.*

As noted, the organizational structure of the government changed a number of times in recent years; typically the changes occurred mid-fiscal year, making it necessary to split or aggregate the in-execution budget according to the new institutional structure. (These organizational changes impact the budget execution of the affected entities. Measurement of such impact has not been captured under the scope of this analysis.)



The budget account<sup>22</sup> “50031 State Fund for Emergencies” makes a direct reference to a reserve for contingencies, but there are other social funds mentioned in Group 50000 that could also be linked to emergency situations. The budget execution figures (adjusted budget provided by the Treasury) show that the allocation and use of Group 50000 funds were insignificant (see Table 9).

**Table 9. Allocation and Use of Contingency Funds**

Fiscal Year	Allocated funds on accounts of Group 50000 (% of “initial budget”)	Expenditures charged to contingency funds (% of “executed budget”)	Expenditures charged to contingency funds (three year average, %)
2011	2.25	1.59	2.12
2012	1.63	3.05	
2013	3.14	1.71	

*Source: Budget Law (2011, 2012, 2013) and Year-end Budget Execution Reports (2011, 2012, 2013).*

Annex 2 presents the analysis of the variance of the budgetary expenditures for the years 2011, 2012, and 2013. Table 10 summarizes the data.

**Table 10. Expenditure Composition Variance and Contingency Shares**

Fiscal Year	Contingency shares (% of budget)	Composition variance % (as in Annex 2)
2011	1.59	19.2
2012	3.05	10.2
2013	1.71	40.9

*Source: PEFA calculations methodology on year-end Budget execution reports and Annual Budget Law.*

**(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items**

This dimension measures the extent to which reallocations among budget heads during execution have contributed to the variance in expenditure composition.

As shown in Table 10, the variances on expenditures were higher than 15 percent in two of the three years period under analysis.

**Score D.** The variance on expenditures in two of the three years under analysis was higher than 15 percent.

**(ii) The average amount of expenditure charged to the contingency vote over the last three years**

The amount reserved and spent on emergencies and other kinds of contingency expenditures is not significant (less than 3 percent of the original budget).

**Score A.** The amount charged to contingency expenditures was not significant, being lower than 3 percent in the three years under analysis.

<sup>22</sup> Account 50031 is the record account of budget beneficiary and 50031 is the beneficiary identification in the Treasury system.

PI	2010	2014	Scores' justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-2</b>	<b>A</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	A	D	The variance on expenditures for two of the three years analysed was higher than 15%.	Standard Classification Framework and budget codes table were enacted in December 2011.	Variance in expenditure composition exceeded 15% in two of the last three years.	Data provided by the Budget laws and the Year-end reports for years 2011, 2012 and 2013.
(ii)	NA	A	The amount charged to contingency expenditures was non-significant being lower than 3% in the three years under analysis.	No apparent change in practice.	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	
* Note: there was a change in PEFA methodology between assessments.						

### PI-3. Aggregate revenue out-turn compared to original approved budget

Rationale for this indicator:

*PI-3 examines the reliability of budget revenue estimates. It assesses the variance between the original budget revenue estimates approved by parliament and the final revenue out-turns. As with the expenditure variances, the larger the variation, the lower the score, reflecting lower confidence in the predictive value of approved budget estimates. The PEFA methodology for measurement of this indicator changed in 2011, which resulted in recognition of underestimates of annual revenue as well as overestimates. Overestimates of revenue received were the sole focus of the pre-2011 performance assessment criteria.*

(i) **Actual revenue compared to revenue in the originally approved budget**

The PEFA methodology for assessing this indicator was revised in January 2011. For this reason, a direct comparison with the 2010 assessment is not possible.

Government domestic revenues, as referred to in the Budget Law, include tax revenues, non-tax revenues and grants. All revenues, including the own generated revenues from direct and indirect budget beneficiaries are deposited in the Treasury, registered in the Treasury system, and reported in the year-end Budget Report, as well as in its institutional or sectoral reports when applicable.

Table 11 shows the revenue values, as approved by the Annual Budget Law, and as executed and reported in the year-end reports of budget execution for the analyzed years.

**Table 11. Summary of Budgeted and Collected Domestic Revenues**

	<b>Initial</b>	<b>Actual</b>	<b>Difference</b>	
	Budget Law	Budget End of Year Report		
	(million RSD)	(million RSD)	(million RSD)	(%)
<b>2011</b>				
I TOTAL REVENUES	<b>726,400</b>	<b>693,467</b>	<b>(32,933)</b>	95.5
1. Tax revenues	<b>677,200</b>	<b>646,406</b>	<b>(30,794)</b>	95.5
1.1 Personal income tax	79,100	70,285	(8,815)	88.9
1.2 Corporate income tax	35,000	34,208	(792)	97.7
1.3 Value added tax / Retail sales tax	355,800	342,367	(13,433)	96.2
1.4 Excises	160,100	152,425	(7,675)	95.2
1.5 Customs	39,600	38,805	(795)	98.0
1.6 Other tax revenue	7,600	8,316	716	109.4
2. Non-tax revenue	49,200	47,061	(2,139)	95.7
3. Grants	-	-	-	
<b>2012</b>				
I TOTAL REVENUES	<b>750,100</b>	<b>853,259</b>	<b>103,159</b>	113.8
1. Tax revenues	<b>678,200</b>	<b>686,797</b>	<b>8,597</b>	101.3
1.1 Personal income tax	42,300	46,432	4,132	109.8
1.2 Corporate income tax	39,400	48,803	9,403	123.9
1.3 Value added tax / Retail sales tax	362,800	367,472	4,672	101.3
1.4 Excises	191,000	180,597	(10,403)	94.6
1.5 Customs	34,000	35,783	1,783	105.2
1.6 Other tax revenue	8,700	7,710	(990)	88.6
2. Non-tax revenue	71,900	161,248	89,348	224.3
3. Grants	-	5,214	5,214	
<b>2013</b>				
I TOTAL REVENUES	<b>965,700</b>	<b>875,344</b>	<b>(90,356)</b>	90.6
1. Tax revenues	<b>837,100</b>	<b>723,387</b>	<b>(113,713)</b>	86.4
1.1 Personal income tax	55,121	43,377	(11,744)	78.7
1.2 Corporate income tax	70,415	53,214	(17,201)	75.6
1.3 Value added tax / Retail sales tax	434,281	380,624	(53,656)	87.6
1.4 Excises	233,317	204,758	(28,559)	87.8
1.5 Customs	35,558	32,504	(3,054)	91.4
1.6 Other tax revenue	8,409	8,909	500	106.0
2. Non-tax revenue	127,400	148,606	21,206	116.6
3. Grants	1,200	3,351	2,151	279.3

Source: Budget Law (2011, 2012, 2013), Budget Year-end Report (2011, 2012, 2013).

**Score C.** Actual domestic revenue was between 92 percent and 116 percent of budgeted domestic revenue in at least two of the last three years.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidences
<b>PI-3</b>	<b>C</b>	<b>C</b>	<b>Scoring Method M1</b>			
(i)	C	C	Revenue was between 92% and 116% of budgeted revenue in years 2011 and 2012.	<ul style="list-style-type: none"> <li>- Revenue agencies were transferred to the new Ministry of Finance (2013).</li> <li>- Tax Reform adopted in 2012.</li> <li>- Budget System Law was amended.</li> </ul>	<ul style="list-style-type: none"> <li>- Comparable data of budget execution (2011, 2012 and 2013)</li> <li>- Quantifying the deviation between actual revenues and budgeted revenues.</li> </ul>	<ul style="list-style-type: none"> <li>- Budget Law (2011, 2012, 2013).</li> <li>- Budget Year-end Report (2011, 2012, 2013).</li> </ul>
* Note: there was a change in PEFA methodology between assessments.						

#### PI-4. Stock and monitoring of expenditure payment arrears

Rationale for this indicator:

*PI-4 considers whether there was an accumulation of expenditure arrears and, if so, whether efforts were made to control the situation.*

*The first dimension of this indicator assessed the significance of expenditure arrears data at the end of 2013. The second dimension examined whether information on arrears is collected regularly and is assessed, using data from 2012 and 2013.*

The Fiscal Council,<sup>23</sup> per Article 92 of the Budget System Law (2010 amendment), must analyze and report to the National Assembly on budgetary issues and fiscal performance. In 2013, it informed the National Assembly about a significant increase in arrears in the Health Sector.<sup>24</sup>

The “Law on Deadlines for Payments in Commercial Transactions” which came into effect on March 31, 2013 in Article 2.7, defines payment arrears<sup>25</sup> (referred as “outstanding payments” in the English-language version of the Law), as well as new rules limiting the possibility of generating new “outstanding payments” by public entities. The Law specifically outlines limits on payment deadlines for new transactions (Art. 3-4);<sup>26</sup> rights of creditors on applying late payment fees (Art. 5-7); control and monitoring responsibilities (Art. 8-9); penalties to entities and officers who do not comply with this Law (Art.12); and a progressive schedule for implementing the Law (Art. 13-16).

<sup>23</sup> The Fiscal Council is an independent state body established by the Budget System Law, accountable to the National Assembly of the Republic of Serbia, which appoints its members (of whom there are three).

<sup>24</sup> “In the past few years, there was a significant increase in government arrears, especially in health, local self-government and for the maintenance of road infrastructure. The total amount of these arrears reached more than 1% of GDP ...” (Assessment of the Draft 2013 Budget Law, page 6, Fiscal Council, November 13, 2012). With respect to the Health Sector, the same report states (page 34): “The estimate is that arrears in the health care system will amount to around RSD 32.5 billion by end-2012.”

<sup>25</sup> “Outstanding payment” is a payment to be made by the public sector or a business entity that has not been paid to a creditor by the contractual deadline, or by the statutory deadline, where a contract does not stipulate one or where no written contract has been entered into.

<sup>26</sup> The Law establishes as a general rule that a contract between a public sector body and a business entity may not stipulate a payment deadline that exceeds 45 days (or 60 days if the business entity is the debtor in such contractual relationship). There are some exceptions included in the law related to specific institutions, such as Health Insurance or Health Insurance beneficiaries.

Data on arrears are collected on a quarterly basis by the Macro-Fiscal Analysis Department (MFAD) of the Ministry of Finance. This data includes information about all DBBs of the Republican Budget and of the social funds, and of two public enterprises in the infrastructure sector (Roads of Serbia and Corridors of Serbia). This data is not verified to establish whether it represents the total stock of existing arrears. Data on arrears is also collected by the Treasury through the FMIS system, where it is referred to unpaid bills that are registered in the system but do not have a corresponding payment order issued.

In 2013 during the months of April and July, the government negotiated payment plans and conversion for 8.26 billion RSD of Payment arrears. At the end of 2013, as shown in Table 12, there was a remaining balance of about 85 billion RSD as payable accounts that are constituted as follows: 5.5 billion RSD were arrears from previous years; 7.5 billion RSD were payable accounts balances up to 30 days; 4 billion RSD were payable accounts between 30 and 90 days; and 5.5 billion RSD were payable accounts (or payment arrears) of more than 90 days. The remaining 60 billion RSD were accrued budgetary expenditure incurred during the year, pending to be paid. The 2013 Budget Execution Report shows that at the end of the year, it was executed and accrued an amount of 62 billion RSD higher than the recorded budget appropriations.

**Table 12. Stock of Arrears as of December 31, 2013 (RSD)**

	Payable Accounts/ Payment Arrears	Arrears converted into public debt
Indirect Beneficiaries of the Republic Budget	62,068,961,818	8,257,225,155
Local Governments	20,224,094,169	0.0
Central Government Budget	2,649,302,459	0.0
<b>Total</b>	<b>84,942,358,446</b>	<b>8,257,225,155</b>
Note: All the arrears are considered because all of them are paid by the Central Government		
Source: Data provided by the Treasury Administration to the PEFA mission.		

Using FMIS data provided by the Treasury Administration to the PEFA mission made possible the analysis of the composition of the unsettled arrears (see Table 13) as well as the changes in its composition through the year. It was also possible to analyse its composition by origin and number of days overdue (see Table 14 and Figure 3).

**Table 13. Composition of Unsettled Arrears by Origin (RSD)**

	June 29,2013	December 31,2013	October 31,2014
Indirect Budget Agencies	63,684,899.95	3,064,995,607.32	5,048,813,991.74
Local Government	12,489,998.24	4,322,776.62	2,066,827.65
Local Schools	4,376,968.69	34,448,208.62	52,129,149.33
Central Government	0.00	0.00	0.00
<b>Total</b>	<b>80,551,866.88</b>	<b>3,103,766,592.56</b>	<b>5,103,009,968.72</b>
Note: All types of arrears are presented in the table because all of them are paid by the Central Government			
Source: Data provided by the Treasury Administration to the PEFA mission.			

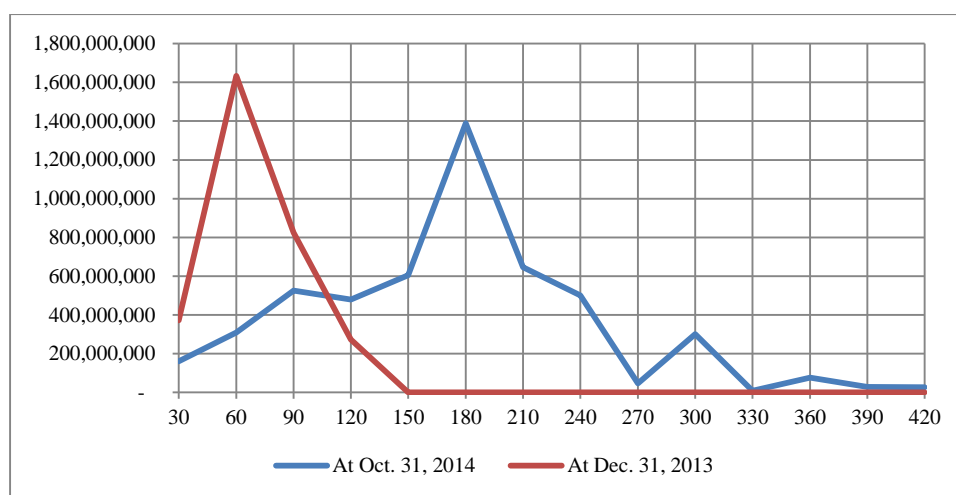
As shown in Table 14 and Figure 3, more than 80 percent of the unsettled arrears, as reported by the Treasury on October 31, 2014, were overdue between 90-240 days.

**Table 14. Composition of Unsettled Arrears by Number of Days Overdue**

Days overdue (less than)	Amount of unsettled arrears (RSD)		
	June 26, 2013	Dec. 31, 2013	Oct. 31, 2014
30	80,252,031	372,600,214	161,001,715
60	299,835	1,633,499,376	309,906,694
90		823,686,353	526,010,032
120		273,181,494	479,166,424
150		799,155	605,530,360
180			1,389,845,277
210			645,352,188
240			500,180,209
270			46,057,360
300			300,586,825
330			8,499,026
360			75,952,061
390			28,803,797
420			26,118,002
Totals	80,551,866	3,103,766,592	5,103,009,968

Source: Data provided by the Treasury Administration to the PEFA mission.

**Figure 3. Unsettled Arrears by Number of Days Overdue**



Source: Data from table 14, Data provided by the Treasury Administration.

**(i) Stock of expenditure payment arrears**

This dimension measures the stock of arrears at the end of 2013 and how such stock has changed, 2011-2013 (as described above).

As a result of the implementation of the Law on Deadlines for Payments in Commercial Transactions, arrears in 2013 declined<sup>27</sup> and are expected to experience additional progressive reductions in the near future.

<sup>27</sup> At the end of 2013, the FMIS system reported total arrears of about RSD 84,942 million, which compared with RSD 1,396,229 million spent in that year (or about 6.08% of total expenditures).

Fiscal statistics do not show that arrears were reduced by more than 25 percent in the last two years.

**Score C.** Stock of arrears as reported by the Treasury was higher than 2 percent of the total expenditures in 2013 and there is not clear evidence of a significant reduction in the period under analysis.

**(ii) Availability of data to monitor the stock of expenditure payment arrears**

This dimension measures whether the available data on the stock of arrears is comprehensive and accurate.

As also noted above, Treasury and MFAD collect and report information on arrears, but such information is not comprehensive since many entities do not report arrears even though they are part of the central government (for example, some IBBs). There is no evidence that a comprehensive ad-hoc exercise to determine the total amount of arrears was conducted in the last two years.<sup>28</sup> It's not possible from the text of the previous PEFA assessment to confirm that the performance of this type of exercises were considered in rating the dimension as the management practice seems to be consistent throughout the period considered.

**Score D.** There is no reliable and comprehensive data on arrears for the last two years.

PI	2010	2014	Scores justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-4</b>	<b>B</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	B	C	Stock of arrears is higher than 6% of the total expenditures and there is not clear evidence of a significant reduction since 2012.	- Law on Deadlines for Payments in Commercial Transactions. - Several measures to control and prevent further accumulation of arrears, and to deal with the already accumulated stock.	The stock of arrears constitutes 2-10% of total expenditures, and there is no evidence that it has been reduced significantly in the last two years.	- Assessment of the Draft 2013 Budget Law, Fiscal Council, 2012. - Law on Late Payments in Commercial Transactions.
(ii)	B	D	There is no comprehensive central government data for arrears from the last two years.	-Different application of assessment criteria.	There is no reliable data on the stock of arrears for the last two years.	- Data provided by the Treasury and MFAD to the PEFA mission.

**3.2 Comprehensiveness and transparency**

**PI-5. Classification of the budget**

Rationale for this indicator:

*PI-5 assesses the classification system used for the formulation, execution and reporting of the central government budget. It considers the scope, content and consistency of the classification system as a basis for producing consistent reports and information on all aspects of the budget. The reference period for this indicator is the last completed FY (2013).*

<sup>28</sup> It is not clear whether the failure of indirect beneficiaries of the Republic Budget to report arrears was considered as a factor for analysis in the 2010 PEFA assessment.

**(i) The classification system used for formulation, execution and reporting of the central government budget**

The Rulebook on Budget Execution System and the Budgetary Framework establish a single Budget Classification and Chart of Accounts for the government.

This classification includes administrative, functional, and economic categories, and definitions for each category consistent with the Government Financial Statistics manual (GFS) 2001 and the Classifications of the Functions of Government (CoFoG) main functional classification.

**Score A.** The budget formulation and execution is based on administrative, economic, and sub-functional classification, using GFS/COFOG standards.

PI	2010	2014	Scores' justification	Changes since the prior assessment	Framework requirements	Evidences
<b>PI-5</b>	<b>B</b>	<b>A</b>	<b>Scoring Method M1</b>			
(i)	B	A	Budget formulation and execution are based on administrative, economic, and sub-functional classification, using GFS/COFOG standards.	Updated standard classification framework and budget codes table were enacted in December 2011.	Government accounts, budget execution reports, and other budget execution data have a break-down that corresponds to the documentation for the proposed and approved budget.	- Budget laws and the Year-end reports for 2011, 2012, and 2013. - Budget Execution Rulebook. - Budget Classification and Chart of Accounts.

**PI-6. Comprehensiveness of information included in budget documentation**

Rationale for this indicator:

*PI-6 examines the extent of information provided to the legislature in relation to the annual budget. It assesses whether nine important elements are presented in an appropriate format to allow for a broad understanding of the assumptions, key indicators, and intentions underpinning the budget proposal.*

*The indicator considers the last budget presented to the legislature during the assessment period, which was in November 2013, relating to the 2014 financial year.*

**(i) Share of essential information contained in budget documentation most recently issued by the central government**

This indicator analyses the extent to which the annual budget and its supporting documentation, as submitted to the legislature for scrutiny and approval, enables a complete picture of central government fiscal forecasts, budget proposals and outturn of previous years. This analysis is based on the documentation submitted for the 2014 budget approval, since until the end of the PEFA mission in November of 2014, the 2015 budget had not been submitted to the National Assembly.

The Budget System Law (BSL) describes the documentation that must be submitted to the National Assembly for revision and approval of the Annual Budget.



The PEFA methodology requires that in addition to detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should contain the information displayed in Table 15.

**Table 15. Information in Budget Documentation**

PEFA elements	Fulfilled 2010	Fulfilled 2014	Documents provided by the Government
1. Macroeconomic assumptions, including aggregate growth, inflation, and exchange rate estimates.	<b>Partial</b>	<b>Yes</b>	The Fiscal Strategy, in its section on “Projection of the macroeconomic indicators for the Republic of Serbia,” analyzes these elements and projects the impact of their change on the budget (BSL Art. 34, elements 1 and 2).
2. Fiscal deficit (GFS or other internationally recognised standard).	<b>Yes</b>	<b>Partial</b> Fiscal deficit is included but it is revised frequently	Fiscal deficit is revised frequently. Some subsidies are classified ‘below the line’; these should be classified above the line according to international standards. There are expenditures below the line. Expenditures financed by project loans are not included. (Budget Process in the Republic of Serbia, Fiscal Council, December 2014.)
3. Deficit financing, describing anticipated composition.	<b>Yes</b>	<b>Yes</b>	Deficit financing, although underestimated, is included in Section II “Fiscal Framework” of the Fiscal Strategy, and in the Budget Proposal Summary.
4. Debt stock, including details at least for the beginning of the current year.	<b>Yes</b>	<b>Yes</b>	Section III “Public Debt Management Strategy” describes in detail the debt stock as well as the projected services of the public debt.
5. Financial assets, including details at least for the beginning of the current year.	<b>No</b>	<b>No</b>	Financial assets are not reported in the supporting documentation submitted to the Assembly.
6. Prior year’s budget out-turn, presented in the same format as the budget proposal.	<b>No</b>	<b>No</b>	Budget out-turn of the prior fiscal year reported in the same format as the budget proposal is not included.
7. Current year’s (2013) budget (either the revised budget or estimated out-turn), presented in the same format as the budget proposal.	<b>Yes</b>	<b>No</b>	Current year’s (revised) budget or estimated out-turns in the same format as the budget proposal are not included in budget documentation
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	<b>Yes</b>	<b>No</b>	Previous year data is not included.
9. Explanation of the budget implications of new policy initiatives, with estimates of the budget impact of all major revenue policy changes and/or some major changes to expenditure programs.	<b>No</b>	<b>Yes</b>	- The Fiscal Strategy, in “Section I, Macroeconomic framework,” analyzes these elements and projects their budgetary impact. Some provisions of the Law apply just from the 2011 budget onwards - Budget Memorandum 2012, in “Section IV. Structural Reforms in 2012 – 2014,” shows the budgetary impact of the reforms.

**Score C.** The budget documentation fulfills four of the nine information benchmarks.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-6</b>	<b>B</b>	<b>C</b>	<b>Scoring Method M1</b>			
(i)	B	C	The budget documentation fulfils four of the nine information benchmarks required by the PEFA methodology.	There are no legal framework changes since the last assessment. Different practices are assessed (budget execution not reported as approved and fiscal deficit considerations).	The annual budget documentation should include key information elements as specified by the PEFA methodology.	- Budget System Law. - Budget Memorandum 2014.

## PI-7. Extent of unreported government operations

### Rationale for this indicator:

*PI-7 assesses the comprehensiveness of financial information in respect to all budgetary and non-budgetary activities of the central government. The reference period for this indicator is the last completed FY (2013).*

This indicator measures the extent to which fiscal reports that are made available to the public contain full information on revenues and expenditures of the central government and its autonomous entities, across all categories and financing. The reference period for analysis is 2013.

The PEFA methodology seeks to (i) identify MDAs that operate outside the budget system, and (ii) quantify the income and expenditure that does not appear in budgetary reports.

### **(i) The level of extra-budgetary expenditure (other than donor-funded projects) not included in fiscal reports**

This dimension assesses the level of unreported extra-budgetary operations at the central government level, and covers planned/budgeted expenditure, actual expenditure, and annual financial statements either through consolidation with other central government expenditure or shown in a separate document presented to the National Assembly.

The budget system has some weaknesses in its institutional coverage and in-year monitoring and reporting. As operations of indirect budget beneficiaries are not included or monitored in the budget execution system (although the final budget execution of most of them are included in the year-end Budget Execution Report), it is not possible to assemble a complete picture of central government finances. There are references to the existence of unreported operations, most of them referred to operations originated from own-revenues and expenditures executed with such funds by indirect budget beneficiaries, but it is not possible to quantify such operations. This lack of information makes it difficult to quantify the extent and amounts of operations that are not timely or properly reported.

**Score NR.** It is not possible to quantify with certainty the amount of unreported operations of the central government.

**(ii) Income and expenditure information on donor-funded projects are included in fiscal reports**

This dimension identifies the level of inclusion of donor-funded programs' revenues and expenditures in fiscal reports, and covers planned/budgeted expenditure, actual expenditure, and annual financial statements either through consolidation with other central government expenditure or as shown in a separate document presented to the Assembly.

Donor-funded programs are included in the Annual Budget Law, and in the year-end Budget Execution Report. All DBBs report on a quarterly basis their budget execution through the FMIS system. The report includes the project execution of its IBBs. Not all the received grants are included in fiscal reports. The SEIO-ISDAICON database shows that in 2013 the international cooperation system disbursed about 131 billion RSD (1,098 million Euros equivalent) from which 35 billion RSD were grants. The budget system reported just 1,328 million RSD as received grants. In 2013, 27 percent of the cooperation disbursements was financed by grants.

**Score B.** Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50 percent (by value) of grant financed projects.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-7</b>	<b>B+</b>	<b>NR</b>	<b>Scoring Method M1</b>			
(i)	A	NR	Existing data does not enable quantifying unreported operations.	No apparent change.	Amount of extra budgetary expenditure as a percentage of total expenditure (excluding donor-funded project/program support).	- 14 Annual Budget Law 2013. - Year-end Budget Process in the Republic of Serbia, Fiscal Council, December 2014 Execution Report 2013.
(ii)	B	B	Complete income/expenditure information is included in fiscal reports for all loan financed projects.		Donor-funded project/program expenditure as a percentage of total expenditure.	- Quarterly Budget Execution Reports from DBB.

**PI-8. Transparency of intergovernmental fiscal relations**

Rationale for this indicator:

*PI-8 assesses transparency and timeliness of inter-governmental fiscal relations and the extent to which consolidated fiscal data is reported. The reference period for this indicator is the last completed FY (2013).*

The starting point for an assessment of inter-governmental fiscal relations is to identify subnational administrations. In Serbia this includes five regions (Belgrade, Vojvodina, Sumadija and western Serbia, eastern and southern Serbia, and Kosovo-Metohija), the City of Belgrade as a separate territorial unit established by the Constitution and law, and 29 administrative areas, 23 cities,<sup>29</sup> 28 urban municipalities, 150 other municipalities, 6,158 villages and 195 urban settlements.<sup>30</sup>

<sup>29</sup> Some cities may have several municipalities.

<sup>30</sup> Government of Serbia Website, December 28, 2014.

The institutional core element of Local Government (LG) is the municipality, which directly administers its responsibilities, through institutions funded by its budget but organized as separate institutions (indirect budget beneficiaries) and through local enterprises. Collectively, Local Governments account for about 15 percent of total general government spending, and about 20 percent of total public employment.<sup>31</sup>

From the perspective of the legal framework, the Law on Local Government Finance (2006) is the principal determinant of inter-governmental fiscal relations with respect to transfer of funds. It mandates that “overview of non-categorical transfers per local government units shall be prepared by the Ministry of Finance in cooperation with the Commission for Intergovernmental Finances, and that “non-categorical transfer shall be allocated to the local government unit up to 25th day of the month for the previous month in the amount of one-twelfth of the amount foreseen for the particular fiscal year.”<sup>32</sup>

On a practical level, one critical factor in inter-governmental fiscal relations is the Budget System Law, which permits the MoF to suspend transfers to local authorities that do not comply with requirements for financial management, even when technical limitations of the system prevent LGs from recording transactions. The result of the disruptive effects of suspending transfers is to exacerbate the difficulties of LGs managing within their allocations.

During the period of PEFA review, the system for intergovernmental fiscal relations changed in several ways, including alterations in the formula for distributing revenues from the personal income tax in favor of LGs in 2011, followed by the reduction of this tax in 2013, and elimination of a number of local fees and charges in 2013 and 2014. Such changes, particularly when announced mid-fiscal year, create problems for Local Governments—not least on the revenue front, which has led many LGs to either increase borrowing, accumulate arrears, or under-deliver assigned public services. With respect to the first two options, it is important to note that during these years the Law on Public Debt was amended to allow in practice borrowing by LGs, including through municipal bonds.<sup>33</sup>

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<sup>31</sup> Republic of Serbia / Municipal Public Finance Review / Options for Efficiency Gains, World Bank, June 2014.

<sup>32</sup> Article 47 (Predictability of the Republic Transfers) and Article 48 (Transfer Allocation Dynamics), respectively.

<sup>33</sup> Republic of Serbia, Municipal Public Finance Review, Options for Efficiency Gains, World Bank, June 2014.

**Table 16. Key Budget Calendar Dates for Government Transfers**

	Budget Calendar	Actual dates		
	<i>Art. 31 Budget System Law</i>	2011 Budget	2012 Budget	2013 Budget
Government shall adopt the Memorandum/Fiscal Strategy.	May 15	August 20	Not available	Not available
Government shall adopt the revised Memorandum/Fiscal Strategy.	October 1	December 29	Not available	November 28
Government shall adopt the Bill of the Budget Law/Fiscal Strategy.	November 1	December 16	December 15	October 25
National Assembly shall adopt the Budget Law.	December 15	December 29	December 29	December 1

*Source: Budget System Law, Budget Memorandum 2011; Revised Budget Memorandum 2011; Fiscal Strategy 2013.*

Transfers to municipalities and cities are included in the Budget of the Republic as a total amount and the distribution to each beneficiary is shown in the Revised Memorandum/ Fiscal Strategy, which must be issued by October 1. Table 16 shows the actual dates on which the Revised Memorandum/ Fiscal Strategy was adopted by the Government and promulgated to municipalities and cities.

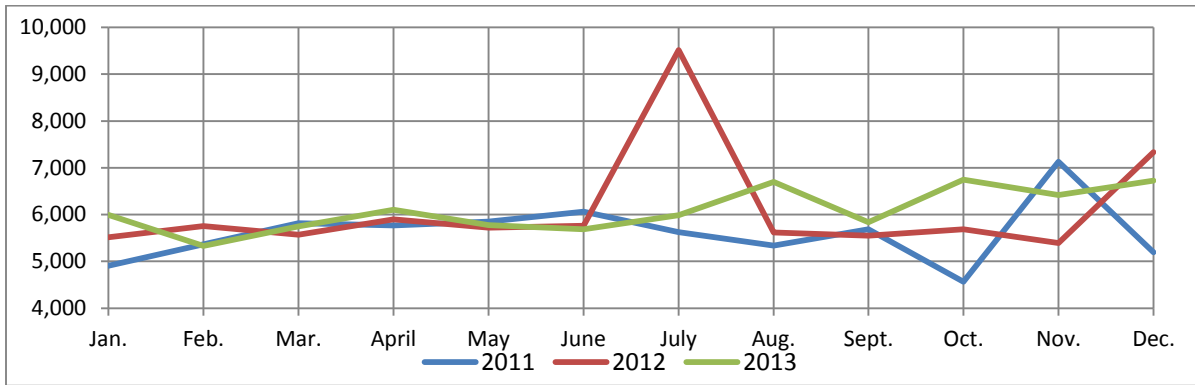
Transfers to local governments are recorded in account 463 of the economic classification of the budget. The Budget Law explicitly indicates the amounts assigned to each group of beneficiaries (municipalities and cities, Vojvodina territory, and others) in its summary tables, and the year-end Budget Execution Report uses the same classification to report the actual expenditures. The central government budget execution as reported in the year-end Budget Execution Report shows that the deviation of the actual amount transferred to “other levels of government” for the last three completed years was lower than 10 percent (see Table 17).

**Table 17. Total Transfers to Local Governments, Budget Law vs. Actual**

		2011		2012		2013	
		<i>Million RSD</i>	<i>Dif. %</i>	<i>Million RSD</i>	<i>Dif. %</i>	<i>Million RSD</i>	<i>Dif. %</i>
Transfers to other levels of government	Budget Law	67,056.0	97.6	67,807.0	108.4	75,531.1	96.9
	Actual	65,474.6		73,488.2		73,153.0	
Transfers to municipalities and cities	Budget Law	31,800.0	92.0	33,204.3	114.9	35,298.7	100.7
	Actual	29,265.7		38,140.5		35,558.7	
Transfers to employees in education in the territory of AP Vojvodina	Budget Law	24,964.6	102.9	26,591.8	102.8	29,074.0	100.4
	Actual	25,698.8		27,341.3		29,177.7	

*Source: Budget Law 2011, 2012, 2013; Year-End Budget Execution Reports 2011, 2012, 2013.*

**Figure 4. Monthly Disbursements of “Transfers to Other Levels of Government” (million RSD)**



**(i) Transparent and rules-based systems in the allocation among sub-national governments of transfers from central government**

This dimension assesses the criteria applied for distributing central government funds among subnational governments (SNGs). The critical period of time for this review is 2013.

The Law on Local Government Finance (2006), in Section 2 - Revenues from other Levels of Government - explicitly defines the types of transfers and their objectives, as well as the timing and procedures for calculating the amount to each government and for coordinating, announcing, transferring or suspending the transfer of funds.

As identified and described in the 2010 PEFA assessment, the legal framework that rules the horizontal distribution of funds among SNGs is comprehensive and clear, whether it refers to the calculation of the assigned amount to each SNG or the application of sanctions or the temporary suspension of the transfer to some local governments.

A Calendar for local government budget has been established in the Budget System Law:

- (1) 15 June - local government finance authority issues the instruction for the preparation of the draft local government budget.
- (2) 1 September - direct beneficiaries of the local government budget submit the draft financial plan to the local government finance authority for the budget year and the two following fiscal years.
- (3) 15 October - local government finance authority submits Draft Budget Decision to the local government executive authority.
- (4) 1 November - local government executive authority submits the Proposed Budget Decision to the local government assembly.
- (5) 20 December - local government assembly adopts the local government Budget Decision.
- (6) 25 December - local government finance authority furnishes the Minister with the local government Budget Decision.

As shown in Table 17, the actual transferred amount in 2013 was almost 97 percent of the budgeted amount by its monthly distribution there is a uniformity on disbursements throughout the year.

Despite the difficulties that the application of the legal procedures may create for some local governments, it is possible to affirm that “the horizontal allocation of almost all transfers (at

least 90%<sup>34</sup> by value) from central government is determined by transparent and rules-based systems,” as defined by the PEFA methodology—resulting in a score of A.

**Score A.** Approximately 97 percent of all the budgeted transfers from the central government to SNGs were calculated and transferred in a timely manner and applying transparent and systemic rules.

**(ii) Timeliness of reliable information to sub-national governments on their allocations from central government for the coming year**

This dimension assesses the predictability of the allocation of funds to SNGs, measuring how timely, firm, and reliable the information provided to them is, so they can plan and budget their spending programs. The critical period for this review is 2013.

As already noted, the detailed allocation of funds for each city and municipality is defined in the Revised Memorandum/Fiscal Strategy prepared by the central government.

According to the budget calendar defined by the Article 31 of the Budget System Law for local governments, on October 15 the “local government finance authority shall submit Draft Budget Decision to the local government executive authority.”

According to the budgetary legal framework, local governments have at least two weeks to adjust their budgets before completing their budget proposals; however, in practice, they are not able to acquire all the necessary information from the beginning of their budget preparation process. As showed in Table 16, the Fiscal Strategy showing the amounts that will be transferred to SNG for the year 2013 was adopted on November 28, which was several weeks after the local governments must submit their budgets for approval by their executive authorities.

The timing of the information provided to SNG differs from the one assessed during the previous PEFA and deteriorated as in 2013 amounts were announced after SNG prepared their budgets.

**Score D.** Reliable estimates on transfers are issued but only after SGN budget preparation processes have been finalized.

**(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories**

The budget classification used by the central government applies to all public entity beneficiaries of the Budget of the Republic and facilitates the consolidation of fiscal data on revenues and expenditures. All public entities must report their budget execution on a quarterly basis to the Ministry of Finance. The monthly Public Financial Bulletin published by the Ministry of Finance as well as the Year-end Budget Execution Report issued every year in June, shows consolidated fiscal data of the General Government. Since 2005, all Local Governments report monthly on their budget execution to the Ministry of Finance.

<sup>34</sup> The 90 % percentage figure is consequence of sanctions on local governments that affect part of the transfer.

**Score A.** Fiscal information ex-ante and ex-post of the General Government is consolidated on a monthly basis by the Ministry of Finance and published the following month in the Public Finance Bulletin.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-8</b>	<b>B</b>	<b>B</b>	<b>Scoring Method M2</b>			
(i)	C	A	97% of all budgeted transfers from the central government to SNGs were calculated and transferred in a timely manner applying transparent and systemic rules.	None in the regulatory framework. The 2010 score was affected by the economic situation of public finances following the global crisis that reduced the capacity to transfer funds to the subnational level.	The allocation of almost all transfers to the SN level (at least 90% by value) from central government is determined by transparent and rules based systems. Proportion of transfers to SNGs by value, for which allocations are determined by transparent rules or formulas.	- Budget Laws 2011, 2012, 2013. - Budget System Law - Year-end Budget. Execution Reports 2011, 2012, 2013.
(ii)	C	D	Reliable estimates on transfers are issued but only after SNG budget preparation processes have been finalized.	None in the regulatory framework.	Reliable estimates on transfers are issued but only after SN government budget preparation processes have been finalized.	Fiscal Strategy 2013.
(iii)	A	A	- The Public Financial Bulletin and the Year-end Budget Execution Report shows consolidated fiscal data of the General Government - SNGs report their budgetary information to the MoF monthly.	None.	Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SNG expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.	Year-end Budget Execution Reports 2011, 2012, and 2013.

### PI-9. Oversight of aggregate fiscal risk from other public sector entities

Rationale for this indicator:

*PI-9 assesses the extent to which central governments monitor fiscal risks with national implications that arise from the activities of other general government sector entities. Fiscal risks can take the form of government guarantees, operational losses caused by quasi-fiscal operations, and expenditure payment arrears.*

*The reference period for this indicator is the last completed FY (2013).*

This indicator assesses whether the central government has a formal oversight role in relation to other public sector entities; if it has implemented procedures for monitoring and managing fiscal risks arising from activities of SNGs, autonomous government agencies (AGAs) and public enterprises (PEs), including state-owned banks; and whether it has responsibility for financial default of other public sector entities.

As a consequence of the high and increased level of deficit that has been reported in recent years by the public sector, fiscal risk monitoring has become an issue of heightened relevance for the Ministry of Finance.



Serbia still had about 1,300 state-controlled enterprises (state-owned and socially owned enterprises).<sup>35</sup> In 2010, the overall losses of the state-owned, socially owned, and public enterprises—which receive direct budget subsidies, thus contributing to the fiscal deficit—approximated €1 billion (approximately 3.5 percent of GDP).<sup>36</sup> The overall government expenditures for assistance to these enterprises (direct subsidies, service buyoff transfers, and guaranteed loans for cost servicing) were approximately 2.7 percent of GDP in 2010 and approximately 2.3 percent in 2011.<sup>37</sup> That financial assistance that could occur without provision in terms of amount and timing implies that these are significant fiscal risks.

The substantial fiscal imbalance between the Republican and local government levels is a consequence of sundry unilateral and unplanned changes in law in recent years. By mid-2011 changes to the law on financing local self-governments raised available funds at the local level by RSD 40 billion annually and devolved some responsibilities. Thus, for example, in February 2012, the Republican government re-classified approximately 6,000 kms of regional roads into local roads, with RSD 4 billion of costs for their maintenance entrusted to local governments. However, by the time of the 2013 draft budget, the Republican government agreed to fully assume the cost for maintaining these roads. Then, changes in law in the fall 2012 limited or abolished certain source revenues of local self-governments (the so-called quasi-fiscal charges); the anticipated consequences is that “the revenues of local self-governments will decline by RSD 5-6 billion annually.”<sup>38</sup> All those decisions affect fiscal risk and could result in unexpected financing costs for the Government.

**(i) Extent of central government monitoring of the autonomous government agencies and public enterprises.**

This dimension assesses the manner in which the central government requires and receives quarterly financial statements and audited year-end statements from AGAs and PEs, and monitors performance against financial targets.

In 2014, in response to a recently implemented reform and with a view to generating a database of AGA and PE information, the Department for Control and Supervision of Public Enterprises of the Ministry of Economy begun receiving and monitoring the financial plans and financial reports of 681 Local Public Enterprises and 24 Central Government Public Enterprises, on a quarterly basis (Audited year-end statements of these entities have not yet been received.) Since many of these entities have not yet fully provided their fiscal information, and given the limited resources assigned to the Department, it has not been possible to produce consolidated and comprehensive reports of the sector—and hence not possible to effectively monitor the sector.

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<sup>35</sup> This number is anticipated to decline significantly as a consequence of the Privatization Law that took effect in August 2014, at least as regards socially owned enterprises, which (unlike state-owned capital) face a mandatory deadline originally set for December 2015.

<sup>36</sup> In addition, these enterprises receive various forms of indirect subsidies, such as government guarantees for loans, tax holidays, and ‘linking of the years of service,’ which increases the current and future public expenditures and reduces public revenues.

<sup>37</sup> “Proposed Fiscal Consolidation Measures for 2012-2016,” Fiscal Council, May 2012.

<sup>38</sup> “Assessment of Local Government Finances in 2013,” Fiscal Council, March 2013.

**Score D.** There is no evidence of annual monitoring of AGAs and PEs in 2013. Monitoring activities from the Ministry of Economy started in 2014.

**(ii) Extent of central government monitoring of fiscal positions in sub-national governments**

This dimension assesses the manner in which the central government requires and receives annual financial statements from SNGs and monitors performance against financial targets.

As identified in the 2010 PEFA assessment, local governments are permitted to borrow, but the Ministry of Finance must review and approve the operation prior to the signature on the borrowing contract. Additionally, local government revenues and expenditures are managed through Local Treasuries, which report to the National Treasury. Those funds are recorded in the Treasury General Ledger.

Consolidated fiscal information of the local government sector is published on a monthly basis in the Public Financial Bulletin issued by the Ministry of Finance. The Public Debt Administration of the MoF monitors the fiscal risk associated with SNGs, and produce monthly and quarterly reports that shows updated information on local governments indebtedness. The area of Public Debt Analysis and Risk Management of the Public Debt Administration monitors continually monitor the risk generated by SNGs.

**Score A.** The central government monitors monthly the SNG fiscal position. The SNG consolidated fiscal position is included in the monthly Public Finance Bulletin and in the Public Debt Reports.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-9</b>	<b>D+</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	D	D	There is no evidence of annual monitoring of AGAs and PEs in 2013. Monitoring activities from the Ministry of Economy started in 2014.	None.	No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete during the period considered under the assessment.	Database of PEs provided by the Directorate for Control and Supervision of Public Enterprises of the Ministry of Economy.
(ii)	A	A	SNGs cannot generate unauthorized fiscal liabilities for the central government, which also regularly monitors their fiscal position. SNG consolidated fiscal position is included in the Public Financial Bulletin and in Public Debt Reports.	None.	SNG cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.	- Public Finance Bulletin - Public Debt Reports - Budget System Law Art. 35, 36 and 89.

## PI-10. Public access to fiscal information

Rationale for this indicator:

*PI-10 assesses the extent to which information on central governments' budgets and their execution is readily accessible to the general public. The reference period for this indicator is the last completed FY (2013).*

**(i) The number of elements for which public access to information is available  
(based on specifications in the PEFA Performance Measurement Framework)**

This indicator analyzes the degree of transparency in the public management of finances with respect to the accessibility of information on fiscal plans, positions and performance of the government by the general public or at least by the relevant interest groups. This analysis is based on the documentation relevant to the last completed fiscal year (2013). The PEFA methodology specifies the essential elements of information to which public should have access (see Table 18).

**Table 18. Elements of Information on which Public Access is Essential**

Documentation	2014	Included
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Partial	The Annual Budget documentation can be obtained from the National Assembly if requested. The "Fiscal Strategy 2013-2015" and the Approved Budget Law were published.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Partial	The Public Financial Bulletin published monthly, provides, among other elements, updated information on budget execution (this information is aggregated and does not follow the approved budget disaggregation). In-year budget reports are available quarterly but only report actual data of the Budget Summary (Section One of the Budget Law).
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes	Per Article 78 of the BSL, the Annual Financial Statements of the Budget of the Republic must be submitted to the National Assembly by July 15. Audited Report of the Budget of the Republic Financial Statements are published by the SAI after submission to the National Assembly (FS 2013: December 26, 2014; FS 2012: December 24, 2013). The Year-end Budget Execution Report is issued before June every year and can be obtained by request.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes	All approved SAI reports are public and can be downloaded from the SAI website.
(v) Contract awards: Award of all contracts with value above approx. US\$100,000 equivalent is published at least quarterly through appropriate means.	Yes	Government bidding opportunities and contract awards are posted on the Public Procurement Portal ( <a href="http://www.portal.ujn.gov.rs">www.portal.ujn.gov.rs</a> ); Procurement plans are posted by each government entity on their websites.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Yes	This information can be obtained by request from the Ministry of Education and Ministry of Health.

The Government through the Cabinet of Ministers (CoM), not the MoF, is responsible for submitting the budget proposal (the essential elements of which are specified in the Budget System Law) to the National Assembly. It is the Government which reviews/amends the MoF proposals, adopts the final budgetary proposal, and prepares the final document that is submitted to the Assembly. This document is not readily available (e.g., through the Internet) to the public. The public has easy access (through the MoF website) only to the final version of the documents prepared by the Ministry of Finance and to the Approved Budget Law.

**Score B.** Four of the six elements fulfil the information benchmarks required by the PEFA methodology. The other two elements partially fulfil the requirements.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-10</b>	<b>A</b>	<b>B</b>	<b>Scoring Method M1</b>			
(i)	A	B	Four of the six elements fulfil the information benchmarks required by the PEFA methodology.	There have been no changes in legal framework since the last assessment; however, there are changes in the practice, especially on publishing budgetary information. The Budget Memorandum was replaced by the Fiscal Strategy.	The government makes available to the public 3-4 of the 6 listed types of information.	Public entities' websites (Government, SAI, National Assembly, Ministries of Finance, Education and Health, Public Procurement).

### 3.3 Budget cycle

#### 3.3.1 Policy-based budgeting

#### PI-11. Orderliness and participation in the annual budget process

Rationale for this indicator:

*PI-11 assesses the existence and application of regular procedures for formulating annual budgets and the involvement of political leadership and the legislature.*

*Dimensions (i) and (ii) consider the last budget approved by the legislature (2014). The last three FY budgets approved are considered (2012-2014) for dimension (iii).*

This indicator assesses the organization, clarity and comprehensiveness of the annual budget preparation process.

With respect to organization, clarity and comprehensiveness, the budget process in Serbia suffers from evident shortcomings as reported by the Fiscal Council and as noted in previously reviewed PIs, including the following:<sup>39</sup>

- annual budget laws are usually not applied in practice, while medium-term budget limits are not followed at all

<sup>39</sup> "Budget Process in the Republic of Serbia: Deficiencies and Recommendations," Fiscal Council, December 2014.

- lack of transparency and accounting of expenditures “below the line” for certain public enterprises and state banks (which are thus not visible in the Budget Law)
- the omission of a large number of quasi-fiscal institutions and agencies from the regular budget procedures
- lack of a monitoring system for arrears and commitments
- absence of a credible framework for managing the budget negotiations at the technical level
- failure to separate costs of existing activities from new public policy measures.

The Article 31 of the Budget Calendar of the Budget System Law defines the budget calendar applicable for the Central and Local Governments as follows<sup>40</sup>:

*“The process of the preparation and adoption of the budget and financial plans of organizations for mandatory social insurance shall be carried out according to the budget calendar, as follows:*

- 1) *Calendar for the Republic of Serbia level:*
  - a) *15 March – direct beneficiaries of the budget of the Republic of Serbia shall furnish the Ministry with the proposals for determining priority areas of financing for the budget year and the two following fiscal years;*
  - b) *1 April – the Government, at an agreed proposal of the Ministry and special Government body, shall determine priority financing areas, including national investment priorities for the budget year and the following two fiscal years;*
  - c) *10 April – Government shall organize a public hearing on priority areas of financing, also including national investment priorities for the budget year and the next two fiscal years;*
  - d) *30 April – the Minister, in cooperation with ministries and institutions in charge of economic policy and system, shall prepare the Memorandum, which shall contain economic and fiscal policy of the Government with projections for the budget year and the two following fiscal years—taking into account the public hearing;*
  - e) *15 May – Government shall adopt the Memorandum;*
  - f) *1 June – the Minister shall adopt the instruction for the preparation of draft budget of the Republic of Serbia;*
  - g) *1 June – the Minister shall submit the Memorandum to local government and organizations for mandatory social insurance;*
  - h) *1 September- direct beneficiaries of the budget of the Republic of Serbia and organizations for mandatory social insurance shall submit draft medium-term and financial plan to the Ministry;*
  - i) *1 October – upon the proposal of the Minister, the Government shall adopt the revised Memorandum, together with information on financial and other effects of new policies, taking into account the macroeconomic framework updated after 30 April;*
  - j) *15 October – the Minister shall furnish the Government with the Draft Law on the Budget of the Republic of Serbia, draft decisions on giving consent to financial plans of organizations for mandatory social insurance, accompanied by said financial plans;*
  - k) *1 November – Government shall adopt the Proposed Law on the Budget of the Republic of Serbia and shall submit it, together with the revised Memorandum, the proposed decisions on giving consent to financial plans of organizations for mandatory social insurance, and said financial plans, to the National Assembly;*
  - l) *15 December - National Assembly shall adopt the Law on the Budget of the Republic of Serbia and decisions on giving consent to financial plans of organizations for mandatory social insurance;*
- 2) *Calendar for local government budget:*
  - a) *15 June –local government finance authority shall issue the instruction for the preparation of the draft local government budget;*

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<sup>40</sup> Note that from 2012 the Memorandum was replaced by the Fiscal Strategy, which is a document that has similar content, but with a strengthened focus on fiscal issues and medium-term policies and projections.

- b) 1 September – direct beneficiaries of the local government budget shall submit the draft financial plan to the local government finance authority for the budget year and the two following fiscal years;
- c) 15 October - local government finance authority shall submit Draft Budget Decision to the local government executive authority;
- d) 1 November - local government executive authority shall submit the Proposed Budget Decision to the local government assembly;
- e) 20 December - local government assembly shall adopt the local government Budget Decision;
- f) 25 December - local government finance authority shall furnish the Minister with the local government Budget Decision.

*Dates indicated in Paragraph 1 hereof shall mean the due dates of the budget calendar. The Minister shall prescribe the procedure and schedule for the preparation of the medium-term scope of funds to be considered and adopted by the Government in the process of Memorandum adoption.”*

**(i) Existence and adherence to a fixed budget calendar**

This dimension assesses how well the budget preparation and approving processes adhere to a fixed budget calendar, focusing on the time that ministries, departments, and agencies (MDAs) have to complete their detailed estimates. The critical period of time refers to the processes of 2013; the assessment is based on the 2014 budget.

There is a comprehensive budgeting calendar, which is set out in the Budget System Law; however, in practice some of the processes do not adhere to the requirements stated in the Law. More importantly, the substantive intent of the Law is rendered ineffective, because information—even if promptly sent and received—does not actually influence the final content of the budget. This is a consequence of the failure to adequately separate costs of existing programs from new policies from existing ones, and the fact that the prescribed limits for individual budget beneficiaries are not respected, undermining the credibility of plans that are subsequently presented in the Fiscal Strategy. In addition, although the budget calendar stipulates that the Government shall submit the Draft Fiscal Strategy to the Fiscal Council by the end of April, this deadline has not been met in the previous three years.<sup>41</sup> Therefore, the Fiscal Strategies were usually drafted at the end of the year, together with the Draft Budget for the coming year. Failure to comply with the budget calendar further damages the credibility of the budget process and contributes to the situation where budget beneficiaries usually spend more than the amount that was prescribed in the Budget Law—thus requiring budget revisions during the year.

Some critical elements for preparing the budget by the public entities are not disseminated on time, or do not include adequate information for budget preparation. Such is the case of the Budget Proposal for the year 2014, which was submitted to the legislature on November 1, 2013, before the adoption by the Government of the Fiscal Strategy for the same year. The Fiscal Strategy was adopted by the Government on November 28, 2013, four weeks after the Budget Proposal was submitted to the legislature.

Since these weaknesses mainly originate in the Ministry of Finance, their adverse impact affects the entirety of the budget preparation process, suggesting that the calendar does not effectively determine dates of delivery, which are largely nominal in impact.

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<sup>41</sup> “Budget Process in the Republic of Serbia: Deficiencies and Recommendations,” Fiscal Council; December 2014.

Unlike in the 2010 PEFA assessment, MoF practices with respect to specific timeframes for providing information to budgetary entities have adversely affected the score of this dimension.

**Score C.** Substantial delays by the Ministry of Finance in providing key information to entities for the preparation of their budgets suggests that the budget calendar does not effectively determine dates of delivery, which are largely nominal in impact, and thus do not qualify for a B score.

**(ii) Guidance on the preparation of budget submissions**

This dimension assesses political involvement in preparing guidelines and instructions for the preparation of the budget by entities. As with the preceding dimension, the period of reference is 2013, for the 2014 budget.

The key element to guide entities’ budget preparation is the Fiscal Strategy containing the economic and fiscal policy of the Government, with projections for the budget year and the two following fiscal years. Political involvement in this document is clear and mandatory, per the Budget System Law, since the Fiscal Strategy must be adopted by the Government before May 15 prior to its distribution to entities. Budgetary ceilings for each entity are defined in this document.

**Score A.** A comprehensive and clear Fiscal Strategy is issued to MDAs, which embodies ceilings approved by the Government.

**(iii) Timely approval of the budget by the legislature**

The critical period of time refers to the processes carried out in 2012, 2013 and 2014 (2013, 2014 and 2015 budgets).

Good practice requires that the Annual Budget Law be approved before the beginning of the budgeted fiscal year (January 1 in Serbia), and this dimension measure the frequency and extent in which delays occurred in such processes. The following Table shows that the Serbian Budget of the Republic has always been approved before the beginning of the new fiscal year.

*Table 19. Date of Budget Approval by the National Assembly*

	Budget System Law	Actual date
2012 Budget	December 15, 2011	December 29, 2011
2013 Budget	December 15, 2012	December 1, 2012
2014 Budget	December 15, 2013	December 13, 2013
2015 Budget	December 15, 2014	December 26, 2014

*Source:* National Assembly website, December 28, 2014.

**Score A.** The legislature approved the budget before the start of the fiscal year for all years covered by the assessment.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-11</b>	<b>A</b>	<b>B+</b>	<b>Scoring Method M2</b>			
(i)	A	C	Delays from the Ministry of Finance in providing key information to entities for budget preparation on the period under consideration suggest that the budget calendar does not effectively determine dates of delivery, which are largely nominal in impact, and thus do not qualify for a B score.	None.	An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs too little time to complete detailed estimates, so that many fail to complete them in a timely manner.	- Budget System Law. - Fiscal Council Report on Budgetary Process. - Annual Budget Laws 2011, 2012 and 2013. - Fiscal Strategy 2013-2015. - Budget Memorandum 2011, 2012.
(ii)	A	A	A comprehensive and clear Fiscal Strategy is issued to MDAs, which embodies ceilings approved by the Government.	None.	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.	- Budget System Law. - Annual Budget Laws 2011, 2012 and 2013. - Fiscal Strategy 2013-2015. - Budget Memorandum 2011, 2012.
(iii)	A	A	There were no delays in budget approval by the legislature for the last three fiscal years. The budget was always approved before the beginning of the fiscal year on the period under analysis.	None.	The legislature has, during the last three years, approved the budget before the start of the fiscal year.	- National Assembly website, December 28, 2014.

## PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

### Rationale for this indicator:

*PI-12 examines the existence and operation of more advanced features of public sector budgeting, including medium-term fiscal forecasts, functional allocations, debt sustainability analysis, sectoral strategies and integration of investment budgets with medium-term estimates.*

*Dimension (i) considers the last two completed FYs (2012 and 2013), dimension (ii) considers the last three years (2011, 2012 and 2013), dimensions (iii) and (iv) consider the last completed budget (2013).*

This indicator assesses how expenditure policy decisions have multi-year implications, and are aligned with the availability of resources in the medium-term perspective. Medium-term frameworks are predicated upon a credible projection of budget expenditures that finance existing commitments; and the previous commentary and reportage<sup>42</sup> has indicated the factors that undermine budget credibility in Serbia.

<sup>42</sup> See "Budget Process in the Republic of Serbia: Deficiencies and Recommendations," Fiscal Council, December 2014.



**(i) Preparation of multi-year fiscal forecasts and functional allocations**

This dimension assesses (a) the forecast of fiscal aggregates and whether it includes expenditure estimates for the main budgetary categories (economic and functional or administrative classification); (b) the number of years projected on a rolling annual basis; and (c) whether there is a clear link between the multi-year estimates and the subsequent setting of annual budget ceilings. The critical period of time refers to the last two completed fiscal years (2012 and 2013 budgets).

With the 2010 implementation of the Budget System Law, a three-year expenditure framework was introduced to improve the budget process and medium-term forecasting. As noted in the Budget System Law, the Fiscal Strategy must contain, among other matters, “(i) mid-term projections of macroeconomic aggregates and indicators; (ii) mid-term projections of fiscal aggregates and indicators; ... (vi) medium-term public investment priorities; (vii) overview of priority financing areas and proposed new policies; (viii) MTEF of the budget of the Republic of Serbia with the overall scope of expenditure per budget beneficiary for the budget year and the two following fiscal years; (ix) assessment and quantification of fiscal risks and potential liabilities; (x) strategy for the management of the Republic of Serbia public debt, for the period covered by the Fiscal Strategy.”

The overall scope of expenditure per budget beneficiary for the budget year and the two following fiscal years was included in the Fiscal Strategy that referred to the budget year 2013 and projections for 2014 and 2015 (the Fiscal Strategy for budget year 2012 was described in the document “Memorandum on budget, economic and fiscal policy” issued on January 2012, after the approval of the Budget by the legislature). The expenditure ceiling limits defined for the budget are respected when the budget is prepared, but there is not a clear link between the projections for the next two years and the budgets that will be prepared for such years. The forecast includes projections on GDP values of the main categories of the economical classification. As mentioned in the Fiscal Strategy document, several changes were introduced in the government organization and in the legal framework that are impacting the accuracy of projections.

<p><b>Score C.</b> Forecasts of fiscal aggregates (on the basis of the main categories of economic classification and budget beneficiaries) are prepared for at least two years on a rolling annual basis, but the link between the projected forecast and the subsequent budgets is not clear.</p>
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**(ii) Scope and frequency of debt sustainability analyses**

This dimension assesses the frequency and scope of debt sustainability analyses. The period of reference is the last three completed fiscal years (2011, 2012, and 2013).

The National Bank of Serbia annually produces an external debt sustainability analysis (DSA) using a self-developed model that allows a simultaneous projection of GDP, balance of payments, prices and the exchange rate. Additionally, the Public Debt Administration of the Ministry of Finance annually analyzes the public debt using the criteria set out in the Maastricht Agreement, which is a systematized guideline aimed at attaining public debt and fiscal system sustainability. The results of these analysis’ are included in the Debt Management Section of the Fiscal strategy.

<p><b>Score A.</b> DSA for external and domestic debt has been undertaken annually since 2010.</p>
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**(iii) Existence of sectoral strategies with multi-year costing of recurrent and investment expenditure**

This dimension assesses the sector development strategies, focusing on the amount of primary expenditure that is based on fully-costed sector strategies during the last year.

The priorities of the Government are set out in the Prime Minister's formal exposition to the National Assembly and are included in the Government Annual Work Plan (GAWP), which is a non-public document.

Every year, as part of the budget preparation process, on March 15 the "*direct beneficiaries of the budget of the Republic of Serbia shall furnish the Ministry with the proposals for determining priority areas of financing for the budget year and the two following fiscal years.*" Although the budgetary entities must provide their priorities to the ministry, there is no evidence that such priorities are part of a sector-costed strategy.

In recent years, the fiscal strategies summarized in the Memorandum of the Budget or the Fiscal Strategy have increased their focus on reducing the fiscal deficit and on public debt management and sustainability, instead of sector development strategies. "*The main goal of fiscal policy in the future is moving towards and within sustainable levels of deficit and debt, as defined by the fiscal rules. With fiscal capacity at the present level, the sustainable level of deficit and, consequently, public debt can only be achieved by reducing government public expenditures.*" (Fiscal Strategy for 2014, with Projections for 2015 and 2016, Ministry of Finance, 2013.)

A review of the allocation of funds projected for budgetary beneficiaries in the Fiscal Strategies for 2013 and 2014 suggests that these are primarily based on fiscal criteria that is not reconciled with, nor has taken into consideration sector development planning costs, thus discouraging the preparation of costed-strategies by budgetary entities.

<p><b>Score D.</b> Sector strategies may have been prepared for some sectors, but none of them have substantiated complete investment-costing and recurrent expenditures.</p>
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**(iv) Links between the investment budget and future expenditure estimates**

This dimension assesses the strength of the links between investment decisions and sector strategies and their recurrent cost implications. The applicable period of time is 2013.

Every year, as part of the budget preparation process, on April 1 the Government is directed to explicate its priority financing areas (bearing in mind limited resources, the most favorable costs/benefits ratio and the fiscal rule that limits the debt ratio to 45 percent of GDP), including national investment priorities for the budget year and the following two years, and on April 10 to organize a public hearing on these priority areas for same period.<sup>43</sup>

Although the Fiscal Strategy Report for the year 2013 makes clear reference to specific investment projects, there are no references of the budgetary amounts assigned to such projects

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<sup>43</sup> Budget System Law.

or to their future recurrent costs. A review of some Ministry of Education sector strategies that project development activities until year 2020 shows that such strategies define goals and actions, but not their implementation costs. As noted in the discussion of the preceding dimension, for many entities there is no evidence that all sectors have strategies defining capital and recurrent costs, nor that such costs are included in the multi-annual projections. With few exceptions (e.g., the infrastructure sector), there is no evidence that any entities are revising their strategies to match the fiscal goals.

**Score C.** Many investment decisions have weak links to sector strategies, and their recurrent cost implications are rarely included in forward budget estimates.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-12</b>	<b>C</b>	<b>C+</b>	<b>Scoring Method M2</b>			
(i)	C	C	Economic and functional/sector classification are clear, but links between multi-year estimates and subsequent setting of annual budget ceilings are not clear.	None.	Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	- Fiscal Council Reports. - Budget System Law. - Fiscal Strategy.
(ii)	B	A	DSA for external and domestic debt has been undertaken annually since 2010.	Since 2010, the Public Debt Administration is in charge of this function.	DSA for external and domestic debt is undertaken annually.	- National Bank of Serbia reports. - Fiscal Strategy. - Debt Management Reports.
(iii)	D	D	Some sector strategies may have been prepared, but none of them have substantially complete investment costs and recurrent expenditures.	None.	Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.	- Fiscal Council Reports. - Budget System law. - Fiscal Strategy.
(iv)	C	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are rarely included in forward budget estimates. A higher score requires that investments must be selected on the basis of relevant sector strategies and recurrent cost implications and included in forward budget estimates.	None.	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	- Fiscal Strategy Reports 2013, 2014. - Budget System Law.

### 3.3.2 Predictability and control in budget execution

#### PI-13. Transparency of taxpayer obligations and liabilities

Rationale for this indicator:

*PI-13 considers the overall taxation framework and examines whether tax laws and regulations explain taxpayer obligations clearly; taxpayers have adequate information to meet their obligations; and there are sufficient mechanisms to question and appeal where decisions are considered to be wrong or unfair.*

##### (i) Clarity and comprehensiveness of tax liabilities

This dimension measures whether the Serbia tax system is clear and complete from the taxpayer perspective. In particular, the dimension aims to measure whether the tax system enables taxpayers to fulfill their tax obligations through voluntary compliance. In this context, no major discretionary decisions from tax collection agencies should influence taxpayer obligations.

The Serbia tax system collects both direct and indirect taxes. The main tax collection agencies are the Serbia Tax Administration (STA), the Institute for Social Insurance (ISI), the Serbia Customs Administration (SCA), and the Tobacco Administration (TA). Among direct taxes, the Personal Income Tax (PIT) and Social Security Contributions combined represent on average 15 percent of the Gross Domestic Product (GDP) in recent years. The Value Added Tax (VAT) is the most important indirect tax, and on average represented 11 percent of GDP for 2011-2013 (see Table 20).<sup>44</sup>

**Table 20. Serbia Total Tax Collection, 2011-2013 (% of GDP)**

Tax types	2011	2012	2013
Personal income tax (PIT)	4.7	4.9	4.3
Social security contributions	10.8	11.3	11.6
Taxes on profits	1.2	1.6	1.7
VAT	10.7	11.0	10.5
Excises	5.3	5.4	5.7
International trade taxes	1.2	1.1	0.9
Other taxes	1.4	1.3	1.2
<b>Total taxes revenue</b>	<b>35.3</b>	<b>36.6</b>	<b>35.9</b>

*Source: MOF.*

Among taxes *exclusive of social security contributions*, VAT clearly stands out as a revenue source, representing more than half of total tax revenue in each year, 2008-2013 (see Table 21).

**Table 21. Serbia Total Tax Collection, 2011-2013 (% of total)**

<sup>44</sup> The standard rate of VAT was raised from 18 to 20 percent in September 2012, and the lower rate of VAT from 8 to 10 percent in January 2014. The latter is applied, among other things, to basic foodstuffs, drinking water, cereals, medicines, textbooks, hotels, and natural gas. As VAT is an indirect tax, for the final consumer it represents a *consumption tax*. However, from the seller's perspective it is a tax only on the *value added* to a product. As a result, the seller will submit to the tax collection agencies only the difference between these two amounts, retaining the rest to offset the taxes that they paid for inputs.

Tax revenues	2008	2009	2010	2011	2012	2013
VAT	52	52	52	53	54	53
Excises	17	21	22	24	26	28
Corporate income tax	6	5	5	5	7	7
Personal income tax	13	12	12	11	7	6
Customs	11	8	7	6	5	4
Other tax revenues	1	2	2	1	1	1
<b>Total (rounded)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: MOF.*

Although tax agencies have implemented measures to assist taxpayers in clarifying and paying their tax obligations (e.g., e-filing for tax returns, the “integrated collection system” for withholding taxes and social insurance contributions, information Booklet on Customs, etc.) so as to promote voluntary compliance, in practice - according to the private sector perception - wide discretionary power remains in the hands of tax assessors/auditors because formal guidelines for legal interpretation are rare, requests for interpretations of tax laws are difficult to obtain and opinions might be diverse across tax offices, and individualized services from tax offices is only intermittently available.

To address these challenges (or to take advantage of these opportunities), large companies usually hire tax consultants who provide specialized advice to minimize disputes with tax collection agencies (e.g., VAT payments made under tax exemptions require a tax inspector’s assessment on the supporting documentation to clear refunds). However, individuals and small and medium-size enterprises (SMEs) typically cannot afford specialized advice.

In addition, the business community perceives that although the length of audit depends on several factors - such as the taxpayer size, scope, number to taxes, etc - , audits are lengthy. In addition, taxpayers’ perceive that beyond the size of the business that tax audits last too long and are performed at different times by several agencies requesting the same information, thus increasing the firm’s operating cost. From the taxpayers’ perspective, although they thought their tax obligations were accomplished, at the time audits are performed those expectations are not fulfilled because of discretionary decisions of tax inspectors. One aspect that might influence these perceptions is the lack of systematic risk management that allows the tax administration to target not only risky taxpayers but also flag either transactions or behaviors. In that sense, the entitled discretionary decisions might be better regulated and subject to stronger oversight arrangements.

**Score C.** Although legislation and procedures for some major taxes are comprehensive and clear (e.g., VAT and PIT), discretionary powers exist for tax collection entities (especially in the case of audits executed by STA), leading to disputed resolutions.

**(ii) Taxpayer access to information on tax responsibilities and administrative procedures**

All legislation applicable to the MoF and its departments (e.g., Treasury Administration), as well as all rulebooks, orders, instructions, and guidance (for instance, “Decision on the amounts of average weighted retail price and minimum amount of excise taxes for tobacco

products”) are published in the “Official Gazette of the Republic of Serbia” and posted on the website of the competent authority.<sup>45</sup>

The MoF and tax collection administrations in Serbia have actively developed taxpayer educational campaigns to promote voluntary compliance. STA’s website has been improved and now disseminates all tax regulations, procedures, schedules, enquiry points, and so forth to assist taxpayers to fulfil their tax obligations. STA has established one call center located in Belgrade to address queries and to interact directly with taxpayers to provide forms and explain their use. STA also conducts communication campaigns to professional associations, business associations, and Chamber of Commerce, domestic and foreign. Nevertheless, there is not a one-stop, consolidated taxpayer support unit, as critical services are disseminated across different STA units; this undermines the objective of promoting voluntary compliance.

SCA’s website has been improved to provide good access to critical information regarding laws, by-laws, internal regulations, all customs procedures, notifications, and publications about Customs regulations. In addition, SCA holds regular meetings with the Chamber of Commerce, shippers, forwarders, exporters, importers, and resident representatives of the international business community. Notwithstanding these notable advances, the website still lacks languages options, interactive options, and a Frequently Asked Questions (FAQ) menu.

**Score B.** Taxpayers have access to some information on tax liabilities and administrative procedures, but the information is limited and lacks comprehensiveness and consistency, and thus does not strongly foster an environment of voluntary compliance.

### **(iii) Existence and functioning of a tax appeals mechanism**

The tax appeals mechanism is under the Tax Administration which is perceived as not independent by the involved private sector. Recently, the appeals mechanism has been streamlined by the role that the Sector for Fiscal System of the MOF plays in clarifying legal interpretations to resolve disputes between the tax administration and taxpayers. The Sector for Fiscal System is in charge of resolving taxpayer requests for interpretation of tax law/regulations.<sup>46</sup> Since May 2013, their opinions and interpretations have been binding on the Tax Administration, including with respect to actions of tax inspectors in their audits; it is thus important to ensure that these are implemented in practice. Although the Law establishes a 30-day benchmark for the Department to resolve taxpayer requests, typically this deadline is not achieved because of limited institutional capacity. Given that the start-date establishing the binding character of Department decisions was May 2013, too little time has passed and too little track record exists to realistically assess the Department’s efficacy and efficiency as an independent tax appeal mechanism, including the issue of whether their decisions are properly implemented throughout the various tax administrations.

**Score C.** Although the tax appeals mechanism in Serbia has been revamped and is in operation, it is too early to assess its efficacy, efficiency, and fairness, including in following up on its decisions.

<sup>45</sup> In addition, based on the provisions of the Law on Free Access to Information of Public Importance, the information and documents (as a product of the activities of a public authority) should be accessible to the public.

<sup>46</sup> Although taxpayers can ask the same questions to the revenue collection agencies, and if satisfied not seek redress through the Department, the responses received are not considered as authoritative.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-13</b>	<b>B+</b>	<b>C+</b>	<b>Scoring Method M2</b>			
(i)	A	C	Although legislation and procedures for some major taxes are comprehensive and clear (e.g., VAT and PIT), significant discretionary powers exist for tax collection entities (particularly in the case of audits executed by the STA), leading to disputed resolutions.	New evidence about discretionary decisions were assessed and studied to modify the previous scoring. nt.	Better clarity and comprehensiveness of the tax laws, regulations, and procedures are critical for promoting voluntary compliance as well as reducing discretionary decisions of revenue agencies. As discretionary decisions are applied, taxpayers will be less motivated to collaborate with the tax administration, and hence the tax system will be less efficient.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- Websites of tax agencies.</li> <li>- IMF reports.</li> <li>- Specialized publications.</li> </ul>
(ii)	B	B	Taxpayers have access to some information on tax liabilities and administrative procedures, but the information is limited and lacks comprehensiveness and consistency, and thus does not strongly foster an environment of voluntary compliance.	None.	Taxpayers have access to useful information on their tax liabilities, they would be keener on fulfilling their tax obligations.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- Websites of tax agencies.</li> <li>- IMF reports.</li> <li>- Specialized publications.</li> </ul>
(iii)	B	C	Although the tax appeals mechanism in Serbia has been revamped and is in operation, it is too early to assess its efficacy, efficiency and fairness, including in following up on its decisions.	No apparent change. Independence of tax appeals considered. Following the PEFA methodology a C score corresponds for this cases.	An effective appeals mechanism of tax administration assessments provides to taxpayers a guarantee of fair treatment.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- Websites of tax agencies.</li> <li>- IMF reports.</li> <li>- Specialized publications.</li> </ul>

#### **PI-14 Effectiveness of measures for taxpayer registration and tax assessment**

Rationale for this indicator:

*PI-14 examines the controls within the tax system and the effectiveness of measures to ensure the integrity of the system. It considers the arrangements for managing taxpayer registration, the effectiveness of penalties, audit and investigations.*

##### **(i) Controls in the taxpayer registration system**

STA registers taxpayers under one of two categories: individuals and legal entities. The latter holds a unique Tax Identification Number (TIN, Serbian PIB) provided by the Agency for Business Registers at the time the company is formally established. In the registration process, the company must supply details of its bank accounts for verification, and this information is forwarded to STA, which executes a control routine to avoid duplications or other anomalies

before clearing the TIN.<sup>47</sup> (Similarly, STA closes TINs when companies go out of business.) Only at this point is the legal entity activated and permitted to commence operations. In practice, however, particularly in cases of SMEs and more particularly those that deal with regional offices of the Business Register, TINs are created and activated without reference to, or clearance from, STA. The STA has plans to streamline the operating procedures for registering business and creating TINs to minimize discrepancies and duplications.

For individuals, STA uses the Serbia Personal Identification Number (SPIN, Serbian JMBG). Subnational tax administrations use this number to collect property taxes, sign-offs, and fees established by local administrations (since 2007 they are entitled by Law to collect some taxes and fees as own-resources to finance local government budgets).

Although STA has implemented some facilities to ensure the TIN database is updated including the use of a Web portal to update information about TINs, control mechanisms are typically performed manually. As a result, there is some uncertainty whether the TIN information is completely accurate and properly updated. Table 22 displays the total number of legal entity taxpayers, disaggregated by size of total turnover and volume of tax revenue collected (both in absolute terms and as a percentage of total tax revenue collected), for 2011, 2012 and 2013.

**Table 22. STA: Number of Registered Taxpayers and Significance, 2011, 2012 and 2013 (in millions of RSD and % of total legal entity tax collections)**

Category	2011			2012			2013		
	No.	Payments	%	No.	Payments	%	No.	Payments	%
Micro 1/	317,992	60,270	8	309,236	65,137	8	310,022	80,956	10
Small 2/	43,004	114,893	16	45,871	121,338	15	40,631	113,588	14
Middle 3/	7,880	167,185	23	8,425	175,845	22	7,955	165,915	20
Large 4/	1,081	398,089	54	1,193	435,160	55	1,132	472,432	57
<b>Total (rounded)</b>	<b>369,957</b>	<b>740,438</b>	<b>100</b>	<b>364,725</b>	<b>797,481</b>	<b>100</b>	<b>359,740</b>	<b>832,892</b>	<b>100</b>
<i>Note:</i> Data on total turnover: 1/ < RSD 8,000,000; 2/ from RSD 8,000,000 to RSD 100,000,000; 3/ from RSD 100,000,000 to RSD 1,000,000,000; 4/ > RSD 1,000,000,000. <i>Source:</i> STA.									

**Score B.** In Serbia taxpayers are registered in a single database system with some linkages to other government registration systems and financial sector regulations.

**(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

Although tax laws permit the tax administration to seize non-compliant taxpayers’ assets and freeze their bank accounts, the significance of the “grey” economy evidences the limited effectiveness and efficiency of legislation to (i) deter that portion of informal activities that does not comply fully with tax regulations, and (ii) promote voluntary compliance.<sup>48</sup> There is

<sup>47</sup> The Serbia Customs Administration (SCA) uses the same TIN database to allow authorized operators to transact trades.

<sup>48</sup> The grey economy is defined as illegal and legal activities established to avoid tax obligations through loopholes in the law, or to outright evade obligations through knowledge of weak enforcement capacity; in either case, such opportunities are then exploited as business activities fill the profitable vacuum. There are estimations that the



a wide perception among private companies operating in the formal economy that a culture of tolerance for the “grey” economy flourishes, implicating the credibility of effective sanctions against efforts to evade tax obligations, and further affecting voluntary compliance from formal sectors. In addition, there is no *administrative* penalty for non-registration of business activity or for late filing of tax returns. Instead, these matters are dealt with through the court system. Although the Court of Misdemeanors may impose late filing penalties, STA has limited capacity to monitor penalties assessed to determine their effectiveness in systemically altering compliance behavior. Also in practice, it is easier for STA to seek court enforcement of penalties against late filing of returns only in cases that used the e-filing system, as that information system can assist STA to more readily identify non-compliant taxpayers.

STA splits tax collection processes into voluntary payments and enforced collection, which is activated once non-compliant taxpayers have been identified. As an initial warning, STA notifies non-compliant taxpayers about overdue tax payments. If these taxpayers do not pay their overdue obligations within five days of notification, STA can initiate enforced collection procedures to secure payment. In Serbia, the tax administration is permitted to seize such taxpayers’ assets to cover tax liabilities, including interest charged, without requesting a judicial order to proceed. In addition, if non-compliant taxpayers have cash deposits in the financial system, funds will be withdrawn through the National Bank of Serbia (NBS) in favor of the tax administration. Once the amount due has been collected, it is allocated among different tax categories (e.g., VAT, social contributions, and others).

Although STA is entitled to withdraw or confiscate any non-compliant taxpayers’ assets, reality is sometimes more complex (e.g., in the case of companies whose board of directors has limited liability, or where the company’s assets are limited, hidden, or encumbered). Such situations open room for burdensome legal disputes, and STA must weigh the burdens against resource constraints and efficiency in terms of rate of return on ‘investments.’ Moreover, the new Privatization Law, which took effect August 13, 2014, establishes that the tax liabilities of former SOEs cannot be collected. Finally, if companies have initiated the process for filing for bankruptcy, tax liens and seizures cannot be compulsorily executed by the tax administration.

In the case of the Serbia Customs Administration (SCA), if the obligation fails to be paid within eight days from notification, the overdue interest is calculated in accordance with the Custom Law. Forced collection for unpaid custom duties may be initiated by SCA in conjunction with the National Bank of Serbia Department for Enforced Collection. In such cases, a declaration or administrative order to initiate the forced collection procedure is forwarded to the appropriate NBS unit, which will freeze all accounts of the non-compliant taxpayer and transfer available proceeds from those accounts to the account of SCA. In the case of declarations without security for payment of custom duties and taxes, the procedure will be conducted by the custom office that cleared the goods, while the administrative orders are forwarded to the Revenue Collection Department in the Custom Administration. In such cases, SCA can seize the goods until debts have been paid.

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“grey” economy might represent 30 percent of GDP, suggesting a significant tax avoidance effort running in parallel to formal activities.

**Score C.** Although Serbia tax collection administrations are entitled to charge penalties and seize assets, these actions are not consistently applied and have therefore a limited impact on compliance, especially in the case of STA which is restricted by the current legal framework which limits proactive actions in this respect.

### **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Within STA, the Audit Sector is in charge of establishing audit plans within the context of a risk-assessment framework (the criteria of which were developed in 2004-2005) and a resulting estimation of potential tax evasion. Thus all its annual audit plans are largely pre-defined (excluding cases that emerge ad hoc). Recently, the unit has focused efforts on the “grey” economy, diverting scarce resources to address tax avoidance activities and the challenges of a weakly regulated sector.

Risk management and criteria is managed by several units within the STA depending on the type of sector and tax. For the Audit Sector, risk management is conducted on the basis of defined risk criteria and data analysis to target taxpayers who are likely to be in the greatest breach of tax obligations. The most important risk criteria are (i) disproportionately small amounts of payment of public income compared to turnover registered with the Office of Business Registration or STA; (ii) founders or authorized directors are simultaneously the owners or authorized directors at identified money-launderers or known phantom entities; (iii) an open request for VAT returns, and a small tax payment on business revenues; (iv) import of goods from China and Turkey in great volume within a short period, and disproportionately small payment of incomes; and (v) importers of crude oil, where analyses of the gap between import volumes and sales/tax and duties payments suggests hidden commercial transactions.

For VAT enforcement, the STA has developed additional risk criteria based on: (i) the largest weight - turnover in the last 12 months; Corrective criteria (weighting is done during the preparation of the annual plan); (ii) the activity (in accordance with OECD guidelines); (iii) previous control (track record); (iv) tax returns filing deadline; (v) absolute value of VAT; (vi) relative ratio of the previous turnover and estimated traffic; and (vii) absolute value of the difference between output VAT and input VAT. As for VAT refunds and credits, the risk management criteria are under review. Finally, for income taxes of legal entities, the risk criteria is based on the analysis of financial statements, tax returns, activity of the organizations and the largest taxpayers for a period of five years. Criteria for selection of taxpayers to control taxes on corporate income are still in the process of validation.

Another 60 criteria for selection of taxpayers for audit are grouped in the following categories: (i) general criteria: registrations, type of registration, activity, form of organization (status), legal entity or entrepreneur/physical entity, risk; (ii) VAT criteria: comparison on all fields in the taxpayer’s VAT tax return with the actual entity or with a pre-defined homogenous group (activity, amount of turnover, region); and (iii) additional criteria: producer of excise goods, information on cash withdrawn (information from the bank), turnover on the fiscal register and others.

Despite the existence of the audit plans and broad and detailed risk criteria, the STA has been diverting its enforcement efforts to sectors (i.e. Grey economy) without proper consideration

about the effects on the overall taxpayer compliance as well as on the significance of additional revenue collection.

The audit function is broadly divided between the central office and branch offices and carried out by a small number of skilled tax auditors. Audit orders issued by the central office take into consideration the indicated risk criteria and attention to new business operating in risky sectors. Although audit plans are comprehensive and risk-based in principle, some audit orders have been not performed as a consequence of MoF instructions in 2013 and 2014 to focus on the fiscal cash register program. This initiative is counted by STA as an audit even though it does not focus on determining tax obligation per se but rather on enforcing the transition of mechanical cash registers (e.g., in stores) to an automatic electronic communication of transactions with VAT and other tax implications. (The yields of which in terms of revenue collections are relatively negligible.) In addition, branch offices are focusing their audits efforts on micro enterprises and SMEs, which effort also yields relatively little in revenue collection. Table 23 presents the audit orders of the Large Taxpayer Office and branch offices in 2013-2014.<sup>49</sup>

**Table 23. STA Audit Orders to the Large Taxpayer Office and Branch Offices, 2013-2014**

Audit Type	2013		2014	
	Planned	Orders Issued	Planned	Orders Issued (as of Sept. 5)
Comprehensive-related to main economic sectors	3,760	1,093	4,032	593
Comprehensive-emerging risks <sup>1/</sup>	2,027	0	2,108	21,106
VAT refund	840	1,146	840	1,089
Other audits (complaints)	750	242	750	267
<b>Total</b>	<b>7,377</b>	<b>2,481</b>	<b>7,730</b>	<b>1,949</b>
<b>Percent of plan completed</b>		<b>34</b>		<b>35</b>

*Notes:* 1/ STA reported 6,399 fiscal cash register checks in 2013 and 21,106 in 2014.  
*Source:* STA and IMF staff compilations.

SCA risk management is articulated through the following steps: establishing the context, identification and risk analysis, assessment and ranking of risks, managing the risks and follow-up and evaluation. The Department for Post-Clearance Audit Control is in charge of organizing and implementing the annual post-clearance audit plan, which is prepared for the entire Department, by identifying and harmonizing needs of all regions (Belgrade, Kraljevo, Novi Sad and Niš) so as to reflect breadth of territorial coverage, technical equipment, and available human resources.<sup>50</sup>

The SCA Department for Risk Analysis and Management provides its contribution by maintaining a fair balance between tasks which pertain to protection of citizens and facilitating

<sup>49</sup> The Compliance Plan this ratio is 60 percent for the Headquarters of the Tax Administration and 40 percent for branch offices and the Center for Large Taxpayers. The 60:40 ratio pertains to the working time of the auditors, whereby 60 percent of the time is planned for in the Headquarters of the Tax Administration and 40 percent in the branch offices.

<sup>50</sup> This Department focuses not only on collection self-reported but underestimated custom duties, but also undertakes pre-control efforts aimed at issuing of approval for simplified procedure (i.e., house clearance and invoiced-based clearance).

international trade flows, and those that aid the collection of customs duties as budgetary revenues.

The Department for Risk Analysis and Management is in charge of identifying high-risk sectors and establishing the measures necessary for assessment of potential risks, and respective actions to contain the risk; to improve the safety of trade flows based on prior risk analyses; to affect the strengthening of competitive ability of local businesses (by sanctioning those who do not conduct business in accordance with the regulations and who damage the legal national trade); to provide protection of citizens by applying the selectivity criteria with the purpose of directing the controls performed by the customs services; to evaluate the relevance of the risk analyses through regular re-examination based on results of controls and investigations; to develop cooperation in the field of risk analysis and direction of controls with other services and other authorities of the national administration charged with combating fraud.

**Score C.** Although both STA and SCA are producing annual audit plans, they are facing implementation challenges with respect to their risk-assessment criteria and the degree to which plans are implemented as designed.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-14</b>	<b>B</b>	<b>C+</b>	<b>Scoring Method M2</b>			
(i)	B	B	In Serbia taxpayers are registered in a single database system with some linkages to other government registration systems and financial sector regulations.	None.	Taxpayers should be registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- STA and SCA documentation.</li> <li>- IMF reports.</li> </ul>
(ii)	B	C	Although Serbia tax collection administrations are entitled to charge penalties and seize assets, substantial changes are required if they are to have a real impact on compliance, especially in the case of STA.	No changes on legal framework. Consideration on the impact and consistency of measures has changed.	Penalties are sufficiently high to deter tax evasion in all areas of non-compliance and are consistently managed.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- STA and SCA documentation.</li> <li>- IMF reports.</li> </ul>
(iii)	B	C	Although both STA and SCA are producing annual audit plans, they are facing implementation challenges with respect to their risk-assessment criteria and the degree to which plans are implemented as designed.	No changes on legal framework. Consideration on the application of risk approach changed.	Tax audits plans and fraud investigations are comprehensive and based on clear risk management criteria, and are well documented for all major taxes that apply self-assessment.	<ul style="list-style-type: none"> <li>- Summary of interviews.</li> <li>- STA and SCA documentation.</li> <li>- IMF reports.</li> </ul>

## PI-15 Effectiveness in collection of tax payments

### Rationale for this indicator:

*PI-15 assesses the extent to which tax policies and administration are effective in collecting the revenue as authorized by legislation and regulations. Handling of tax arrears is an important guide to the effectiveness of legal and administrative arrangements. The funds that are collected need to be transferred to government accounts and reconciled quickly to allow funds to be used promptly and to ensure that records across government are fully aligned. Dimension (i) examines the last two completed FYs (2012 and 2013). Dimensions (ii) and (iii) focus on circumstances at the time of the assessment (2014).*

### (i) The collection ratio for gross tax arrears

The collection ratio for gross tax arrears is measured by the percentage of tax arrears at the beginning of the fiscal year that is collected during that fiscal year.

STA total gross arrears can be defined by the sum of net tax arrears and disputed tax arrears. The net tax arrears are the tax arrears at the beginning of the fiscal year less the collected tax arrears in the course of the fiscal year. In addition, a share of gross tax arrears can be disputed by tax payers preventing the collection of the arrears, especially in the following categories: companies undergoing privatization and restructuring, companies in bankruptcy and liquidation procedures, companies deleted from the registry, ghost and money-laundering companies and companies with insurance span gaps bridged.

Although STA is entitled to withdraw or seize any taxpayer's assets in order to cancel arrears and lack of voluntary compliance, in reality there are exceptions as the cases of companies' directors with limited liability and SOEs under privatization process. Typically, STA follows a standard operating procedure to enforce the payment of tax arrears. This procedure is based on warnings to taxpayers who have recorded tax obligations past due. Warnings are issued based on a list of taxpayers with recorded debts and contain the instructions for taxpayers to respond to STA within five days to discuss issues concerning the nature and amount of the tax debt.

Therefore, to measure this dimension, Table 24 considers STA tax arrears management in 2012 and 2013.

**Table 24. STA Estimations of Total Tax Arrears, 2012 and 2013**

Components		2012	2013
A	Total gross arrears as of January 1 of the respective fiscal year (in billion RSD)	448.60	555.30
B	Total disputed arrears as of January 1 of respective fiscal year (in billion RSD)	390.40	401.10
C	Total net arrears as of January 1 of respective fiscal year (in billion RSD) [A-B]	58.20	154.20
D	Total collection in the course of fiscal year, inclusive of December 31 of respective fiscal year (in billion RSD)	489.40	512.40
E	Total gross arrears collection rate [D/A]	1.09	0.92
F	Total net arrears collection rate [D/C]	8.41	3.32
G	Total gross arrears as a share of total collection (in %) [A/D]	0.92	1.08

*Source: STA and IMF staff estimations.*

**Score D.** The debt collection ratio in recent years (2012 and 2013) was below 60 percent and the total amount of tax arrears is significant.

**(ii) Effectiveness of transfer of tax payments to Treasury**

In Serbia all tax payments are made directly to Treasury accounts. Revenues and allocation of funds from these accounts follow the regulations and procedures of keeping accounts for the payment of public revenues, as a subsystem of consolidated treasury account of the Republic of Serbia.<sup>51</sup> The chart of accounts of the budget system has the following classification:

Class 0 - Non-financial assets,

Class 1 - Financial assets,

...

Class 7 - Current revenue,

Class 8 - Proceeds from the sale of non-financial assets,

Class 9 - Proceeds from borrowing and sales of financial assets.

Class 7 of the chart of accounts is used to register revenues expressed analytically. Banks authorized to collect revenues have a unique identification number provided by the National Bank of Serbia (i.e. from 105 to 375) that collect revenues to the Treasury system. Therefore it is the Treasury that informs revenue collection agencies of changes in the account balances (in the the STA are some 700 revenue accounts). The information process has two main purposes of ensuring complete reconciliation of accounts between the Treasury and revenue agencies, and monitoring annual revenue collection targets. The MoF annually establishes a tax collection target for the tax administration; this target is the basis for the targets assigned to the local tax administration offices. These constitute STA's performance criteria. Based on payments and the unique codes created (which are linked to the TIN), STA can determine who has paid taxes. STA reports that it has a file record that functions as each STA-registered taxpayer's current account.

**Score A.** All tax revenue is paid directly into accounts controlled by the Treasury.

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by Treasury**

There are daily reconciliation processes between the tax collection agencies and the Treasury.

In the case of the STA, revenues are held at the National Bank of Serbia under Treasury management. Treasury allocates and transfers funds from the revenue account to budget beneficiaries each working day. Treasury notifies the competent authority of the Republic, or the autonomous province, municipality, city or mandatory social security payments and schedule of public revenues, and submits reports on gross revenues, refunds and allocated and

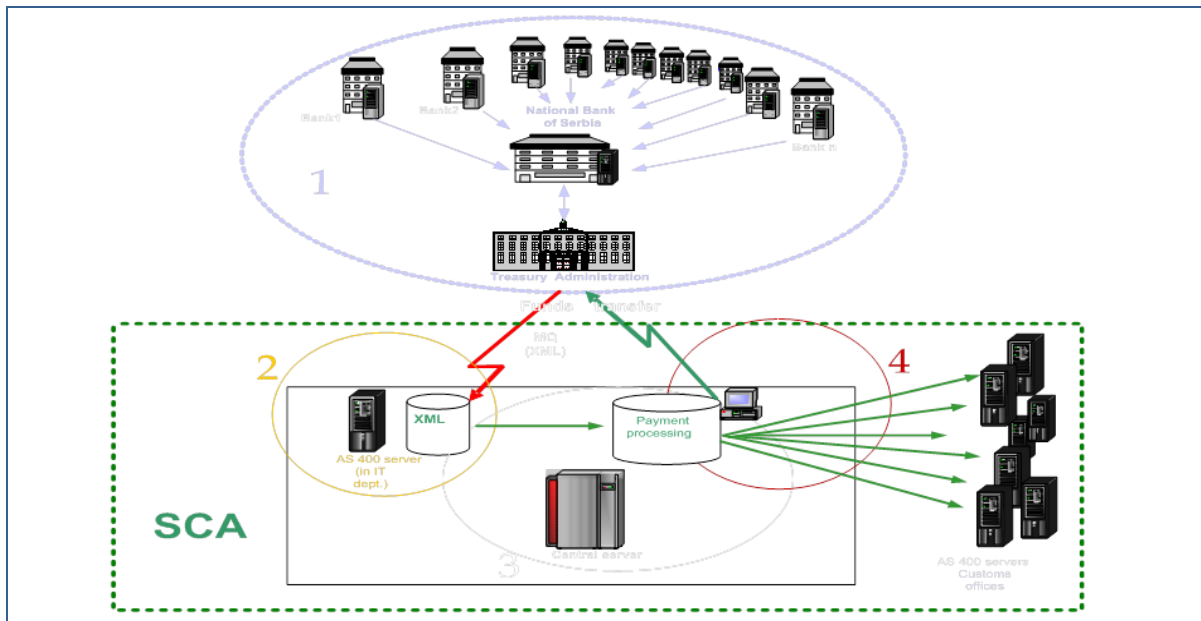
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<sup>51</sup> Pursuant to Article 11, paragraph 4 of the Law on Budget System Ordinance on Standard Classification Framework and Chart of Accounts for the budget system was adopted ("Official Gazette of the RS ", no. 20/2007 ... 11/2010), this is aligned with generally accepted classification of "GFS" (Government Finance Statistics) standards and the Government's Finance Statistics Offices.

unallocated amounts of revenue. Any payment of tax arrears is allocated and recognized in the same way as regular payments.

Figure 5 depicts the information exchange process on inflow and outflow of proceeds recorded on accounts of the SCA, and between SCA and the payment operations system (a similar reconciliation process with the Treasury applies to the other tax collection agencies).

*Figure 5. SCA—Reconciliation Processes of Tax Collection with the Treasury*



The information flow from the payment operations system to SCA is as follows:

- (i) Tax payers make payments in their commercial banks by using the specific reference number. The reference number consists of the control number and the identification of the specific JCI (unique custom declaration), to which the payment refers—consisting of (a) the code of the custom office where the specific custom procedure was conducted; (b) type of custom procedure; (c) the applicable year of the specific custom procedure; and (d) the number of the customs declaration, containing overall information of consignment, importer, and beneficiary (i.e., all required information for collection and all other subsequent procedures).
- (ii) Data on payments made is sent automatically from commercial banks to the NBS and from there to the Treasury. The SCA receives information from the Treasury electronically; data is updated every five minutes, providing information on all transactions on the SCA accounts.
- (iii) Processing information within the SCA information system: received information on transactions on SCA accounts are processed and automatically reconciled with the appropriate custom debt. For all proceeds paid to SCA accounts and reconciled with the custom debt, orders for allocation to budget incoming payment accounts are prepared, once or several times daily, as needed.

The information flow from the SCA to the payment operations system is as follows:  
 (i) orders for payment into the incoming payment budget accounts are created and are

electronically forwarded to the Treasury, therefore completing outflow of proceeds from the SCA account; (ii) incorrect or double payments are returned to the account of the legal entity from which they were paid, by creation of a return order at the request of the interested party. These orders also represent outflows from SCA accounts.

**Score A.** Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs at least monthly, within one month of the end of the period.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-15</b>	<b>D+</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	D	D	The debt collection ratio in recent years (2012 and 2013) was below 60 percent and the total amount of tax arrears is significant.	None.	The average debt collection in the two recent fiscal years is 90 percent.	- Summary of interviews. - STA and SCA. Documentation.
(ii)	A	A	All tax revenue is paid directly into accounts controlled by the Treasury.	None.	The frequency of transfer of collections by the commercial banks to the Treasury.	- Summary of interviews. - STA and SCA documentation.
(iii)	A	A	Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs at least monthly, within one month of the end of the period.	None.	The frequency of complete reconciliations takes place at least monthly within one month of end of month.	- Summary of interviews. - STA and SCA documentation.

### **PI-16 Predictability in the availability of funds for commitment of expenditure**

**Rationale for this indicator:**

*PI-16 assesses the extent to which MDAs receive reliable and timely information on the funds available for them to commit expenditure for recurrent and capital purchases. The reference period for this indicator is the last completed FY (2013).*

This indicator assesses the extent to which ministries, departments, and agencies (MDAs) that are part of the national budget, and depend on budgetary allocations and funding from the National Treasury, receive timely information on budget allocations and availability of cash, to schedule and pay liabilities. The period of reference is the last completed fiscal year (2013).

The Budget System Law and Rulebook on Budget Execution System clearly state the applicable parameters, prominently including the following:

- Direct and indirect budget beneficiaries may execute payments up to expenditure ceilings set by the Minister, and/or local government finance authority, for a three-month or other period (i.e., the “quota”). When setting quotas for DBBs, the Minister, and/or local government finance authority, takes into consideration the funds budgeted for the DBB in question, applicable budget execution plan, and liquidity capacities of the budget. The Ministry and/or local government finance authority shall inform DBBs of the quotas, at least 15 days prior to the commencement of the period covered by the quotas. (BSL, Article 53)



- The budget beneficiary is required to deliver the plan for budget execution to Treasury by the 5<sup>th</sup> of the month, using the FINPLAN application, for the following three months (at which point the earlier delivered budget execution plans for following months may be changed). (Rulebook, Article 19)
- Commitments created by DBBs/IBBs and organizations for mandatory social insurance must conform to the appropriation approved for such purpose in the budget year. Commitments created in line with the approved appropriations, but not executed during the year, are transferred and have the status of created commitments and in the following budget year shall be executed based on the approved appropriations for that budget year. (BSL, Article 54)
- Treasury must establish by the 15<sup>th</sup> of the month the quota for next three months. (Rulebook, Article 22)
- Budget beneficiaries deliver requests for change of allocated quotas through FMIS. Requests for quota change up to 10 percent are decided upon within three working days of receipt of request; requests for a quota change greater than 10 percent are decided upon within five days. Treasury's determination of the requests should be guided by a projection of budget revenue and income, budget execution of a budget beneficiary from the previous period, and by the appraisal of financial planning performance. (Rulebook, Article 23)

**(i) Extent to which cash flows are forecast and monitored**

As defined by “Article 51 - Budget Liquidity Planning” of the Budget System Law, budget beneficiaries are obliged to deliver to the Treasury their plan of budget execution (revenues and expenditures) for the year showing its programmed monthly execution within 10 days from the day the Budget Law is passed. On this basis, every month the Ministry of Finance sets the expenditure limits (quota) for a three-month period for each budget line. As defined by Article 19 of the Rulebook on Budget Execution System, every month before the 5<sup>th</sup> day of the month, budget beneficiaries submit to the Treasury their budget execution plan (revenues and expenditures) for the next three months. In turn, the Treasury has an annual cash flow that is reviewed every month and monitored on a daily basis.

**Score A.** A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.

**(ii) Reliability and time horizon of periodic in-year information to MDAs on maximum limits for expenditure commitments**

Budget beneficiaries submit to the Treasury their budget execution plan (revenues and expenditures) for the next three months before the 5<sup>th</sup> day of every month. That information is used by the Ministry of Finance to update the quarterly expenditure commitments ceilings. Then, expenditure limits are defined for the budget beneficiaries for the next three months, and are reviewed monthly.

In practice, the definition and reliability of the ceilings is low because the information provided by the budgetary beneficiaries is unreliable, since they do not adapt their plans to the ceiling provided by the MoF. Many beneficiaries exaggerate the amount of funds they need to finance their (existing) activities, forcing the Treasury to adjust the MDA requests according to the availability of funds.

**Score D.** MDAs are not provided with a reliable indication of actual commitments in terms of resource availability.

**(iii) Frequency and transparency of adjustments to budgetary allocations that are decided at a higher level of management than MDAs**

Article 61 (In-Year Changes of Appropriations), Article 62 (Temporary Suspension of Budget Execution), and Article 63 (Supplementary Budget of the Budget System Law) define the process of adjusting budget allocations.

Changes in budget allocations decided at a higher level of management than MDAs can be divided in two categories: those that need National Assembly approval and those that do not and are decided at the MoF level.

According to the Fiscal Council, "... the biggest deficiencies of the budget process lie in the inefficient process of the allocation of public funds ... to budget beneficiaries."<sup>52</sup> Such deficiencies are the principal cause of most of the budgetary adjustments requested by entities to redirect their allocations among their programs. Limits and procedures for these adjustments, as previously noted, are clearly defined by the Budget System Law and the Rulebook on Budget Execution System. Since these adjustments are requested by budgetary entities to modify their own budgets, they are not considered in this analysis, which focuses on budgetary reallocations decided at a level higher than the management of entities.

The high level of fiscal deficit and public indebtedness in recent years led the Government to introduce budgetary adjustments to reduce fiscal risks and control the level of expenditures. Adjustments related to fiscal issues, such as revenue shortages, can be significant, but typically occur but once or twice a year (normally in the second or third quarter of the year). Such adjustments require the approval of the National Assembly (in cases of supplementary budgets), or notification to the National Assembly (in cases of temporary suspension of budget execution), or coordination with the budgetary beneficiaries (in cases of reallocation of appropriations).

From the evidence gathered, MDAs that need to have budgetary allocation adjustments that do not require National Assembly approval normally apply for them only a few times during the year, the requests are not for significant amounts and the application/ decision is executed in a transparent manner.

**Score A.** There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable manner.

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<sup>52</sup> See "Budget Process in the Republic of Serbia: Deficiencies and Recommendations," December 2014.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-16</b>	<b>C+</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	A	A	A cash flow forecast is updated monthly on the basis of actual cash inflows and outflows.	None.	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.	- Budget System Law. - Rulebook on Budget Execution System.
(ii)	C	D	MDAs are not provided with a reliable indication of actual commitments in terms of resource availability.	None in the legal framework, but there is better information available to help assess the indicator.	MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.	- Budget System Law. - Rulebook on Budget Execution System. - Fiscal Council Report.
(iii)	A	A	There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable manner.	None.	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	- Budget System Law. - Rulebook on Budget Execution System. - Fiscal Council Report.

### PI-17 Recording and management of cash balances, debt and guarantees

Rationale for this indicator:

*PI-17 assesses the degree to which:*

- *public debt administration is undertaken expeditiously, based on accrued and updated information to contribute to an adequate plan of budget commitments*
- *cash needs are supported by updated information on the availability of cash in the Treasury accounts to minimize further public debt and optimize the use of cash*
- *the issuing of government guarantees is registered in a transparent and timely manner to ensure information on the implicit fiscal risk.*

*The assessment of the first and second dimensions is based on the time of the assessment (2014), while the third dimension measures performance over the last completed FY (2013).*

The legal and operational frameworks on debt management are clear and complete. They include procedures of control and review by several entities ensuring that debt operations and transactions are properly approved and registered. The principal legislation is the Budget System Law and Public Debt Law, the most pertinent aspects/Articles of which are as follows:

- The Republic, with the approval of the National Assembly, may borrow to finance budget deficit and liquidity deficit, to refinance the outstanding debt, to finance investment projects, and to make payments on guaranties. Government decides on issuing long-term government securities, unless it is otherwise regulated by Law. The Minister of Finance is solely authorized, on behalf of the Government, to decide on taking short-term loans for budget deficit financing, liquidity financing, and public debt refinancing, as well as on issuing short-term government securities. Long-term loans and/or long-term government securities, in the sense of this Law, are loans and/or government securities the redemption of which is extended over the following budget years. (Public Debt Law, Article 5 - Authority to Borrow)

- A competent local government body makes decisions on local government borrowing, after it has obtained the opinion of the MoF, which opinion should be issued within 15 days receipt of request for opinion (failing which it will be considered that the opinion is positive). (Public Debt Law, Article 33 - Authority for Local Government Borrowings)
- The Minister of Finance, and/or local government finance authority, shall be authorized to open the consolidated treasury account of the Republic of Serbia, and/or local government treasury account. The consolidated treasury account of the Republic of Serbia and consolidated treasury account of the local government shall constitute consolidated treasury account system, held with the National Bank of Serbia. The Minister, and/or local government finance authority, and/or the person authorized by him, shall open sub-accounts of public funds beneficiaries included in the consolidated treasury account of the Republic of Serbia, and/or consolidated treasury account of the local government. Within the sub-accounts, the following funds must be kept separately: (i) funds allocated by the budget, and/or the financial plan of organizations for mandatory social insurance, and (ii) own-source revenues generated by DBBs/IBBs and/or organizations for mandatory social insurance, as well as own source revenues of other public funds beneficiaries included in the consolidated treasury account system. These sub-accounts shall be kept by the Treasury. Financial resources of the local government budget, of the DBBs/IBBs of that budget, as well as financial resources of other public funds beneficiaries included in the consolidated treasury account of the local government, shall be kept and deposited on the consolidated treasury account of the local government. (Budget System Law, Article 9 - Consolidated Treasury Account)

#### **(i) Quality of debt data recording and reporting**

This dimension assesses whether the administration of public debt is conducted in a timely manner and based on accurate and updated data, in order to contribute to adequate programming of budget commitments (interest payments and amortization).

As defined by the Article 5 of the Public Debt Law, the Minister of Finance is the only authorized entity to contract borrowings, conclude loan agreements, and/or issue government securities, on behalf of the Government and in the name of the Republic. For such purpose, in 2009 the Public Debt Administration (PDA) was created within the Ministry of Finance.

PDA is the holder of the public debt policy and its role is to ensure financing of budgetary expenses and investment projects for the state and public enterprises. PDA keeps a record of all transactions of the foreign or domestic public debt acquired in the name of the Government and the Republic. Additionally, the NBS, as the financial agent of the Government, keeps a parallel record of the external public debt.

Each month, PDA issues a report of the public debt and every quarter PDA also issues a debt statistics report. Both reports are published on the PDA website<sup>53</sup>. Debt records are continually updated as transactions are promptly registered, and every month the PDA records of external debt are reconciled with the NBS records and creditors, as stated on the procedures for preparing the monthly reports. PDA keeps all the debt records in a database organized through

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<sup>53</sup> <http://www.javnidug.gov.rs/>.

spreadsheets. The debt information is published on a regular basis, enabling creditors to review and comment on such figures when inconsistencies are found.

Debt records include central and local government debt (guaranteed and non-guaranteed). Quarterly and monthly debt reports are explicit in describing the debt stock; showing historical information on direct and contingent liabilities; presenting the debt structure by creditors, currencies and interest rates; and presenting securities. Debt service is described and shown in the Financial Bulletin issued each month by the Ministry of Finance, and the Year-end Budget Execution Report.

**Score A.** Domestic and foreign debt records include central and local government debt (guaranteed and non-guaranteed), and are reconciled monthly with creditors records. Data is considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced monthly.

**(ii) Extent of consolidation of the government’s cash balance**

This dimension assesses whether cash requirements are supported with updated information on the availability of cash in the Treasury accounts (so as to minimize generation of public debt), and analyzes the management of this function as it was performed at the time of the PEFA evaluation.

The Consolidated Treasury Account provides daily calculation of cash balances and consolidation of all accounts, as well as real-time monitoring of all accounts.

**Score A.** All cash balances are calculated daily and consolidated through the Treasury Account.

**(iii) Systems for contracting loans and issuing guarantees**

This dimension assess whether the granting of contingent guarantees is recorded in a transparent and timely manner, so that it is possible to determine and report the implicit fiscal risk. The reference period is 2013.

According to the Public Debt Law, “*The Minister of Finance is solely authorized, on behalf of the Government and in the name of the Republic, to contract borrowing, conclude loan agreements and/or issue government securities.*” The Fiscal Strategy 2013-2015 issued by the Ministry of Finance and confirmed in the Budget Memo 2013 clearly defines indebtedness targets for 2013 to 2015, based on a fiscal debt reduction program.

The procedure for contracting, borrowing, and issuing guarantees start with a negotiation with the PDA to define the advisability and terms of the borrowing. Once the operation is accepted, the intention to borrow must be included and confirmed in the Annual Budget Law. After that, the public entity, with participation of the PDA can initiate negotiations with the borrowing agency. The approval process requires the approval of the Ministry of Finance and the Cabinet of Ministers. After that, a Bill of Law must be prepared and submitted to the National Assembly for its approval, following which the Ministry of Finance can sign the borrowing contract with the financial agent, and initiate the procedure for including the borrowed funds in the budget.

**Score A.** Central government contracting, loans, and guarantee issuance are made in accordance with fiscal targets and have a clear and single approving authority.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-17</b>	<b>A</b>	<b>A</b>	<b>Scoring Method M2</b>			
(i)	A	A	Domestic and foreign debt records include central and local government debt (guaranteed and non-guaranteed), and are reconciled monthly with creditors records. Data is considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced monthly.	None	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly.	- Public Debt Law. - Quarterly Debt Statistic Reports. - Monthly Debt Reports. - MoF Public Financial Bulletin. - Year-end Budget Execution Report. - Procedures for issuing the Debt Monthly Reports.
(ii)	A	A	All cash balances are calculated daily and consolidated through the Consolidated Treasury Account.	None.	All cash balances are calculated daily and consolidated	- Public Debt Law. - Treasury practice.
(iii)	B	A	Central government's contracting of loans and issuance of guarantees needs to be approved by the MoF. - The Public Debt Law sets clear and transparent criteria for approving loans.	The Fiscal Strategy Report was not in place at the time of the 2010 PEFA assessment.	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity	- Public Debt Law. - Fiscal Strategy 2013-2015.

### PI-18 Effectiveness of payroll controls

Rationale for this indicator:

*PI-18 evaluates the integrity of central government personnel registration and the efficiency of administrative processes for human resources and the government payroll. The indicator assesses all payrolls of the central government, even if they cover different segments of the public service, including all MDAs and AGAs. The assessment of all dimensions is undertaken at the time of assessment (2014), except the fourth dimension, which is assessed for the last three completed FYs (2011-2013).*

This indicator evaluates the integrity of the personnel register integrity and the efficiency of administrative processes of human resources and the government payroll process in operation on the central government level at the time of the assessment. In terms of scope, the indicator

does not assess the human resource management policy of the public sector and government or the effectiveness of oversight and control over the general public sector wage bill.

Each Government institution specifies the work posts, number of civil servants in each post, and work requirements in their rulebooks on internal organization and systematization of work posts.<sup>54</sup>

The salaries of the civil servants are regulated by the Law on Salaries of Civil Servants and Employees.<sup>55</sup> The remuneration consists of the basic salary and salary allowances. The basic salary is calculated by multiplying the coefficient with the basis for salary calculation and payment. The basis for salary calculation and payment is uniform and is determined for each budget year in the budget law.<sup>56</sup> The coefficients for civil servants are determined through the classification of service work posts into one of 13 payment groups (Article 9, Law on Civil Service). The coefficient for each civil servant is determined by the decision of the Head of the institution.<sup>57</sup>

The Government's Service for Human Resource Management is in charge of professional affairs related to human resource management in the public administration.<sup>58</sup> Among other duties, the Service is required to maintain the Central Personnel Records of Civil Servants and Employees in Government Authorities.<sup>59</sup> Timeliness and regularity of submission of the data entered into the Central Personnel Records are monitored and supervised by the Service's Administrative Inspection Unit.<sup>60</sup> Although the Law on Civil Service stipulates that the Central Personnel Records shall contain comprehensive records, including the data required for calculation of salary,<sup>61</sup> it does not play a role in payroll processing and is not assessed under this indicator.

The principal authority in charge of centralized payroll processing is the Treasury Administration of the Ministry of Finance, whose statutory obligations are set out in amendments to the Budget System Law, from 2013. The role of the Treasury Administration is two-fold: (i) the calculation of income,<sup>62</sup> and (ii) management of a database of employed, elected, appointed and engaged persons that pertains to their income.<sup>63</sup> To implement these provisions, the Treasury Administration is required to manage a Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector (Registry).<sup>64</sup> Reservations were

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<sup>54</sup> Article 46, Law on Civil Service.

<sup>55</sup> RS Official Gazette, no. 62/2006, 63/2006, 115/2006, 101/2007, 99/2010, 108/2013, 99/2014.

<sup>56</sup> Article 8, Law on Civil Service.

<sup>57</sup> Article 15, Law on Salaries of Civil Servants and Employees.

<sup>58</sup> Article 158, Law on Civil Service.

<sup>59</sup> Article 159, Law on Civil Service.

<sup>60</sup> Article 174, Law on Civil Service.

<sup>61</sup> Article 160, Law on Civil Service.

<sup>62</sup> That is, salaries, income increases, salary allowances, compensation and other income.

<sup>63</sup> Article 93, item 14, Budget System Law.

<sup>64</sup> The Registry is intended to capture data on the number of employed, elected, appointed, and engaged persons in the public sector as well as data pertaining to income (i.e., salary, salary allowance, compensation and other income of these persons). Personnel data are to be supplied on the basis of the documentation contained in the personnel files from the official records of the beneficiary of public funds. Centralized payroll calculation on the basis of the data from the Registry is to be carried out by gradual introduction of entities, in the period from January 1, 2014 to January 1, 2015 (set forth in the Decree on Contents of Information, Manner of Filling of Forms, Manner of Submission, and Processing of Data Entered into the Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector).

expressed at the time of the assessment with respect to quality (i.e. comprehensiveness and credibility) of the Registry because of delays in data gathering and issues with accuracy of the submissions from individual public funds beneficiaries. This is mainly due to the fact that the Registry is designed as a self-reporting tool where Treasury has no control over the quality or reliability of data provided. At the time of the assessment, the Registry was still not used by the Treasury Administration for its payroll operations and is not assessed under this indicator.

The rating for this indicator is accordingly based on the database of personnel records and application software for processing of earnings (TREZAR) currently operated by the Treasury Administration. At the time of the assessment, the Treasury Administration relied on its own database of personnel records (established in 2006) to underpin the centralized payroll system for civil servants and employees in the bodies of the Republican administration. The system currently in operation covers the personnel records and centralized payroll for the civil servants and employees as set out in Table 25.

**Table 25. Coverage of personnel records (as of the time of the PEFA assessment - November 2014)**

Category	Number of entities	Number of civil servants and employees
Direct budget beneficiaries for whom the Treasury Administration performs the payroll calculation.	All direct budget beneficiaries of RoS (122 beneficiaries)	11,087
Indirect budget beneficiaries for whom the Treasury Administration performs the payroll calculation.	Primary education (1,317 schools)	77,287
	Secondary education (452 schools)	35,547
<b>Total</b>	<b>1,891</b>	<b>123,921</b>
Budget beneficiaries who perform the payroll calculation of salaries by themselves and deliver for uploading in the Treasury Administration.	Ministry of Internal Affairs	Not available
	Security and Information Agency	Not available
	Ministry of Defense	Not available

Source: Treasury Administration.

As Table 25 indicates, the Sector for Payroll Processing of the Treasury Administration performs both payroll calculation and processing for some budget beneficiary entities, while for other entities this sector only performs payroll processing. In the latter case, the budget beneficiary entities submit payroll data electronically to the Treasury Administration and the information is uploaded into the payroll system.

The following assessment and rating does not take into account the Registry and the Central Personnel Records described above, as they currently play no role in the system used for centralized payroll processing for the indicated central government staff.

**(i) Degree of integration and reconciliation between personnel records and payroll data**

Both direct budget beneficiaries (DBBs) and indirect budget beneficiaries (IBBs) and the Treasury Administration maintain databases of personnel for employees whose payroll is centrally processed. The State Audit Institution reported that there are only rare instances of DBBs that have not yet introduced electronic personnel records. In the Treasury



Administration, the personnel records are available electronically. Information in the personnel database is changed solely on the basis of documentary proof supplied by DBBs/IBBs.

The payroll data is centralized and computerized in the TREZAR system. Each month, data in the payroll TREZAR system is cross-checked against data from the separate personnel database. Changes in the payroll are entered manually. Any changes in the payroll must correspond to changes in the personnel database.

The Sector for Payroll Processing Unit sends the recapitulation of the calculation to DBBs and IBBs for review and confirmation before the release of funds. The payments for all institutions currently in the system are made by the Treasury, directly to the bank account of each individual.

The quality and completeness of payroll data, personnel records and personnel database, as evidenced by the reported percentage of retroactive adjustments, is deemed satisfactory. The SAI notes that payroll processing and calculation carried out by the Treasury is orderly and harmonized. For the IBBs, on a very limited sample,<sup>65</sup> the SAI has not encountered major problems with respect to completeness of records, safekeeping of the databases, or updating of the information therein, but it noted that the system could be made more orderly.

**Score B.** The Sector for Payroll Processing manages its own electronic personnel database and payroll software, but the two are not directly linked. The payroll is supported by full documentation for all changes made to personnel records and is checked against the previous month's payroll data.

**(ii) Timeliness of changes to personnel records and payroll**

This dimension assesses the efficiency of the administration of personnel and payroll records, in order to ensure that records are correctly updated and that there is timely payment of all workers.

All the changes to personnel data and the corresponding payroll changes are updated monthly, on the basis of personnel documentation<sup>66</sup> submitted to the Sector for Payroll Processing by the Human Resources Department of each DBB/IBB.

On the payroll side, the joint parameters (i.e., salary basis, new legal provisions or Government decisions) are updated as necessary. Other specific payroll parameters, (such as the highest basis for calculation of contributions, minimum price of labor, etc.), are entered by the processing administrator of the Sector for Payroll Processing on a monthly basis.

Any retroactive adjustments are made in the following month.

**Score A.** Changes to payroll and personnel records are made without delay within the same month, and retroactive adjustments are reported as rare.

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<sup>65</sup> The first external audits of IIBs were conducted in 2013.

<sup>66</sup> For example, promotions, benefits derived from the number of years in service, etc.

**(iii) Internal control over changes to personnel records and payroll**

Only appointed officers from the Sector for Payroll Processing can enter changes to the records in the personnel database maintained by the Treasury Administration. They access the personnel records with a unique password and may make the necessary changes solely on the basis of authentic documentary proof. Access and changes to payroll records are likewise restricted to authorized staff only.

For monthly changes in the payroll, based on attendance at work (timesheets) for all employees and accompanying documentation to justify absences (e.g., annual leave, sick leave, paid leave, etc.), the appointed officer at Sector for Payroll Processing performs the control by cross-referencing the overall hours with the previously calculated total available working hours and ensures that the difference in the total hours available and the total hours claimed is justified.

Each salary payment is preceded by filing of the personal income tax (PIT) return to the Tax Administration. A salary payment order can only be generated with a reference to the number of notification on successfully filed PIT returns issued by the Tax Administration. To prevent fictitious employment, the documentary proof required to register any new employee is prior registration with the mandatory insurance funds and a copy of the Employment Book.

The IT system generates logs, but the Sector for Payroll Processing reported that such logs are not reviewed in the course of regular operations—although they present an audit trail of changes to personnel records and payroll. The SAI has not raised issues related to the integrity of data in the centralized payroll and personnel records at the Treasury Administration. The low rate of retroactive adjustments noted above suggests that controls to avoid payment errors are robust.

**Score A.** Authority to change records in the personnel database and payroll in the Treasury Administration is restricted to authorized staff whose access the system requires a unique password and who are entitled to make changes only on the basis of documentary proof.

**(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers**

Payroll is audited by both external and internal auditors. Audits conducted by the SAI include sample testing of salary payments, personnel files of employees, and other transactions as part of its financial and regularity audit. The centralized payroll calculation and processing operations at the Treasury Administration have been subject to regularity audits conducted out by the SAI in each of the past three years.

In the past three years, the SAI audited the personnel and payroll records *on a limited sample* of entities included in its annual work program. Furthermore, audits of the payroll system are conducted by internal audit functions in the respective institutions *where they have been established*. In 2013, internal auditors made a total of 244 recommendations in the area of employees, salaries and allowances. In 2012, the number of internal audit recommendations was 166, and in 2011 the number was 154. Using the number of recommendations as a proxy for audit coverage suggest a widening coverage of payroll audits.<sup>67</sup>

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<sup>67</sup> CHU Annual Reports, 2011, 2012, 2013.

**Score C.** Despite the fact that the centralized payroll is audited each year and there is increased audit coverage at individual DBBs and IBBs, not all central government entities have been subject to payroll audit (which would warrant a score of B). Accordingly, payroll audits conducted in the last three years are considered partial.

Ind.	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>PI-18</b>	<b>C+</b>	<b>C+</b>	<b>Scoring Method M1</b>			
(i)	B	B	Sector for Payroll Processing manages its own electronic personnel database and payroll software, but the two are not directly linked. The payroll is supported by full documentation for all changes made to personnel records and checked against the previous month's payroll data.	No change. Registry amendments to the Budget System Law in 2013 are still not used for payroll processing.	Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.	- Budget System Law. - Information from the Sector for Payroll Processing. - Decree on Contents of Information, Manner of Filling of Forms, Manner of Submission, and Processing of Data Entered into the Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector.
(ii)	A	A	Changes to payroll and personnel records are made without delay within the same month, and retroactive adjustments are reported as rare.	None.	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in a maximum of 3% of salary payments).	- Information from the Sector for Payroll Processing.
(iii)	A	A	Authority to change records in the personnel data base and payroll in the Treasury Administration is restricted to authorized staff on the basis of documentary proof.	None.	Authority to change records and payroll is restricted and results in an audit trail.	- Information from Treasury Administration.  - Audit trail information provided by the Treasury Administration.
(iv)	C	C	Despite the fact that centralized payroll is audited each year and there is increased audit coverage at individual DBBs and IBBs, not all central government entities have been subject to payroll audit (which would warrant a score of B). Accordingly, payroll audits conducted in the last three years are considered partial.	Increased (internal and external) audit coverage on payroll process, but not all central government entities are covered by annual payroll audits.	Partial payroll audits or staff surveys have been undertaken within the last three years.	- CHU Annual Report (2011, 2012, 2013). - SAI Annual Activity Report (2011, 2012, 2013).

## PI-19 Transparency, competition and complaint mechanisms in procurement

Rationale for this indicator:

*PI-19 examines the operations and integrity of public procurement arrangements. The assessment covers all procurement for central government and focuses on the time of the assessment for all dimensions except dimension (i), which relates to the last completed FY (2013).*

The Public Procurement Law (PPL) of 2012<sup>68</sup> replaced the Public Procurement Law of 2008,<sup>69</sup> and represents a step toward conformity with EU standards. The institutional framework includes a state authority in charge of public procurement operations (the Public Procurement Administration – PPA) and an independent entity responsible for review of complaints (the Republic Commission for the Protection of Rights in Public Procurement Procedures – RC). The PPL mandates supervision by a Civil Supervisor (professionals in the field of procurement, anti-corruption, and so forth) whenever the estimated cost of the public procurement procedure exceeds RSD 1 billion (approximately €8.5 million). Civil Supervisors are appointed by the Public Procurement Administration on a case-by-case basis, and receive no remuneration for their work.

Typically, procurement operations are decentralized: there are about 4,900 registered contracting authorities, of which about 166 are central government bodies. The PPL applies to procurement of goods, works, and services purchased by state and local government authorities, SOEs and legal persons that use funds provided by the Government of Serbia or local self-governments.

All contracting authorities prepare annual procurement plans by January 31 in the planned year, which are submitted to the PPA and the State Audit Institution within 10 days from the day of plan adoption. The procurement plans are not published on the Public Procurement Portal; instead, each contracting authority is encouraged to publish their plan on its own website. Contracting authorities may change their procurement plan in the case of a revised budget or amended financial plans, but the PPL encourages them to do so in a transparent manner that highlights the specific changes relative to the original plan and that provides accompanying justifications. Changes in the procurement plans are submitted to the Public Procurement Administration and the State Audit Institution, prominently including changes to contract elements such as price and contract duration. Contracting authorities must also report quarterly to the PPA on conducted public procurement procedures and contracts awarded. Exemptions from the PPL are clearly defined by Article 7 and include procurement to ensure basic living conditions in cases of natural disasters.<sup>70</sup>

In 2013, approximately 83,000 public contracts were awarded, with an approximate total value of RSD 262,938,735,000 (approximately €2,390,352,000).<sup>71</sup> The 2012 PPL took effect on April 1, 2013. Comparing the first half of 2013 to the second half of 2013, about €142 million

<sup>68</sup> Official Gazette 124/2012; the law took effect in April 2013.

<sup>69</sup> Official Gazette 116/2008.

<sup>70</sup> Following disastrous flooding in May 2014, the National Assembly adopted the Law on Post Flood Rehabilitation in Serbia (Official Gazette 75/14) regulating procurement of goods and civil works to address the consequences of floods and landslides. This Law has a one-year applicability and introduces simplified procurement procedures not foreseen by the PPL.

<sup>71</sup> PPA 2013 Annual Report, Table 3, page 7.

(about RSD 16.3 million less were contracted in the latter period; according to the PPA this reflects the fact that most contracting authorities initiated public procurement procedures in the first three months of 2013, and thus applied the provisions of the 2008 PPL.<sup>72</sup>

In October 2014, the Government adopted a Public Procurement Strategy for 2014-2018 and an Action Plan for 2015 (available, in Serbian, at [www.ujn.gov.rs](http://www.ujn.gov.rs)).

**(i) Transparency, comprehensiveness and competition in the legal and regulatory framework**

Table 26 outlines the legal and regulatory arrangements features that PEFA guidelines identify as essential, and compares these to the Serbian context in 2014.<sup>73</sup>

**Table 26. Legal and Regulatory Framework for Procurement, 2014**

Documentary requirement	2014	RoS arrangements
1. Procurement legal framework is organized hierarchically and precedence is clearly established.	Yes	The 2012 PPL and attendant regulations establish a hierarchy of authority of the PPA, the Republic Commission, and contracting authorities in a mainly decentralized procurement system.
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	Yes	The Law and bylaws are published in the Official Gazette and can be downloaded on the website of the Public Procurement Administration, at <a href="http://www.ujn.gov.rs">www.ujn.gov.rs</a> .
3. The legal framework applies to all procurement undertaken using government funds.	Yes	Article 7 defines exceptions to the application of the PPL.
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified.	Yes	Article 32, 33, 34 and 35 define open procedures. Articles 36-39 define other procedures and clearly identify the circumstances under which they can be used.
5. The legal framework provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	No	The PPL does not mandate publication of procurement plans, but it does mandate publication of bidding opportunities, contract awards and data on resolution of procurement complaints. This information is available on the PPA website, at <a href="http://www.portal.ujn.gov.rs">www.portal.ujn.gov.rs</a> ; information on resolution of procurement complaints is available on the website of the Republic Commission, at <a href="http://www.kjn.gov.rs/sr/odluke">www.kjn.gov.rs/sr/odluke</a> as well as the PPA website.
6. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes	Complaints are solved by the Republic Commission for the Protection of Rights in Public Procurement, an independent body. Further appeals can be made to the Administrative Court.

**Score B.** The RoS delivers on five of the six features considered essential for a public procurement system.

<sup>72</sup> PPA 2013 Annual Report, page 4.

<sup>73</sup> The PEFA methodology for PI-19 was changed in 2011, and thus no valid comparison can be made to 2010.

## **(ii) Use of competitive procurement methods**

Contracting authorities are not obliged to apply the PPL for procurement of goods, services, and works when the annual estimated value of the purchase is less than RSD 400,000 (approximately €3,300). In such cases, the contracting authority is obliged by law to prevent any conflict of interest, ensure competition and ensure that the contracting price does not exceed the comparable market price.

The shopping method for contracting may be used for “low-value” contracts (annual estimated value below RSD 3,000,000 (€25,000)). Unlike the PPL of 2008, the 2012 PPL obliges contracting authorities that use the shopping method to publish notice and bidding documents on the Public Procurement Portal.

The 2012 PPL prescribes that above these thresholds, a contracting authority wishing to use less competitive methods of contracting, such as Negotiated procedure without invitation to bid (Article 36 of the PPL) or Competitive dialogue (Article 37 of the PPL) must obtain prior PPA approval.<sup>74</sup> This provision has reduced the incidence of the Negotiated procedure without invitation to bid from 24 percent of the total value of public procurement in the first half of 2013, to 11 percent in the second half of 2013, after the 2012 law took effect in April of that year. Correspondingly, the use of open competitive procedures increased from 54 percent of the total value of public procurement in the first half of 2013 to 79 percent in the second half of 2013. Participation of other bidding procedures<sup>75</sup> defined by the Law was reduced from 22 percent in the first half of 2013 to 10 percent in the second half of 2013.<sup>76</sup>

From January 1, 2014 to July 1, 2014, the PPA processed 2,950 requests for use of Negotiated procedure without invitation to bid within the appropriate timeframe.<sup>77</sup> In the first half of 2014 this procedure accounted for 4 percent of the total value of public procurement.<sup>78</sup> Exemptions are defined in Article 7 of the PPL. The National Assembly passed the Law on Post Flood Rehabilitation in the Republic of Serbia effective of July 22, 2014 (Official Gazette 75/14) for use of funds to repair consequences of flood occurred in May 2014. The Law will be in force until July 22, 2015; however, PPA was not in the position to make a decision on use of less competitive procedures. However, the Office for Reconstruction and Flood Relief informed that all contracts signed in accordance with the Law on Post Flood Rehabilitation followed open public procurement procedure. The PPA and the Office for Reconstruction and Flood Relief submitted the information/evidence on public procurement procedures conducted to mitigate the effects of floods conducted mainly by the public water companies. The PPA confirmed the non-existence of less competitive public procurement procedures by submitting tables of all negotiated procedures without invitation to bid (less competitive procedure) conducted in the post flood period and the PEFA Team was able to justify that procurement for relief of floods followed open public procurement procedure. Therefore, the dimension is scored A.

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<sup>74</sup> The PPA must decide whether to permit the requested procedure and respond to this effect within 10 days in cases of negotiated procedure without invitation to bid and within 15 days in cases of competitive dialogue.

<sup>75</sup> Other procedures refer to restricted procedures, qualification procedures, competitive dialogue, design contest etc.

<sup>76</sup> PPA 2013 Annual Report, page 9 and 10.

<sup>77</sup> PPA report for January 1, 2014 until June 30, 2014, page 26.

<sup>78</sup> PPA report for January 1, 2014 until June 30, 2014, page 27.

**Score A.** When contracts are awarded by a method other than open competition, they are justified in accordance with the legal requirements in all cases.

**(iii) Public access to complete, reliable and timely procurement information**

This dimension of PI 19 assesses whether procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public through appropriate means. In practice, government bidding opportunities and contract awards are promptly posted on the Public Procurement Portal [www.portal.ujn.gov.rs](http://www.portal.ujn.gov.rs); data on resolution of procurement complaints is posted on the portal of the Republic Commission for Protection of Rights in Public Procurement Procedures [www.kjn.gov.rs/sr/odluke](http://www.kjn.gov.rs/sr/odluke) and on the Public Procurement Portal. Publication of procurement plans is not mandatory. Government procurement plans are not published on the Public Procurement Portal; rather, each government entity is encouraged to post this information on its own website.

**Score B.** At least three of the key procurement information elements (bidding opportunities, contract awards, and complain resolutions) are complete and reliable for government unit representing 75 percent of procurement operations (by value) and made available to the public in a timely manner through appropriate means.

**(iv) Existence of an independent administrative procurement complaints system**

The Republic Commission for Protection of Rights in Public Procurement Procedures was established on October 12, 2010, as an independent body responsible to Parliament. The new PPL that took effect from April 1, 2013 defined the composition, appointment, competencies and authority of the Republic Commission. The members and president of the Republic Commission were elected competitively for the respective positions.

The Republic Commission is responsible for administrative protection in public procurement. A complaint may be lodged against any phase of the public procurement process, as well as against the decision on a contract award. Among other responsibilities, the Commission decides on (i) requests for protection of rights and appeals filed against the conclusion of the contracting authority and the Public Procurement Administration, (ii) monitors and controls implementation of its decisions, (iii) annuls public procurement contracts, (iv) imposes fines on contracting authorities and conducts minor offense proceedings in the first instance. From April 1, 2013 through December 31, 2013, the Republic Commission exercised its authority to entirely annul the public procurement procedure in 298 cases.<sup>79</sup> In the same period, it did not annul any public procurement contracts.<sup>80</sup> For an assessment of the Commission's complaints mechanism see Table 27.

<sup>79</sup> Reports by the Republic Commission for the periods: April 1, 2013-June 30, 2013, page 5, and July 1, 2013-December 31, 2013, page 7

<sup>80</sup> Reports by the Republic Commission for the periods: April 1, 2013-June 30, 2013, page 93, and July 1, 2013-December 31, 2013, page 238.

Members of the Republic Commission were appointed on April 1, 2013, and from that date until the end of the calendar year, the Commission received 1,696 cases and reached a decision on 1,609 of these cases (of which 1,258 were for the complainant for protection of rights and 124 upon appeals to conclusions of the contracting authorities).<sup>81</sup> Of the 1,609 decisions, 343 were not made within the deadline specified by the PPL.<sup>82</sup> In this period, the Commission sometimes applied the 2008 PPL, as the cases were drawn up and filed on the basis of that law.

From January 1, 2014 through June 30, 2014 the Republic Commission received 1,442 cases, made 1,282 decisions (958 for protection of rights and 80 upon appeals to conclusions of the contracting authorities);<sup>83</sup> of this data set, 177 decisions were not made within the deadline specified by the PPL.<sup>84</sup> In 244 cases related to protection of rights, the Republic Commission exercised its authority to entirely annul the public procurement procedure.<sup>85</sup> In this period, the Commission did not annul any public procurement contract.<sup>86</sup>

Comparing the January 1-June 30 periods for 2013 and 2014, there were 37.66 percent more cases received in the latter, and 41.58 percent more cases resolved.<sup>87</sup>

Article 158 of the PPL states that the Republic Commission shall decide upon request for protection of rights whose content is in accordance with Article 151 of the PPL within 20 days from receipt of the request, and not later than 30 days. The Republic Commission shall decide upon appeal to conclusions of the contracting authorities within eight days from the day of receiving the appeal. In the second half of 2013, the average period deciding upon a request for protection of rights was 23.61 days, and the average period for deciding an appeal to conclusions of the contracting authorities was 14 days.<sup>88</sup> In the first half of 2014, the respective averages were 19.84 days and 13.19 days.<sup>89</sup>

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<sup>81</sup> Reports by the Republic Commission for the periods: April 1, 2013-June 30, 2013, page 108, and July 1, 2013-December 31, 2013, page 261.

<sup>82</sup> Reports by the Republic Commission for the periods: April 1, 2013-June 30, 2013, page 107, and July 1, 2013-December 31, 2013, page 261.

<sup>83</sup> Report by the Republic Commission for the period January 1, 2014-June 30, 2014, page 291.

<sup>84</sup> Report by the Republic Commission for the period January 1, 2014-June 30, 2014, page 288.

<sup>85</sup> Report by the Republic Commission for the period January 1, 2014-June 30, 2014, page 7.

<sup>86</sup> Report by the Republic Commission for the period January 1, 2014-June 30, 2014, pages 252, 253, 254 and 255.

<sup>87</sup> Report by the Republic Commission for the period January 1, 2014-June 30, 2014, page 291.

<sup>88</sup> Report by the Republic Commission for the period July 1, 2013-December 31, 2013, page 265.

<sup>89</sup> Report by the Republic Commission for the period January 1, 2014-Jun 30, 2013, page 293.



**Table 27. RoS Procurement Complaint Arrangements**

Documentary requirement	Fulfilled	Explanation
i) The body should be comprised of experienced professionals, familiar with the legal framework for procurement, and include members drawn from the private sector and civil society as well as government.	<b>Yes</b>	The Republic Commission is composed of a president and six members, of which the president and at least four members have to fulfill requirements for the appointment of a judge in a basic court, with certain number of years with experience in public procurement. (Article 141 of the PPL). The Commission establishes a list of experts who participate in the work of the Commission on as-needed basis. To be registered on the list, one has to be on the list of the standing court experts and pass the exam for public procurement officer (Article 143 of the PPL).
(ii) It is not involved in any capacity in procurement transactions or in the process of leading to contract award decisions.	<b>Yes</b>	Prevention of conflict of interest and exclusion of members of the Republic Commission is followed in practice and is clearly set in the PPL, Article 144.
iii) Does not charge fees that prohibit access by concerned parties.	<b>Yes</b>	The fee is believed to be reasonable, given in Article 156 of the PPL. Appeler shall pay a fee to a specified account of the Budget of the Republic of Serbia, in the amount of 1. RSD 15,000 (approximately €130) in the procedure of complaint against the conclusion of the Public Procurement Administration 2. RSD 40,000 (approximately €350) in a low-value public procurement procedure and in negotiated procedure without prior call for competition 3. RSD 80,000 (approximately €700) where an appeal is filed before opening of bids, or where the estimated value of public procurement or price offered by the bidder to whom was awarded contract, do not exceed RSD 80,000 (approximately €700); 4. 0.1% of the estimated value of public procurement or price offered by the bidder who was awarded contract, where that value exceeds RSD 80,000 (approximately €700).
iv) It follows a process for submission and resolution of complaints that are clearly defined and publicly available.	<b>Yes</b>	The process for submission and resolution of complaints is clearly set in the PPL by Articles 148-155 and 157. The process for submission of complaints and their resolution is clearly defined and publicly available on the web site of the Republic Commission <a href="http://www.kjn.gov.rs/sr/zastita_prava/zahtev-za-zastitu-prava.html">http://www.kjn.gov.rs/sr/zastita_prava/zahtev-za-zastitu-prava.html</a> Resolution of complaints follows the articles of the PPL.
v) It exercises authority to suspend the procurement process.	<b>Yes</b>	Article 157 and 163 of the PPL. The Republic Commission exercises this right in practice.
vi) It issues decisions within the timeframe specified in the rules/regulations.	<b>Yes</b>	Article 158 defines time limit for making and delivering decision by the Republic Commission, in practice they are mainly met.
vi) It issues decisions within the timeframe specified in the rules/regulations.	<b>Yes</b>	Article 159 of the PPL. Administrative dispute can be initiated against decision of the Republic Commission within 30 days receipt of decision
vii) It issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	<b>Yes</b>	Article 60 of PPL provides for court appeals against the decision.

**Score A.** There is an independent procurement complaints body that fulfills all the seven required features.

Ind.	Score 2010	Score 2014	2014 Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-19</b>	<b>B</b>	<b>B<sup>+</sup></b>	<b>Scoring Method M2</b>			
(i)	A	B	Five out of six requirements are met.	The method of scoring has changed since 2010;* therefore direct comparison of scores is not valid. However, considerable progress has been made in public procurement reform. The current PPL increased transparency, further defined the system for public procurement, regulated procurement planning, organized a register of bidders, and improved the procurement complaints mechanism (i.e., established an independent entity – the Republic Commission for Protection of Rights in Public Procurement Procedures).	Score A- The legal framework meets four or five of the six listed.	The Public Procurement Law of 2012 The Law on Post Flood Rehabilitation
(ii)	B	A	Appropriate justification for the use of less competitive methods seems to be available in all cases.		When contracts are awarded by methods other than open competition; they are justified in accordance with the legal requirements in all cases.	The Public Procurement Law of 2012 PPA 2013 Annual Report and Semi-annual Report, January 1-June 30, 2014
(iii)	C	B	Mandates publishing of three of four key procurement information elements.		Score A-All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations by value, and are made available to the public in a timely manner through appropriate means.	The Public Procurement Law of 2012
(iv)	N/A	A	All seven requirements are met.		Score A. The procurement complaints system meets all seven criteria.	- The Public Procurement Law of 2012 -Reports by the Republic Commission for periods: April 1-June 30, 2013; July 1-December 31 2013; January 1-June 30, 2014

\* In the 2010 PEFA, the dimensions were (i) evidence on the use of open competition for award of contracts that exceeded the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold), (ii) extent of justification for use of less competitive procurement methods, and (iii) existence and operation of procurement complaints mechanism.

## PI-20 Effectiveness of internal controls for non-salary expenditure

### Rationale for this indicator:

*PI-20 examines the effectiveness and comprehensiveness of internal controls, and compliance with rules for processing and recording non-salary expenditure transactions, at the time of assessment (2014). The indicator covers the control of expenditure commitments and payments for goods and services, casual labor wages and discretionary staff allowances. The effectiveness of expenditure commitment controls is examined as a specific dimension because of its importance to ensuring that the government's payment obligations remain within the limits of projected cash availability, avoiding expenditure arrears (as examined in PI-4).*

This indicator measures the existence and comprehensiveness of, and compliance with, internal controls of non-salary expenditure at the moment of assessment. The scope of this PEFA

Indicator includes commitments of expenditures and payments for goods and services, the salaries of temporary workers, and the discretionary fringe benefits of personnel.

The Budget System Law establishes the requisite elements for internal control. The Central Harmonization Unit (CHU)<sup>90</sup> of the MoF is in charge of coordinating the introduction of the Public Internal Financial Control (PIFC), which comprises financial management and control (FMC) and Internal Audit (IA) in the public sector. In 2013 the current level of development of PIFC was subject to a screening process by the European Commission as part of the opening of the negotiations on Chapter 32: Financial Control of the *acquis communautaire* with the European Union.<sup>91</sup>

Internal controls over non-salary expenditure are exercised by both the Treasury Administration and budget beneficiaries.

On the level of the FMIS managed by the Treasury Administration, there is a robust framework of automated controls over transactions in both the registration of the expenditure commitment and payment stages. Coverage of the controls integrated into the FMIS application include revenues/expenditures, own source revenues/expenditures and received grants/expenditures of DBBs as well as transfers from the Republican budget. As for transfers from local government budgets, and own source revenues/expenditures of IBBs, or project loans, these are not executed through the FMIS system.

To help strengthen the decentralized controls at the level of spending units, a thorough legal basis for FMC across the public administration is set forth in the Budget System Law.<sup>92</sup> The provisions apply to all “public funds beneficiaries.” The principal responsibility rests with the Heads of entities that use public funds, who are required to introduce, maintain, and improve the FMC system in their respective organizations so as to ensure regularity, compliance, transparency and value for money. Secondary FMC legislation<sup>93</sup> sets forth the specific responsibilities of the Heads and elaborates in detail the five components of the COSO Framework as suggested by the INTOSAI Guidelines for Internal Control in the Public Sector.

#### **(i) Effectiveness of expenditure commitment controls**

The Head of each DBB/IBB is responsible for the assumption of commitments, their verification, and filling of the payment order (i.e., for orderly execution of the budget). It is the statutory responsibility of the DBBs and IBBs to assume commitments and execute payments observing the following provision of the BSL: (i) use the budget appropriation up to the amount determined for a particular purpose in the budget or up to the amount of the appropriation determined within the program (as revised) for the given year,<sup>94</sup> and (ii) stay within the limits

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<sup>90</sup> The CHU is formally called the Sector for Internal Control and Internal Audit.

<sup>91</sup> As a part of a broader EU accession-driven reform agenda to integrate Public Internal Financial Control (PIFC) into the Serbian PFM system.

<sup>92</sup> Article 51b, Law on Budget System. On one hand, there is a single appropriation (annual), of the total available funds. On the other hand, there is a quota (monthly), which is a portion of the available appropriation that represents a specific spending ceiling for the given period.

<sup>93</sup> Rulebook on Common Criteria and Standards for Establishment, Functioning and Reporting on the System of FMC in the Public Sector, Articles 10 and 11.

<sup>94</sup> Article 54, Budget System Law.

of a monthly quota (i.e., the maximum amount up to which payments can be made) that is approved by the Treasury Administration on the basis of the Budget Execution Plan submitted by the DBB/IBB.<sup>95</sup> Ex-ante controls over assuming of commitments are accordingly exercised at the level of DBBs/IBBs.

In practice, it is possible for the spending units to assume commitments within the budget appropriation but not be able to execute them against the subsequently set monthly quotas. In such cases, the DBBs may apply to the MoF for a change of the quota. If the Treasury Administration, guided by the revenue and receipts projections and budget liquidity, decides it is not possible to change the quota, delays in payment of the already assumed commitments may occur.<sup>96</sup>

On the level of the Treasury Administration, controls over the registration and approval of already assumed commitments and payments are centralized and integrated in the FMIS application.<sup>97</sup> In practice, the automated application controls effectively prevent DBBs from registering for payment any commitment that exceeds the available appropriation and the expenditure ceiling set out in the monthly quota. The rules are applied uniformly for all types of expenditures.

The SAI noted that the controls over the appropriations for DBBs on the Republican level are satisfactory.

**Score A.** Expenditure commitment controls on the level of the Treasury Administration effectively limit commitments to available budget appropriation and to actual cash availability.

**(ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures**

Broad internal control rules and procedures (e.g., authorization and approval procedures, segregation of responsibilities, verification, etc.) are set forth in a number of different laws and by-laws. Systematic strengthening of internal control rules and procedures has been promoted by means of the integral development of FMC.<sup>98</sup> As a comprehensive system of ex-ante and ex-post controls, FMC aims to provide reasonable assurance that budgetary and other funds will be used properly and ethically and will embody the principles of economy, efficiency and effectiveness in the achievement of the organization's goals. FMC covers the entire scope of operations and transactions, in particular those related to revenues and receipts, expenditures and expenses, procurement procedures and contracting, repayment of improperly paid funds

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<sup>95</sup> Article 53, Budget System Law.

<sup>96</sup> Any unpaid commitments assumed within the annual appropriation in year *n* may be carried over into year *n+1* and executed from that year's budget.

<sup>97</sup> Also referred to as System for Budget Execution (SIB), with the procedures for preparation and filling of the request for entry of the commitment and the procedures for execution of payments described in detail in the Rulebook on the Budget Execution System of the RoS (Official Gazette, no. 83/10, 53/12).

<sup>98</sup> Through five components of the COSO framework (control environment, risk management, control activities, information and communication, monitoring and evaluation).

and liabilities. At the current level of maturity of the FMC system,<sup>99</sup> internal controls are primarily intended to ensure legality and regularity.

As of end-2013, CHU reported that 43 budget beneficiaries, encompassing 93 percent of spending, have established internal controls over their business processes.<sup>100</sup> CHU has developed an FMC Manual, providing a road map for introducing and improving the FMC system, and provides training to an ever-increasing number of financial officers and managers. At the time of assessment, more than 1200 Heads and financial officers had attended training. There is still an evident need for more training, especially among senior management.<sup>101</sup>

Public funds beneficiaries report on the progress in establishment and development of FMC to the CHU through annual self-assessment questionnaires. According to the CHU 2013 Annual Report, “55 central government organizations (out of received 125 questionnaires) have organizationally established the FMC system,” while others have made significant progress in the process of introducing the FMC system. At the time of the assessment, the SAI noted significant progress in management understanding and support for the introduction of internal controls as a result of combined efforts of the CHU and the SAI.

Despite the evident progress in the formal introduction of FMC (occasioned by intensive awareness raising and training activities conducted by CHU) and a robust legal and methodological framework for internal controls, the SAI 2013 Annual Activity Report, on a limited sample of central government institutions, states that the internal control systems for a majority of the 2013 auditees remain deficient in many compliance aspects (including “operations in accordance with regulations, internal enactments and contracts, [...] and safeguarding of assets”). External auditors presented 248 recommendations aimed directly at FMC systems in audited entities (22 percent of the total recommendations), whereas internal auditors presented 1,274 recommendations aimed specifically at internal rules and procedures (42 percent of the total recommendations).<sup>102</sup>

**Score C.** Other internal control rules and procedures set out in laws and by-laws incorporate a comprehensive set of controls, which are widely understood but not consistently applied, as evident in the infringements noted. Further significant efforts are needed for full implementation of the managerial accountability concept and resulting comprehensive risk-based set of controls.

### **(iii) Degree of compliance with rules for processing and recording transactions**

All revenue and expenditure transactions that are channeled through the CTA are processed and recorded by the Treasury Administration. Although the Treasury Administration does not compile error or rejection rates for processing and recording of the transactions entered into the FMIS, it has reported a few formal errors, originating mainly from errors in data entry for the respective transactions.

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<sup>99</sup> Chapter 32 EU Screening Report from 2013 indicates that the “FMC is still in practice at the basic fiscal control stage” (see [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/140429-screening-report-chapter-32-serbia.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/140429-screening-report-chapter-32-serbia.pdf)).

<sup>100</sup> CHU Annual Report, 2013.

<sup>101</sup> CHU Annual Report, 2013 and Chapter 32 EU Screening Report, 2013.

<sup>102</sup> CHU Annual Report, 2013.

On the level of DBBs and IBBs, the 2013 SAI Annual Activity Report notes that the accounting system with respect to balances and changes in assets, claims, and liabilities is not regulated homogeneously, which makes it difficult to maintain uniform and comprehensive records on financial transactions of budget beneficiaries, in particular with respect to balances and changes in assets, claims and liabilities. Findings of the MoF’s Budget Inspection Unit, albeit on a very limited sample with low materiality, indicate that business records are not maintained in an orderly and up-to date manner. In 2013, internal auditors gave the second highest number of recommendations (473, or 13 percent of the total) in the area of bookkeeping records and financial reporting.<sup>103</sup>

**Score C.** While the rules are complied with on the level of the Treasury Administration, findings documented in the work of the SAI and the Budget Inspection Unit point to the need for improvement in compliance with processing and recording of transactions on the level of DBBs and IBBs.

Ind.	2010	2014	Score’s justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-20</b>	<b>C+</b>	<b>C+</b>	<b>M1</b>			
(i)	A	A	Expenditure commitment controls in place on the level of the Treasury Administration effectively limit commitments to available budget appropriation and to actual cash availability.	No change, formal controls integrated into application to limit commitments are functioning as foreseen in the legislation.	Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised)	- Budget System Law. - IMF report “Strengthening Budget Planning and Budget Execution” (December 2013).
(ii)	C	C	Comprehensiveness of the internal control rules and procedures has improved and would merit a score of B, but improving staff understanding requires further training and the relevance of the rules is undermined by widespread infringements evidenced in the external audit reports; accordingly the score is C.	Evident progress has been made in introducing a comprehensive internal control rules and procedures since 2010 PEFA, but SAI continually reports major concerns regarding the staff understanding and infringements of the established internal controls.	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.	- CHU Annual Report, 2011, 2012, 2013. - SAI Annual Activity Report, 2013. - EU Screening Report, Chapter 32.
(iii)	B	C	While the rules for processing and recording of transactions are complied with on the level of the Treasury Administration, findings documented in the work of the SAI and the Budget Inspection Unit point to the need for improvement in compliance with processing and recording of transactions on the level of DBBs and IBBs.	Since no substantial external audit work was available for the the 2010 PEFA assessment, the previous rating was based only on the degree of formal introduction of FMC to date.	Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.	- SAI Annual Activity Report, 2013. - Budget Inspection Annual Report, 2013. - CHU Annual Report, 2013.

<sup>103</sup> CHU Annual Report, 2013.

## PI-21 Effectiveness of Internal audit

### Rationale for this indicator:

*PI-21 assesses how well the internal audit function performs, based on the last available financial and operational information (2014). This indicator complements PI-18 and PI-20 because one of the functions of internal audit is to monitor and assess the effectiveness of internal controls.*

*The internal audit function should meet internationally recognized standards in terms of professional independence, sufficient mandate, power to report and use of professional audit methods, including risk-assessment techniques.*

The functional and organizational independence of Internal Audit (IA) is enshrined as a principle in the Budget System Law and its remit includes assessment of the FMC system, which implies auditing of all functions and processes in the operations of the organization. As an integral part of a broader PFM reform integrating the Public Internal Financial Control (PIFC), the Budget System Law and the applicable by-laws,<sup>104</sup> foresee the establishment of a decentralized system of internal audit (IA).<sup>105</sup> The responsibility for establishing the prerequisites for IA functioning rests with the Head of each institution.

### **(i) Coverage and quality of internal audit function**

The Rulebook on Common Criteria and Standards for Organization, and Standards for Methodological Instructions for Operations and Reporting of Internal Audit stipulates that all DBBs have the obligation to establish autonomous internal audit units. Other entities may use one of the other approved modalities for establishment of internal audit. As of end-2013, an internal audit function has been established in 105 public funds beneficiaries, which account for 90 percent of public funds.<sup>106</sup>

CHU reported that not all DBBs on the central government level have established IA units and that the number of internal auditors is often not matched with the risks, complexity of operations and the amount of funds for which they are accountable.<sup>107</sup> Nevertheless, internal auditors in 2013 managed to complete more than 88 percent of the audits (615/695) set out in the individual annual audit plans of their respective organizations.<sup>108</sup>

All public sector internal auditors are trained and certified under a program designed and implemented by CHU. The program involves in-class and practical on-the-job training. Public sector internal auditors are required to follow the internationally recognized International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).<sup>109</sup>

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<sup>104</sup> Rulebook on Common Criteria and Standards for Organization and Standards and Methodological Instructions for Operations and Reporting of Internal Audit.

<sup>105</sup> Internal audit function may be established in one of the four following ways: (i) establishment of an autonomous internal audit unit, (ii) establishment of a joint internal audit unit with several public funds beneficiaries, (iii) under an agreement for performing IA with other public funds beneficiaries, and (iv) appointment of internal auditor.

<sup>106</sup> CHU Annual Report, 2013.

<sup>107</sup> CHU Annual Report, 2013.

<sup>108</sup> CHU Annual Report, 2013.

<sup>109</sup> CHU has not published separate IA standards; rather, it uses the standards of the Institute of Internal Auditors (IIA), as translated and published by the Serbian IIA chapter.

The methodology and guidance issued by CHU incorporates these standards and reflects good international practice. As of the time of the assessment, the number of trained and certified public sector internal auditors was 216.<sup>110</sup>

The published IA Manual and the CHU training both place the focus of IA activity on system-based auditing; however, the data collected through the annual reports of individual IA units does not reveal with certainty the allocation of IA staff time to systemic issues as opposed to other types of IA work. CHU has highlighted the issue of internal auditors working for a substantial portion of their time on matters outside of the principal IA duties.

By-laws<sup>111</sup> foresee a comprehensive quality assurance program, comprising internal and external quality assessment. Full-scale external quality assessment has proven expensive to implement, and peer review is likewise not practicable because of its complexity and technical demands. Thus, for the moment CHU monitors internal audit work through annual reports by the IA. CHU conducted a functional review of the internal auditors' work in 2012. While all public sector internal auditors have been trained to conduct (internal) quality self-assessments and Heads of IA units perform ongoing quality supervision over each audit engagement the functional review results indicate the need for improved quality assurance.

Although the 2013 Annual Activity Report of the SAI documents shortcomings in establishment of IA units in most of the entities audited in FY12, at the time of this PEFA assessment (during audits of FY13) SAI counterparts interviewed by the team noted ongoing efforts to improve the effectiveness of IA through training and awareness raising efforts with respect to IA standards.

**Score C.** Internal audit is operational for the majority of central government entities and substantially meet professional standards as evidenced by monitoring of annual reports by IA units. System-based audit approach is embedded in the methodology and the training provided by CHU, but there is no evidence of allocation of at least 50 percent of IA staff to systemic issues.

**(ii) Frequency and distribution of reports**

Internal auditors report directly to the head of the spending unit. As a rule, the reports are issued after each completed audit assignment for all government entities. The audit report contains the summary, audit scope and objectives, findings, conclusions, and recommendations as well as the comments of the auditee.

Under the decentralized model in place in RoS, the MoF and the SAI are not the designated recipients of IA reports, as the report is considered an internal enactment of the respective institution. Automatic distribution of these reports to the MoF and SAI is not formally mandated in law. Instead individual IA unit makes the reports available to SAI upon request. The SAI reported that in the course of its work, it requests and obtains internal audit reports, takes into account their recommendations, and follows up on the action plan. The MoF

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<sup>110</sup> Information provided by CHU to the PEFA mission. As of end-2013, the official number of trained and certified internal auditors was 189.

<sup>111</sup> Article 19, IA Rulebook on Common Criteria and Standards for Organization and Standards and Methodological Instructions for Operations and Reporting of Internal Audit.



discharges its responsibility of monitoring the activities of public sector internal auditors through annual reports of the IA units submitted to CHU. The information is thoroughly analyzed and serves as the basis for development of CHU's consolidated Annual Report on the Status of PIFC covering both FMC and IA, which the Minister of Finance forwards to the Government.

**Score C.** Internal audit reports are issued regularly for most audited government entities and distributed to the audited entity, but are only submitted to the SAI upon request.

**(iii) Extent of management response to internal audit findings**

Annual reports from internal audit units indicate that government managers across different users of public funds take a substantial degree of prompt action to address internal audit recommendations. Of 3,568 recommendations issued in 2013, 2,212 (almost 62 percent) were implemented before the year's end, while others were still within the deadline for implementation as of the first quarter of 2014. The perspective of the SAI is that the relationship of management toward internal audit recommendations is satisfactory.

**Score B.** Close to 62 percent of audit recommendations are implemented within 12 months, indicating prompt and comprehensive action by many (but not all) managers.

Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-21</b>	<b>B</b>	<b>C+</b>	<b>Scoring Method M1</b>			
(i)	B	C	Internal audit is operational for the majority of central government entities and substantially meets professional standards as evidenced by CHU monitoring of annual reports submitted by IA units. A system-based audit approach is embedded in the methodology and the training provided by CHU, but there is no evidence of allocation of 50% of staff time to systemic issues.	No change. PEFA 2010 did not take into account the availability of evidence of systemic focus.	Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meets professional standards. It is focused on systemic issues (at least 50% of staff time).	- 2013 CHU Annual Report. - Internal Audit Manual. - Information provided to PEFA team by CHU.
(ii)	B	C	Internal audit reports are issued regularly for most audited government entities and distributed to the audited entity, but are only submitted to the SAI upon request.	No change. PEFA 2010 overrated the score on this dimension (in the light of Clarification 21-b of the Fieldguide).	Reports are issued regularly for most government entities, but may not be submitted to the Ministry of Finance and the SAI.	- 2013 CHU Annual Report. - Internal Audit Manual (standards). - Internal audit units functional review reports.
(iii)	B	B	Close to 62% of audit recommendations are implemented within 12 months, indicating prompt and comprehensive action by many managers.	No change.	Prompt and comprehensive action is taken by many (but not all) managers	- 2013 CHU Annual Report.

### 3.3.3 Accounting, recording and reporting

#### PI-22 Timeliness and regularity of accounts reconciliation

Rationale for this indicator:

*PI-22 assesses the extent to which suspense accounts and advances are regularly reconciled, adjusted, or cleared to ensure that financial and government institution statements adequately reflect a true fiscal picture. The reference period for the analysis of this indicator is the time of assessment (2014).*

Serbia has a Consolidated Treasury Account (CTA) in RSD managed by the Treasury Administration. The custody of the CTA is with the National Bank of Serbia. CTA covers all accounts of DBBs and IBBs of the Republic of Serbia, with the exception of foreign currency accounts in commercial banks and NBS (mainly for project loans financed by international financial institutions). Although foreseen in the legislation, a foreign currency CTA has still not been established. The only government accounts not managed by the Treasury are the foreign currency accounts held either with the National Bank of Serbia or commercial banks, which may be opened only with the approval of the Minister of Finance.

The Treasury Main Ledger (TML) is managed by the Treasury Administration. The statutory requirement is for the records in the TML to be recorded in accordance with the Chart of Accounts and on the level of budget classification and encompass transactions and business changes, including expenditures and revenues, and changes and balance of assets, liabilities, and capital.<sup>112</sup>

#### (i) **Regularity of bank account reconciliations**

The Treasury generates daily statements on executed transactions at the end of each day for all Treasury-managed accounts and makes them available to the beneficiaries. These statements can be used for reconciliation with the beneficiaries' auxiliary records.

DBBs that are beneficiaries of accounts held in the commercial banks and NBS<sup>113</sup> are required to report the account flows to the Treasury on monthly basis.<sup>114</sup> Treasury enters the information on execution from the foreign currency account into the TML on the basis of those reports. The Treasury requires that the closing balance of the report matches the amount on the bank statement which implies prior reconciliation between the account beneficiary and the bank. In their audits of DBBs/IBBs that are foreign currency account beneficiaries, the SAI has not raised any issue as to timeliness of the reconciliation.

**Score A.** Statements for Treasury-managed bank accounts are generated daily and made available for reconciliation with spending units' auxiliary records and foreign currency accounts are reconciled within four weeks to meet the requirements of monthly execution reporting to the Treasury.

<sup>112</sup> Article 11, BSL.

<sup>113</sup> For themselves and any IBBs that are beneficiaries of the funds.

<sup>114</sup> These reports in turn are generated from Record of Loan Inflows and Outflows prepared by Project Implementation Units at DBBs/IBBs; these must be accompanied, inter alia, by a bank statement.

**(ii) Regularity of reconciliation and clearance of suspense accounts and advances**

The Treasury Administration reported that there are no suspense accounts. The sole type of advance payment that is made is the allowance extended to individual employees for business travel. These travel allowance advances are extended at the level of the DBB/IBB<sup>115</sup> and recorded in their auxiliary ledgers, and must be justified within 48 hours after the completion of the travel, with any unused balance repaid. The actual travel expense is subsequently recorded in the TML.

**Score A.** Reconciliation and clearance of advances take place within the same period and no balances are brought forward.

Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-22</b>	<b>A</b>	<b>A</b>	<b>Scoring Method M2</b>			
(i)	A	A	Statements for Treasury-managed bank accounts are generated daily and made available for reconciliation with spending units' auxiliary records and foreign currency accounts are reconciled within four weeks to meet the requirements of monthly execution reporting to the Treasury.	No change. PEFA 2010 overrated the score on this dimension by not including the foreign currency accounts for IFI-financed projects held in commercial banks/NBS.	Bank reconciliation for all central government managed bank accounts takes place at least monthly on aggregate and detailed level, usually within four weeks from end of month.	- Information from the Treasury Administration.
(ii)	A	A	Reconciliation and clearance of advances take place within the same period and no balances are brought forward.	No change.	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.	- Information from the Treasury Administration. - Decree on Compensation of Costs and Severance Payment of Civil Servants and Employees.

<sup>115</sup> Decree on Compensation of Costs and Severance Payment of Civil Servants and Employees (RS Official Gazette, 98/2007, 84/2014).

## PI-23 Availability of information on resources received by delivery units

### Rationale for this indicator:

*PI-23 assesses whether there is consolidated and reliable information available on all resources received by service delivery units, such as schools and primary healthcare centers, and whether such information is available to monitor allocation and actual use of the resources. The fiscal years 2011, 2012, and 2013 are assessed.*

*Detailed information on allocation and provision of resources to front-line delivery units and its availability are crucial to determine if PFM systems effectively support front-line service delivery.*

Service Delivery Units (SDUs) in the education and health sector are indirect budget beneficiaries. In the education sector, the central government finances salaries for teachers in primary and secondary education, and investments into infrastructure modernization and textbooks for elementary school students in junior grades from the budget of the Republic. All other costs necessary for running of primary and secondary schools are covered from the budgets of local governments.<sup>116</sup>

In the health sector, funds from the budget of the Republic are used to finance investments in premises and maintenance and capital equipment in SDUs (health care centers).<sup>117</sup> A special category of health care costs that are financed from the central government budget are so-called services of “common interest,” such as epidemic control and medical screenings. All budgetary funds for health care SDUs are managed by the Ministry of Health on behalf of the government. All other costs (e.g., earnings of health-care workers, medications, expendable materials, etc.) of the SDUs are covered from the earmarked contributions for health insurance disposed of by the Republican Fund for Health Insurance.

### **(i) Information demonstrating the resources that were received by the most common front-line service delivery units**

In both the education and health sectors, the data on resources received by SDUs is collected through regular accounting and in-year reporting.

In the education sector, the Treasury Administration administers the salaries of teachers (as discussed under PI-18). The funds for this purpose are executed along the lines of annual appropriations allocated to the Ministry of Education. Their execution is accordingly reported through the CTA. The costs of investments in infrastructure modernization and textbooks are charged against the appropriate line items in the Ministry of Education. Monitoring of the implementation of these resources is conducted by the line sectors. Other capital and maintenance investments, utilities and costs of goods and services for education SDUs are planned, executed and accounted in the budgets of local self-government units. Expenditure of own-source revenues generated by schools (e.g., for renting of premises) is also accounted for. This information is reported and consolidated at least annually.

In the health sector, SDUs send their requests for funding of investments in premises and maintenance and capital equipment directly to the Ministry of Health. Designated committees

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<sup>116</sup> An exception to this rule are five schools of national interest, cumulatively accounting for 1-2% of the overall budget, whose costs are directly borne by the Ministry of Education.

<sup>117</sup> Under the Law on Health Care.

in the Ministry consider these requests in the course of preparation of the Ministry’s annual procurement plan. The procurement procedure for the selected projects may be implemented in two ways: (i) centralized procurement by the Ministry of Health, or (ii) decentralized procurement by the individual SDU, with the MoF in charge of settling the financial side of the transaction. In either case, the respective transactions are executed and reported through the TML. For services of common interest, separate reports on project execution are submitted by the participating SDUs (Public Health Institute, private health-care providers, etc.). Signed contracts for these services are used by the Ministry of Health to track service delivery. The information on delivered resources in health-care is accordingly readily available as all transactions are carried out through the CTA. The Ministry of Health is under the same accounting and reporting requirements as other DBBs.

No special surveys to collect data on resources to SDUs in education during last three years have been reported. In the health sector, the Public Health Institute conducts and publishes extensive analyses on resource availability and utilization, covering also the use of funds from the budget of the Republic.

**Score A.** Data on salaries for teachers (primary and secondary schools) and data on capital investments and special programs in the health sector are collected and disseminated regularly in the budget execution reports by the Treasury, as they are executed through the Consolidated Treasury Account. Data on other expenditure by education and health care providers is available at least annually in the reports of the self-governance units and the Republican Fund for Health Insurance, respectively.

Ind.	2010	2014	Score’s justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-23</b>	<b>A</b>	<b>A</b>	<b>Scoring Method M1</b>			
(i)	A	A	Data on salaries for teachers (primary and secondary schools) and data on capital investments and special programs in the health sector are collected and disseminated regularly in the budget execution reports by the Treasury, as they are executed through the CTA. Data on other expenditure in primary education and health care providers is available at least annually in the reports of the self-governance units and the Republican Fund for Health Insurance, respectively.	No change.	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.	<ul style="list-style-type: none"> <li>- Information from the Treasury Administration.</li> <li>- Information from the Ministry of Education.</li> <li>- Information from the Ministry of Health.</li> <li>- Law on Health-Care.</li> </ul>

## PI-24 Quality and timeliness of in-year budget reports

Rationale for this indicator:

*PI-24 assesses the quality and availability of information on progress with budget implementation when required by government and MDAs. The reports must be consistent with budget coverage and classifications to allow precise monitoring of performance and, if necessary, timely use of corrective measures. The reference period for this indicator is the last completed fiscal year (2013).*

The Law on the Budget System and the Rulebook on Standard Classification Framework and Chart of Accounts for the Budget System prescribe a unified classification of budget information, including organizational, economic, functional, and programmatic classification and classification of expenditures and expenses per source of funding.<sup>118</sup>

In practice, it is possible to distinguish between three categories of in-year budget execution reports:

- ad-hoc reports (daily, weekly, monthly) generated by the Treasury Administration, with no officially designated recipient
- reports by DBBs (including coverage of their associated IBBs) and mandatory social insurance organizations, submitted to the Treasury Administration within 20 days from the end the quarter
- MoF reports on budget execution in the course of the budget year, submitted to the Government and the National Assembly<sup>119</sup> 15 days after the end of the second and third quarters.<sup>120</sup>

All the in-year budget execution reports are cash-based.

The assessment describes all the in-year budget execution reports. The rating for the indicator is assigned for the in-year budget execution reports officially produced by the Government for decision-making purposes.

### **(i) Scope of reports in terms of coverage and compatibility with budget estimates**

This dimension analyzes two fundamental aspects of budget information: (i) whether the classification of the approved budget and the classification used in budget execution reports are compatible, and (ii) whether the expenditure is covered at both commitment and payment stages.

In terms of the ad hoc reports generated by the Treasury Administration, FMIS can generate budget execution reports for any specified parameters and for any required time period. The data is disaggregated according to the source of financing, functional, economic and sub-analytical, and program classifications and it presents the budget execution against the appropriation and the remaining balance, capturing both the registered commitments and pending payments.

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<sup>118</sup> Article 4, Rulebook.

<sup>119</sup> Article 7 and 93, BSL.

<sup>120</sup> Article 76, BSL. First quarter is not legally requested.

Quarterly reports of DBBs and mandatory social insurance organizations are submitted in a standard format prescribed in the by-law that requires information on the amount of planned and executed revenues and receipts, source of financing, amount of approved appropriations, and executed expenditures and expenses, with the information disaggregated according to the Chart of Accounts.

For MoF in-year budget reports (see Table 28), the approved budget and the in-year execution reporting are only consistently reported on the economic classification. The reports include aggregated information on revenue and expenditure execution, which is presented in the same format as Article 1 of the approved annual Budget Law. The Budget System Law requires these reports to contain information about the discrepancies between the adopted budget and that executed, with an explanation of substantial discrepancies (though this last requirement was absent from the report for 2013). Since 2014, the spending of the “revenue from foreign borrowing” source of funding, executed from foreign currency accounts held in commercial banks, are presented in the six-month and nine-month budget execution reports.

Lack of disaggregated data in different types of classification in Government in-year reports may restrict monitoring and hinder identification of situations that may need corrective measures. The assessment of objective compliance and of the adequate use of public funds is also limited because of this weakness, even if the reports are prepared using the budget structure and figures.

**Table 28. Presentation of In-Year Budget Execution Reports – Responsibilities and Timing**

Responsible entity	Recipient	Report	Reporting period	Term by law	Consistent with classification in the approved budget (Yes/No)
Treasury Administration	Not specified	Cumulative budget execution, as necessary.	Ad hoc.	None prescribed.	Yes, except for organizational classification.
DBBs Mandatory Social Insurance Organizations	MoF, Treasury Administration	Quarterly cumulative budget execution (consolidated as necessary).	Quarterly.	20 days after end of period.	Yes, on the level of categories of expenditure in line with the Chart of Accounts.
MoF	Government	Six-month cumulative budget execution.	Six months.	15 days after the end of the reporting period.	No, only in aggregate amounts in accordance with economic classification.
	Parliament	Nine-month cumulative budget execution.	Nine months.		

**Score B.** Expenditure is recorded in the FMIS system at the registration of the assumed commitments stage and at the payment stage, but the comparison to the original approved budget is limited to economic classification.

**(ii) Timeliness of report issuance**

IBBs are required to submit to their line DBB a quarterly budget execution report within 10 days from the end of the period. DBBs reconcile these reports with the data contained in the Treasury Main Ledger and their records, consolidate the data, and submit them to the MoF

within 20 days from the end of the quarter. The consolidated periodic reports are to be accompanied with explanation of any substantial discrepancies.<sup>121</sup> Similar in-year reporting requirements are in place for mandatory social insurance organizations, all of which are required to report to the Treasury Administration within 20 days from the end of the quarter.<sup>122</sup> No evidence has been found of the existence of systematic or recurring delays in the presentation of the in-year reports against the prescribed deadlines.

In 2013, the Government met the statutory deadlines for submitting the six-month and nine-month budget execution reports to the National Assembly.

**Score C.** Reports are not produced for the first quarter, but are prepared within 15 days from the end of the covered period for the second and third quarters.

**(iii) Quality of information**

From the perspective of accuracy of data on fiscal revenue and budget execution to date in the MoF in-year reports, there is no evidence that the data on budget execution registered in the CTA contain inaccuracies or omissions. The SAI has not made any objections to the quality of information contained in the in-year budget execution reports.

**Score A.** CTA records on budget execution, which serve as the basis for preparation of the in-year budget execution reports, provide information with no material concerns regarding accuracy.

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<sup>121</sup> Article 8, Decree on Budget Accounting.

<sup>122</sup> In this case, the Republican Health Insurance Fund submits a consolidated report based on quarterly periodic reports sent by users of its funds within 10 day from the end of the quarter.



Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-24</b>	<b>A</b>	<b>C+</b>	<b>Scoring Method M1</b>			
(i)	A	B	The expenditure is recorded in the FMIS system at the registration of the assumed commitments and at the payment stage, but the comparison to the original approved budget is limited to economic classification.	No apparent change in performance. PEFA 2010 was not clear which sets of in-year budget execution reports were used for the assessment and thus the basis for assignment of its score is unclear.	Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages	<ul style="list-style-type: none"> <li>- Budget System Law.</li> <li>- IMF report "Strengthening Budget Planning and Budget Execution" (December 2013).</li> <li>- Ad hoc reports generated by the Treasury Administration.</li> <li>- Template for in-year budget execution report of DBBs and mandatory social insurance organizations.</li> <li>- Government in-year budget execution reports for 2013 (six-month and nine-month).</li> </ul>
(ii)	A	C	Reports are not produced for the first quarter, but are prepared within 15 days from the end of the covered period for second and third quarters.	No change in performance. This assessment takes into account MoF-generated reports of which the statutory recipients are the Government and Parliament.	Reports are prepared quarterly (possibly excluding first quarter), and issued within four weeks of end the period.	<ul style="list-style-type: none"> <li>- Information received from the Treasury.</li> <li>- Budget System Law.</li> </ul>
(iii)	A	A	CTA records on budget execution, which serve as the basis for preparation of the in-year budget execution reports, provide information with no material concerns regarding accuracy.	No change.	There are no material concerns regarding data accuracy.	<ul style="list-style-type: none"> <li>- Government in-year budget execution reports for 2013 (six-month and nine-month).</li> </ul>

### PI-25 Quality and timeliness of annual financial statements

Rationale for this indicator:

*PI-25 assesses whether annual financial statements include comprehensive financial and related information in a timely way using appropriate accounting standards. The reference period for the analysis of dimensions (i) and (ii) is the last completed fiscal year (2013). Dimension (iii) refers to the accounting standards used for preparing the annual financial statements for the last three years (2011-2013).*

The Decree on Budget Accounting specifies the cash basis as the foundation of budget accounting and requires the preparation of financial statements following the cash-basis principles of the International Public Sector Accounting Standards (IPSAS).<sup>123</sup>

The statutory requirement for all of the financial statements is to be presented on a cash basis of accounting. The Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Institutions distinguishes four types of financial statements: (i) final account,<sup>124</sup> (ii) annual financial statement, (iii) periodic financial statement, and (iv) consolidated annual and consolidated periodic report (Financial statements include the full Balance Sheet, which is not the recommended approach for the cash-basis of accounting).

Standardized reporting templates are used by the Budget of the Republic of Serbia, mandatory social insurance institutions and local government budgets.<sup>125</sup>

The basis for preparation of consolidated financial statements is the Treasury Main Ledger. It should contain the accounting records for each DBB and IBB and mandatory social insurance organizations.<sup>126</sup> DBBs and IBBs that do not conduct their operations through their own account, maintain only auxiliary ledgers and records.<sup>127</sup> They submit their financial statements on Template 1 – Balance Sheet and Template 5 – Budget Execution Report of the Rulebook. The data in the Treasury Main Ledger contains the data from the main ledgers of DBBs and IBBs, based on periodic reports and final accounts.<sup>128</sup>

MoF prepares the consolidated financial statements for the public accounts as a draft Law on Final Account of the Budget of Republic of Serbia. The Government is responsible for submitting the proposal of the Law to the National Assembly, per the calendar set down in the Budget System Law.<sup>129</sup>

#### **(i) Completeness of financial statements**

Annual financial statements of the Budget of the Republic of Serbia are based on the consolidated financial data from the TML and data from the final accounts of DBBs and of mandatory social insurance organizations. Final accounts of DBBs and mandatory social insurance organizations, in turn, represent consolidated financial statements, which include data from their own bookkeeping records and data from the reports of final accounts of their respective IBBs.<sup>130</sup>

Statutory contents of the Public Final Account of the Republic are: (i) annual financial report on budget execution, with notes and explanations, (ii) annual financial report of mandatory

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<sup>123</sup> Article 5, Decree on Budget Accounting.

<sup>124</sup> On five prescribed templates: 1) Balance Sheet; 2) Income Statement; 3) Statement of Capital Expenses and Receipts; 4) Cash Flow Statement; and 5) Budget Execution Statement.

<sup>125</sup> This requirement is also foreseen for all the DBBs that maintain their own General Ledger (i.e., operate their own accounts). In practice, there are currently no such DBBs as all are covered by the TML.

<sup>126</sup> Article 11, Decree on Budget Accounting.

<sup>127</sup> Article 12, Decree on Budget Accounting.

<sup>128</sup> Article 12, Decree on Budget Accounting

<sup>129</sup> Article 78, BSL.

<sup>130</sup> Article 6, Decree on Budget Accounting.

social insurance organizations and annual consolidated financial report of the Health Insurance Fund, and (iii) external audit report. The annual financial statements must be in accordance with the contents and classification of the budget and the financial results therein must be determined in accordance with cash-basis IPSAS.<sup>131</sup>

A number of counterparts identified issues in relation to comprehensiveness and accuracy of the information on non-financial assets. According to the Budget System Law,<sup>132</sup> it is the responsibility of the Republican Directorate for Assets to report the structure and value of assets of Republic of Serbia to the Treasury Administration. Because the registry from which this information is seen as not sufficiently reliable, the Treasury Administration reported that these provisions have not yet been fully implemented in practice. Instead the Treasury Administration fills the resulting gap with information received directly from beneficiaries, which is prepared manually. Reports supplied by the beneficiaries are taken without further verification and aggregated for the purpose of producing the final account.

Both the Budget Inspection Unit and the SAI noted issues with accuracy of asset valuation and balance sheet comprehensiveness. In FY13 (as well as in FY12), the SAI issued a disclaimer of opinion on the Balance Sheet of the Final Account of the Budget of RoS with respect to non-financial assets.

**Score A.** The Final Public Account of the Budget of the Republic of Serbia is prepared annually and contains information on revenue, expenditure and financial assets/ liabilities.

**(ii) Timeliness in submission of financial statements for audit**

The calendar for financial reporting on the level of the Republic is defined in Article 78 of the Budget System Law and specifies the deadlines displayed in Table 29.

*Table 29. Financial Reporting Calendar for the Republican Level*

Date	Action
February 28	IBBs of the Budget of the Republic prepare their annual financial statements for the previous year and submit them to the competent DBBs of the Budget of the Republic. Users of funds of the Republican Health Insurance Fund prepare the annual financial statement for the previous year and submit it to the Republican Health Insurance Fund.  Other users of public funds included in the STA that are established by the Republic prepare annual financial statement for the previous year and submit them to the competent body of the Republic of Serbia.
March 31	DBBs of the Budget of the Republic prepare the annual report and submit it to the Treasury Administration, and DBBs of the Budget of the Republic who have IBBs of the Budget of the Republic in their competence control, reconcile the data from the annual budget execution reports and prepare a consolidated annual budget execution report, which they submit to the Treasury Administration.
April 30	Mandatory social insurance organizations adopt decisions on their final accounts, and adopt reports on execution of the financial plans and submit them to the Treasury Administration. Republican Health Insurance Fund controls, reconciles data from the annual reports on execution of the financial plan of users within their scope of competence,

<sup>131</sup> Article 79, BSL.

<sup>132</sup> Article 79a, BSL.

	consolidates the data and prepares the consolidated annual report on execution of the financial plan, which is submitted to the Treasury Administration.
June 20	Ministry of Finance prepares the draft Law on the Final Account of the Budget of the Republic and, together with decisions on the final accounts of the mandatory social insurance organizations, submits it to the Government.
July 15	Government submits to the National Assembly the proposal of the Law on Final Account of the Budget of the Republic and decisions on the final accounts of the mandatory social insurance organizations.
October 1	Ministry of Finance prepares the Consolidated Report of the Republic of Serbia* and submits it to the Government.
November 1	Government submits the Consolidated Report of the Republic of Serbia to the National Assembly, for information purposes.
* Consolidated Statement of the Republic of Serbia is the consolidated statement of the Final Account of the Republic of Serbia, final accounts of mandatory social insurance organizations, consolidated statement of the Republican Health Insurance Fund, final accounts of the budgets of autonomous provinces, final accounts of the budgets of municipalities and consolidated statements of cities and the City of Belgrade. The Consolidated Statement of the Republic of Serbia as such is not subject to being audited.	

DBBs/IBBs and mandatory social insurance organizations adhere to the financial reporting calendar outlined in the primary legislation and submit their financial statements to the Treasury Administration for consolidation.

The SAI can access the financial statements of the individual budget beneficiaries for audit from March 31 onwards.

Per the PEFA 2010 Fieldguide Clarification 25-e, this dimension is rated for the Final Account of the Republic of Serbia, made available for audit at the time when the draft Law on the Final Account of the Republic of Serbia is completed. In contrast with the financial statements for the years 2011 and 2012 which were made available for audit within six months after the end of the period, performance on this dimension deteriorated in 2013. For FY13, the Final Account of the Republic of Serbia was submitted for audit on July 3, 2014, within seven months after the end of the audited period.

**Table 30. Timeliness of Financial Statements Submission to SAI**

Financial Report	2011	2012	2013
Date submitted to SAI	June 20, 2012	June 20, 2013	July 3, 2014
Timeliness of submission (after the end of the FY)	Within 6 months	Within 6 months	Within 7 months

Source: SAI.

The Government has adhered to the deadline (July 15) in submitting the proposal of the Law on Final Account of Republic of Serbia to the National Assembly.

**Score B.** The Final Account of the Budget of the Republic of Serbia for 2013 was submitted for external audit within seven months of the end of the fiscal year.

### (iii) Accounting standards used

Under the Decree on Application of International Public Sector Accounting Standards (IPSAS), the officially prescribed accounting standards for DBBs and IBBs, users of funds of mandatory social insurance organizations, and budgetary funds of the Republic as of 2010 are

the cash-basis IPSAS. The Decree foresees direct application of the original text of the standards, without additional national accounting regulations.

However, since there are by-laws issued by the Ministry of Finance that prescribe specific accounting policies and reporting template, the implication is that IPSAS implementation continues to be indirect (i.e., applied within the limits imposed by the national framework). The SAI confirmed that the accounting used for the purposes of financial reporting is in line with the national accounting framework.

Because of a dispute regarding the rights to translation held by the International Federation of Accountants (IFAC), the Government has not passed the decision to adopt the official translation of IPSAS as of the time of the assessment.

Financial statements have been presented in a consistent format over the last three years on the forms prescribed in the Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Organizations. In adhering to this Rulebook, the financial statements do not disclose the accounting standards used as the prescribed templates to this Rulebook do not foresee that the accounting standards should be disclosed.

**Score D.** While the national accounting framework is applied for all financial statements and the statements have been submitted in a consistent format, the conflicting by-laws effectively prevent disclosure of the accounting standards used.

Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-25</b>	<b>A</b>	<b>D+</b>	<b>Scoring Method M1</b>			
(i)	A	A	The Final Public Account of the Budget of the Republic of Serbia is prepared annually and contains full information on revenue, expenditure and financial assets/liabilities.	No changes..	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.	- Proposal of the Law on the Final Account of the Budget of Republic of Serbia.  - SAI Audit Report on the Final Account of the Budget of Republic of Serbia, 2012 and 2013.
(ii)	A	B	The Final Account of the Budget of the Republic of Serbia for 2013 was submitted for external audit within 7 months of the end of the fiscal year.	No apparent change. The draft Final Account of the Budget of the Republic of Serbia for 2013 was submitted for audit on July 3, 2014.	The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.	- Information received from Treasury.  - Information received from the SAI.
(iii)	A	D	While the national accounting framework is applied for all financial statements and the statements have been submitted in a consistent format, conflicting by-laws effectively prevent disclosure of the accounting standards used.	No change in performance. There is no evidence that disclosure of the accounting standards was not addressed in PEFA 2010.	Statements are not presented in a consistent format over time or accounting standards are not disclosed.	- Information from the SAI.

### 3.3.4 External scrutiny and audit

#### PI-26 Scope, nature and follow-up of external audit

Rationale for this indicator:

*PI-26 measures the coverage, quality and timeliness of external audit arrangements for the central government. It also considers follow-up on audit recommendations. The period of analysis is the last audited year (2013).*

#### Legal framework

This indicator principally measures the coverage, quality, and timeliness of external audit of the use of public funds. The period of analysis is the last audited year at the time of the assessment (2013).

There is a comprehensive constitutional and legislative framework in place that regulates the functioning of the SAI in Serbia as the state audit institution. Following its formal establishment in 2007, the SAI completed its first audit of public accounts in 2009.

The Constitution identifies the SAI as the highest national audit authority, which is independent and accountable only to the National Assembly.<sup>133</sup> The Constitution also assigns the responsibility for the audit of the execution of all budgets to the SAI.<sup>134</sup> The BSL reinforces this arrangement by prescribing that the final account of the budget of Republic of Serbia and final accounts of the mandatory social insurance organizations are to be audited by the SAI.<sup>135</sup>

SAI's scope of work, competencies, organization and manner of work are elaborated in the Law on State Audit Institution and the Institution's own Rules of Procedure. The Law on SAI has a sufficiently broad mandate for the SAI to perform financial statements and compliance and performance audits of state and EU funds. As of end 2013, the SAI had 201 staff, of whom 167 are auditors, 5 are SAI Council members and 29 are support staff.

#### **(i) Scope/nature of audit performed (including adherence to auditing standards)**

According to the statutory mandate,<sup>136</sup> the SAI can audit all public funds of a broad range of entities across the public sector, including DBBs and IBBs, mandatory social insurance organizations, public enterprises, units of territorial autonomy and local self-governments, the National Bank of Serbia and all other beneficiaries of public funds.

The SAI conducts both audits of financial statements and of operations (regularity audit). The audit remit extends to revenues and expenditures in accordance with the regulations on the budget system, financial statements, financial transactions, calculations, analyses and other records and information of the auditees.<sup>137</sup> As a part of financial and regularity audits, SAI also

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<sup>133</sup> Article 96, Constitution.

<sup>134</sup> Article 92, Constitution.

<sup>135</sup> Article 92, BSL.

<sup>136</sup> Article 10, SAI Law.

<sup>137</sup> SAI Annual Activity Report, 2013.

examines the financial management and control systems, internal control systems and internal audit. The SAI conducted its first performance audit in 2013.

In 2013, SAI conducted financial and regularity audits of 56 entities across the public sector.<sup>138</sup> SAI audited the Final Account of the Budget of the Republic of Serbia,<sup>139</sup> and constituent parts of financial statements of 10 entities. In total, SAI issued 66 audit opinions.<sup>140</sup> Based on the aggregate out-turn figures for DBBs and IBBs, which were audited as a part of the Final Account, the SAI reported coverage of RSD 2,364 billion (88 percent) of central government expenditures and expenses.

The SAI has a statutory obligation to conduct audits in accordance with the selected internationally accepted standards. While the translation of the International Standards of Supreme Audit Institutions (ISSAIs) framework exists, and is used in audit practice and referenced in audit reports, the standards have yet not been formally published in the Official Gazette, as required under the Law.<sup>141</sup>

Audit manuals in line with ISSAI were not published at the time of the assessment. The Financial Audit Manual, completed as a part of the EU-funded twinning project and fully aligned with ISSAI, was piloted in 2013. The Performance Audit Manual was being developed, along with implementation of the first performance audit.

**Score B.** A broad range of financial and regularity audits are conducted, covering 88 percent of central government expenditures and expenses in 2013 (the last FY audited). In 2013, the first performance audit was initiated. ISSAIs, although not yet published in the Official Gazette, are applied in practice by auditors.

## (ii) Timeliness of submission of audit reports to the legislature

The law prescribes the following scope of SAI reporting to the National Assembly.<sup>142</sup>

- Annual Activity Report
- Individual audit reports in the course of the year
- Audit report on Final Account of the Budget of RoS, final accounts of the mandatory social insurance organizations and consolidated financial statements of the Republic.

In practice, the consolidated financial statements of the Republic are not audited, and accordingly no audit report is produced and delivered to the National Assembly.

SAI's Annual Activity Report for the previous year is to be submitted by March 31 of the current year; this deadline was adhered to in 2013. SAI has the option of reporting to the

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<sup>138</sup> Disaggregated as follows: 4 direct budget beneficiaries, 2 indirect budget beneficiaries, National Bank of Serbia, public debt of the Republic of Serbia (within Ministry of Finance), 2 agencies, 18 public enterprises, 24 local self-government units, 2 mandatory social insurance organizations and one clinical center. (SAI Annual Activity Report, 2013).

<sup>139</sup> The opinion on the Final Account of the Republic of Serbia for 2013 was qualified.

<sup>140</sup> Disaggregated as follows: 5 unqualified opinions, 59 qualified opinions and 2 disclaimers of opinion.

<sup>141</sup> Article 34, SAI Law.

<sup>142</sup> Article 43, SAI Law.

National Assembly on particularly significant or urgent matters that, in the opinion of the SAI Council, should not be delayed until the next regular report.

Audit reports for the last year’s financial statements from individual audit engagements are submitted to the National Assembly throughout the year (as they are completed). As a result of the cyclical nature of external audit work, the number of submitted individual audit reports peaks in the last quarter of the year (in particular, in November), within 12 months after the end of period covered in the financial statements. The SAI submits the bulk of their audit reports of individual entities to the National Assembly within nine months of receipt of the respective financial statement for audit.

The Law on the SAI does not prescribe a deadline by which SAI should submit the audit report on the Final Account of the Budget of Republic of Serbia. The Law foresees that the SAI reports to the National Assembly on the audit of the Final Account in the process of the adoption of the proposal of the Law on Final Account of the Budget of Republic of Serbia.<sup>143</sup> In practice, the SAI submits its Audit Report on the Final Account of the Budget of the Republic in December, within six from its receipt and within 12 months after the end of the period covered in the financial statements.

*Table 31. Preparation of SAI Audit Reports on Annual Budget Execution*

Action on annual budget execution report	FY2011	FY2012	FY2013
Final Account of the Budget of RoS received by SAI	June 20, 2012	June 20, 2013	July 3, 2014
Audit Report by SAI on the Final Account of the Budget of RoS submitted to the National Assembly	December 21, 2012	December 24, 2013	December 25, 2014
<i>Source: SAI.</i>			

**Score B.** The SAI submits its report within six months from the receipt of the final account for auditing, which, as is it considered a financial audit implies a score of B, despite the fact that the Audit Report on the Final Account of the Republic of Serbia is presented to the National Assembly only in December (within 12 months of end of the accounting period covered).

**(iii) Evidence of follow-up on audit recommendations**

The post-audit procedure is laid down in the Law on the SAI<sup>144</sup> and SAI Rules of Procedure. All institutions subject to audit are under the statutory obligation to report to the SAI about the removal of the identified irregularities or deficiencies within 30-90 days from the completion of the audit.<sup>145</sup> The deadlines have been complied with in practice. A response report is provided by institutions subject to audit and contains measures to correct the irregularities and deficiencies addressed in SAI recommendations with a time-bound plan for their implementation. The procedure stipulates that the auditees monitor the implementation of their plan and report to the SAI in appropriate intervals with evidence of the implementation of

<sup>143</sup> Articles 44-47, SAI Law.

<sup>144</sup> Article 40, Law on SAI.

<sup>145</sup> Article 40, SAI Law.



recommendations. The information on follow-up activities of the auditees is consolidated on the level of the institution. At the time of the assessment, a comprehensive SAI data base on the implementation status of the recommendations was being developed.

SAI checks the authenticity of each response report and the accompanying evidence. If it is determined that the response report with the respective evidence is not authentic, the SAI Council decides on conducting of follow-up activities over the response report. In 2013, the first two follow-up audits of response reports occurred and measures foreseen in the law have been taken.

For all the audits conducted in 2012 (the latest available information),<sup>146</sup> the total of implemented recommendations in 2013 was 71.88 percent (583), recommendations with ongoing implementation was 26.63 percent (216), and recommendations not implemented represented 1.47 percent (12).

**Score A.** Follow-up activities of the auditees entail sending of a formal response within the statutory deadline and reporting on the status of the plan to implement the recommendations. SAI conducts follow-up activities for all response reports judged not authentic.

Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-26</b>	<b>C</b>	<b>B+</b>	<b>Scoring Method M1</b>			
(i)	C	B	A broad range of financial and regularity audits are conducted, covering 88% of central government expenditures and expenses in 2013 (the last FY audited). In 2013, the first performance audit was initiated. ISSAI, although not yet published in the Official Gazette, are applied in practice by the auditors.	The higher score reflects the substantially higher audit coverage as a result of increased audit capacity (167 auditors at end-2013 compared to 8 auditors at end-2009). The range of audits has increased, with the first pilot performance audit in 2013.	Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues.	- SAI Annual Activity Report 2013. - Information/data provided by the SAI. - EU Screening Report, Chapter 32.
(ii)	C	B	The SAI submits its report within six months from the receipt of the final account for auditing, which as it is considered a financial audit implies a score of B, despite the fact that the Audit Report on the Final Account of the Republic of Serbia is presented to the National Assembly only in December (within 12 months of end of the accounting period covered).	Audit opinion on Financial Statements submitted within six months from the receipt of the final account.	Audit reports are submitted to legislature within 8 months of end of period covered and in the case of financial statements from their receipt by the auditor.	- Information/data provided by the SAI. - Data provided by the Committee for Budget and Finance. - Audit Report of the Final Account of the Budget of RoS for 2011, 2012, 2013.
(iii)	C	A	Follow-up activities of the auditees entail sending of a formal response within the statutory deadline and reporting on the status of the plan to implement the recommendations. SAI conducts follow-up activities for all response reports which are judged not authentic.	Higher score on this dimension reflects the increased capacity of the SAI to enforce the requirements for formal management response. Systemic follow-up is carried out by the SAI where these responses are deemed not authentic.	There is clear evidence of effective and timely follow-up.	- SAI Annual Activity Report Information/data provided by the SAI

<sup>146</sup> These covered the central government (Sector for Audit of Budget and Budget Funds, Sector for Audit of Mandatory Social Insurance Organizations, Sector for Audit of the National Bank of Serbia), local government (Sector for Audit of Budget of Local Authorities) and public enterprises (Sector for Audit of Public Enterprises).

## PI-27 Legislative scrutiny of the annual budget law

Rationale for this indicator:

*PI-27 assesses the nature and extent of legislative scrutiny of budget legislation. It considers the extent to which the legislature scrutinizes, debates, approves, and monitors the budget, including the existence of clear rules and procedures for scrutiny. The relevant period for assessment is the most recent fiscal year (2013).*

The legal basis for legislative scrutiny of the annual budget law and in-year amendments by the National Assembly is contained in the Budget System Law and the Rules of Procedure of the National Assembly.

The National Assembly is constitutionally responsible for adopting the budget and the Final Account of the Budget of the Republic of Serbia,<sup>147</sup> upon receipt of proposals from the Government, in accordance with regulations outlined in the Assembly's Rules of Procedure as specified in the Law on National Assembly.<sup>148</sup>

The National Assembly has a 17-member standing body for budget and finances, the Committee on Finance, State Budget and Control of Public Expenditure. At the time of the PEFA assessment, the Committee was supported by a Secretary, four advisers, and one clerk—and, as necessary, by the Assistant General Secretary for Legislation. The staffing of the professional Secretariat poses a challenge for a detailed fiscal analysis, and the Secretariat has indicated a need for additional staff.<sup>149</sup>

The duties of the Committee are specified in Article 55 of the Rules of Procedure, and include deliberation on proposed laws in the domain of the Republican budget, final accounts of the budget, and financial plans and final accounts of mandatory social insurance organizations. The Committee is also charged with monitoring and reporting to the Assembly on the execution of the Republican budget and accompanying financial plans in terms of legality, effectiveness, and efficiency in public spending.

The legislative review is supported by analyses by the Fiscal Council of Serbia of the Fiscal Strategy and proposal of the annual Budget Law.

### (i) Scope of the legislature's scrutiny

The Budget System Law regulates the procedure and the calendar for presentation of budget-related documents to the National Assembly. Under this Law,<sup>150</sup> as a part of the budget adoption procedure, the Government is required to submit the following documents to the Assembly:

- Fiscal Strategy, by June 5
- Revised Fiscal Strategy, by October 5
- Proposal of the Law on Budget of Republic of Serbia, by November 1.

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<sup>147</sup> Article 99, Constitution.

<sup>148</sup> Article 53, Law on National Assembly.

<sup>149</sup> See SIGMA assessment 2013.

<sup>150</sup> Article 31, BSL.

The Fiscal Strategy should contain the objectives and guidelines of the Government's economic and fiscal policy for the medium-term covered by the Strategy, including an overview of priority financing areas and the medium-term expenditure framework of the budget of Republic of Serbia, covering the next budget year and the subsequent two years.<sup>151</sup> The Revised Fiscal Strategy is an integral part of the materials accompanying the budget proposal, which itself presents a detailed disaggregation of revenues and expenditures. (The Secretariat of the Committee on Finance, State Budget and Control of Public Spending noted that all of the documents listed above are subject to a detailed legislative review.)

The second important stage of legislative review of budget documents consists of the review of the in-year reports on budget execution, discussed under PI-24. Legislative review likewise includes the review and scrutiny of any supplementary budget proposal presented during the course of the year.

The final vital stage of legislative review is discussion and adoption of the proposal of the Law on Final Account of the Budget of Republic in Serbia, submitted by the Government. In the period under review by this assessment, the proposal of the Law was submitted to the National Assembly within the prescribed deadline, but was not scrutinized by the Assembly.

**Score A.** Legislative review includes medium-term fiscal framework and medium-term priorities contained in the Fiscal Strategy and details of expenditure and revenue in the annual budget proposal.

**(ii) Extent to which legislative procedures are well-established and respected**

The procedure for legislative review is prescribed in detail in the National Assembly's Rules of Procedure.<sup>152</sup> The National Assembly is bound by the Budget System Law to adopt the Budget of Republic of Serbia by December 15. The proposal of the Law is initially discussed in the aforementioned Committee, in principle and in detail.<sup>153</sup> The Rules of Procedure foresee the possibility for line committees (e.g., health, education) to submit initiatives for amendments to the Committee on Finance, State Budget and Control of Public Expenditure. Only the Committee can file formal amendments it exercised this authority in 2013. Subsequently, the proposal of the Law is discussed in the National Assembly, both in principle and in detail where it may be subject to further amendments by the legislature.<sup>154</sup> The same procedures apply for any budget amendment proposed during the year.

In the absence of any specific provisions governing the adoption of the Law on the Final Account of the Budget of Republic of Serbia, the same procedure should apply for its adoption as for other primary legislation. However, the Committee reported to the PEFA team that last time the proposal of the Law on the Final Account of the Budget of Republic of Serbia was deliberated in the National Assembly was in 2002.<sup>155</sup>

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<sup>151</sup> Article 27d, BSL.

<sup>152</sup> Article 171, Rules of Procedure.

<sup>153</sup> The Committee does not have its own specific rules of procedure.

<sup>154</sup> Article 157, Rules of Procedure.

<sup>155</sup> The explanation for this situation is complex. Government financial statements are formally presented to the Parliament and should be approved in the form of a Law (Law on Final Account of the Budget of the RoS). The BSL stipulates that the financial statements should be audited at the time of submission but the Law on SAI is

**Score C.** The legislature’s procedures for budget review are firmly established (and include internal organizational arrangements for legislative oversight). Although the procedures were respected for the annual budget proposal, such is not the case for adoption of the final account. The procedures are therefore considered to be partially respected.

**(iii) Adequacy of time for the legislature to provide a response to budget proposals and macro-fiscal aggregates, where applicable**

The legal requirement is for the National Assembly to have 45 calendar days for deliberation of the budget proposal (November 1 through December 15). The Rules of Procedure further establish that discussion on the proposal cannot be initiated sooner than 15 days from the date of the receipt of the proposal, thus setting a procedural minimum of time before the National Assembly can exercise its powers.<sup>156</sup>

In 2013, the Government submitted the budget proposal in accordance with the deadline (see Table 32). The Secretariat of the Committee reported that the statutory period foreseen in the Budget System Law was sufficient for the members of the Assembly to familiarize themselves with the proposal of the annual budget law.<sup>157</sup>

*Table 32. Annual Budget Submission and Approval Dates*

Annual budget	FY11	FY12	FY13
Submission to Assembly.	December 16, 2011	October 30, 2012	November 1, 2013
Approval by Assembly.	December 29, 2011	December 1, 2012	December 13, 2013

*Source:* National Assembly.

Regarding the re-balance (formally, Law on Amendments to the Law on Budget of Republic of Serbia), which is required to follow a comparable legislative timetable as the original proposal,<sup>158</sup> the deadlines in 2013 were much tighter. The proposal for the budget rebalance was submitted to parliamentary procedure on July 1 and adopted on July 10, effectively limiting the time for legislative scrutiny to eight days.

silent on the issue. In years 2002-2006 (before the SAI was established in the Constitution) there was no consensus of which commercial auditor to use. In the subsequent period, the problem was in the time lag between the submission of the financial statements (normally in June) and the respective audit report (normally in December). In the end, the Law on the Final Account (i.e. the financial statements) has not been approved by the Parliament for over a decade.

<sup>156</sup> Article 172.

<sup>157</sup> Although irrelevant to the PEFA scoring for the 2013 snapshot, it is worth noting that the 2011 performance fell well short of the mark (see Table 28); on the other hand, it’s important to notice the subsequent improvements in 2012 and 2013.

<sup>158</sup> Article 47, BSL.

The dimension is rated on the basis of the time available for review of the annual budget proposal. Score C is assigned in reference to the score for dimension (ii) within this indicator.

**Score C** The time for review of the initial annual budget proposal was statutory 45 days in the last completed period considered for this assessment (2013).

**(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature**

There are clear legal and procedural rules in the Budget System Law that govern in-year budget amendments by the executive without ex-ante approval by the legislature. Reallocations of in-year appropriations are allowed for no more than 5 percent of the annual appropriation approved for a particular type of expenditure or expense by the DBB or up to 10 percent within a program appropriation, with prior approval of the Ministry of Finance.<sup>159</sup> The amount of the change in appropriation is limited by the amount of the available appropriation. As previously noted, the Treasury Administration reported that the limits on changes to appropriations are consistently observed.

The described limits and procedure refer only to appropriations from the budget revenues; appropriations from revenues from other sources may be changed without restrictions, except that these changes must also be approved by the Ministry of Finance.

In-year changes to appropriations may also occur as a result of court rulings that implicate government funds. In cases where the total annual appropriation of the budget beneficiary for these purposes is consumed, the Treasury Administration reallocates funds from another relevant appropriation in the amount needed to execute the court ruling.<sup>160</sup>

**Score B.** Clear rules exist for in-year budget amendments by the executive, and are usually respected, but leave room for some administrative reallocations.

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<sup>159</sup> As defined by Article 61, BSL.

<sup>160</sup> Article 56, BSL.

Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-27</b>	<b>C+</b>	<b>C+</b>	<b>Scoring Method M1</b>			
(i)	B	A	Legislative review includes medium-term fiscal framework and medium-term priorities contained in the Fiscal Strategy and details of expenditure and revenue in the annual budget proposal.	Through amendments to Budget System Law, the Fiscal Council was established and the Memorandum on budget, economic and fiscal policy was replaced with the Fiscal Strategy as the principal medium-term budgeting instrument.	The legislature's review covers fiscal policies, medium-term fiscal framework and medium-term priorities as well as details of expenditure and revenue.	Analysis of Fiscal Strategy / Analysis of Budget Proposal produced by the Fiscal Council.
(ii)	B	C	The legislature's procedures for budget review are firmly established (and include internal organizational arrangements for legislative oversight). Although the procedures were respected for the annual budget proposal, such is not the case for adoption of the final account. The procedures are therefore considered to be partially respected.	No change. 2010 PEFA did not account for respect for the procedures for adoption of the final account.	The legislature has at least one month to review the budget proposals.	- Constitution of the Republic of Serbia.  - Rules of Procedure of the National Assembly.
(iii)	C	C	The time for review of the initial annual budget proposal was statutory 45 days in the last completed period considered for this assessment (2013).	No change. Score C is assigned based on the score C for dimension (ii) within this indicator (reference Clarification 27-b, PEFA Fieldguide).	The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).	- Budget System Law.  - Rules of Procedure of the National Assembly.
(iv)	B	B	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but leave room for some administrative reallocations.	No change in performance.	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	- Analysis of Fiscal Strategy / Analysis of Budget Proposal. produced by the Fiscal Council.

## PI-28 Legislative scrutiny of external audit reports

Rationale for this indicator:

*PI-28 assesses the extent to which the legislature scrutinizes and acts on audit reports. The focus is on central government entities and the extent to which they are required to submit audit reports and respond to questions and recommendations.*

The Law on SAI foresees deliberation of the SAI's reports by the National Assembly and these duties were discharged by the Committee on Finance, State Budget and Control of Public Spending in accordance with the remit defined in the National Assembly's Rules of Procedure.

The interaction of the Committee with the outputs of SAI's activities is defined in two instances in the Rules of Procedure. The first is the deliberation and reporting of the Committee to the National Assembly of the SAI's Audit Report on the conducted audit of the Final Account.<sup>161</sup> The second is the deliberation of the SAI's Annual Activity Report and reporting to the Assembly with a proposal of conclusions/recommendations. The Annual Activity Report is relevant for Parliamentary scrutiny as it highlights the principal findings and recommendations from the audit of the Final Account. The National Assembly is to deliberate the SAI's Annual Activity Report alongside the report produced by the Committee. Upon concluding the deliberation, the National Assembly is to decide on the proposal of conclusions/recommendations by a majority vote.<sup>162</sup> No specific procedures are foreseen for examination of the individual audit reports.

### (i) Timeliness of examination of audit reports by the legislature

There are no statutory or procedural deadlines for reviewing of audit reports by the Committee or the National Assembly.

Although the law defines the same procedures for legislative review of the budget proposal and the final accounts of the budget, there is no evidence of deliberation of the Audit Report on the Final Account of the Budget of Republic of Serbia for fiscal years 2011, 2012, and 2013 in the Committee or the National Assembly. No specific average number of months from receipt of the audit reports to their deliberation in fiscal years 2011, 2012, and 2013 was reported.

The Committee did consider the 2012 SAI Annual Activity Report in June 2013, and prepared and submitted a Report with a proposal of Conclusions to the National Assembly. In accordance with the Law on SAI<sup>163</sup> and the Rules of Procedure,<sup>164</sup> the National Assembly adopted the Committee conclusions.

**Score D.** There is no evidence of deliberation of the Audit Report on the Final Account of the Budget of Republic of Serbia in fiscal years 2011, 2012, and 2013 in the Committee or the National Assembly.

<sup>161</sup> Article 177, Rules of Procedure.

<sup>162</sup> Article 238, Rules of Procedure.

<sup>163</sup> Article 48, SAI Law.

<sup>164</sup> Article 238, Rules of Procedure.

**(ii) Extent of the hearings on main findings undertaken by the legislature**

Although the Rules of Procedure<sup>165</sup> provide for the holding of public hearings as a means for Committee members and other parliamentarians to receive information, professional opinion or comments from stakeholders, these are typically of a general nature and have not been practiced for matters related to external audit.

The Rules of Procedure<sup>166</sup> foresee that an SAI representative may be required to participate in sessions of the Committee and the session of the National Assembly; this occurred in 2013. Representatives of the Committee Secretariat expressed satisfaction with the SAI cooperation.

**Score D.** SAI representatives actively participated in the activities foreseen by the Rules of Procedure of the National Assembly, but the legislative body did not conduct further in-depth hearings.

**(iii) Issue of recommended actions by the legislature and implementation by the executive**

While the SAI Law foresees a procedure in which the National Assembly considers the proposed audit recommendations, measures, and deadlines for their execution,<sup>167</sup> there is no further specification of the requirements for auditees on actions to be taken. The recommendations issued by SAI are already legally binding on auditees.

Following the first deliberation of the SAI Annual Activity Report in the National Assembly in 2013, the Conclusions of the National Assembly confirmed that the SAI had made a thorough presentation of its activities in its 2012 Annual Activity Report and the Assembly requested the SAI to report on implementation by the executive of SAI's audit recommendations from 2011. Subsequently, in its June 2014 deliberation of the 2013 SAI Annual Activity Report, the National Assembly confirmed that the SAI had made a thorough presentation of its activities in the 2013 Annual Activity Report. However, the Assembly did not offer specific recommendations and/or measures to the executive on either these two occasions.

**Score D.** The National Assembly has not issued any recommendations to the executive to implement SAI recommendations in the 12 months prior to the date of the assessment.

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<sup>165</sup> Article 83.

<sup>166</sup> Article 238.

<sup>167</sup> Article 48, SAI Law.



Ind.	2010	2014	Score's justification	Changes since prior assessment	Framework requirements	Evidence
<b>PI-28</b>	<b>D+</b>	<b>D</b>	<b>Scoring Method M1</b>			
(i)	B	D	There is no evidence of deliberation of the Audit Report on the Final Account of the Budget of Republic of Serbia in fiscal years 2011, 2012 and 2013 in the Committee or the National Assembly.	No change. This dimension in PEFA 2010 was rated without regard to the PEFA 2010 Fieldguide Clarification PI-28, 28-b.	Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.	- SAI Annual Activity Report, 2013. - "Kvorum," Bulletin of the National Assembly, no.7. - Report of the Committee on the deliberation of the SAI Annual Activity Report for 2012, with the proposal of Conclusions for the National Assembly, June 2013.
(ii)	D	D	SAI representatives actively participated in activities foreseen by the Rules of Procedure of the National Assembly, but the legislative body did not conduct further in-depth hearings involving auditees.	No change since 2010 PEFA.	No in-depth hearings are conducted by the legislature.	- Information from the Committee. - SAI Annual Activity Report. - Report of the Committee on the deliberation of the SAI Annual Activity Report for 2012, with the proposal of Conclusions for the National Assembly, June 2013.
(iii)	D	D	The National Assembly has not issued any recommendations to the executive to implement SAI recommendations in the 12 months from the date of the assessment.	No change since 2010 PEFA.	No recommendations are being issued by the legislature.	- Report of the Committee on the deliberation of the SAI Annual Activity Report for 2012, with the proposal of Conclusions for the National Assembly, June 2013.

### 3.4 Donor practices

#### D-1 Predictability of direct budget support

Rationale for this indicator:

*D-1 assesses the predictability of inflows of budget support and its implications for governments' ability to plan and implement its budget, including amounts offered by donors. This indicator is assessed using the last three financial years (2011, 2012, and 2013).*

Coordination of international cooperation processes is the responsibility of the European Integration Office (SEIO) established by the Serbian Government in March 2004. In June 2010 the Government amended by Decree the scope of work of the SEIO, expanding its coordinating

activities in the area of planning and using European funds, donations, and other forms of foreign development assistance.

The SEIO information system (ISDACON) provides information on assistance programs and development partners (donors), including information for the years 2000-2013. Table 33 displays the assistance data by each donor during the years 2011-2013, including all assistance programs, as well as assistance to the central and local governments, and to autonomous entities and public enterprises, as well as all financial (loans, grants and assistance in kind) and assistance modalities (budget support, investment loans and grants). Data can also be obtained aggregated by sectors.

**Table 33. Amount of Assistance by Donor (€ millions)**

Donor	2011	2012	2013	Total 2000-2013	Total 2011-2013
European Investment Bank	222.83	432.26	264.29	1,947.62	919.38
European Union	314.69	242.88	199.11	2,891.07	756.68
World Bank	142.85	81.33	62.31	1,062.35	286.49
Germany	60.83	53.21	127.99	698.08	242.03
Russia	-	-	229.78	384.78	229.78
China	47.34	117.39	30.57	196.40	195.30
European Bank for Reconstruction and Development	63.97	48.33	58.04	705.50	170.34
United States	26.63	21.47	18.55	630.26	66.65
Sweden	16.67	14.89	11.17	191.15	42.73
Norway	13.65	13.92	8.65	156.30	36.22
Switzerland	10.35	11.85	10.64	149.24	32.84
Council of Europe Development Bank	17.50	0.45	14.34	32.29	32.29
Italy	15.84	14.62	0.69	252.72	31.15
Turkey	3.12	6.63	5.66	17.68	15.41
Japan	8.35	2.33	3.48	103.98	14.16
Greece	3.20	3.49	5.74	63.55	12.43
France	4.18	3.93	2.16	39.39	10.27
Organization for Security and Cooperation in Europe	-	4.14	3.96	17.52	8.10
United Nations	3.91	1.48	0.77	12.62	6.16
Denmark	2.20	1.70	1.89	27.31	5.79
Spain	3.21	2.16	0.28	53.17	5.65
Luxembourg	1.00	1.80	1.75	16.00	4.55
UNICEF - United Nations Children's Fund	0.83	2.43	0.95	9.55	4.21
Czech Republic	1.44	1.51	0.69	28.09	3.64
UNDP	0.84	0.91	0.46	8.99	2.21
Austria	1.74	0.40	-	38.41	2.14
Netherlands	1.56	0.20	0.36	86.24	2.12
Slovak Republic	0.46	0.34	0.19	8.29	0.99
Kuwait	-	-	0.44	0.44	0.44
Finland	-	0.06	0.15	9.44	0.21
Poland	-	-	0.03	13.09	0.03
Slovenia	0.02	-	-	0.04	0.02
ECHO	-	-	-	105.19	-
United Kingdom	-	-	-	79.42	-
Canada	-	-	-	31.53	-
Republic of Korea	-	-	-	0.30	-
Bulgaria	-	-	-	0.05	-
<b>Total</b>	<b>989.21</b>	<b>1,147.71</b>	<b>1,097.87</b>	<b>10,162.43</b>	<b>3,234.79</b>

Source: European Integration Office (<http://www.seio.gov.rs>)  
[http://www.evropa.gov.rs/Documents/Home/DACU/12/83/238/R\\_OverviewOfInternationalAssistanceByDevelopmentPartners\\_total\\_eng.pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/83/238/R_OverviewOfInternationalAssistanceByDevelopmentPartners_total_eng.pdf)

Section 3.B of the Annual Budget Law identifies new assistance programs approved for implementation during the year, specifying the amount of financial assistance (borrowing) approved by the National Assembly. The approved amount for the years 2011, 2012, and 2013 are shown in Table 34 in Serbian Dinars.

**Table 34. Borrowing Approved in the Annual Budget Law (RSD 000 rounded)**

Donor	2011	2012	2013
European Investment Bank	73,700,000	44,710,000	71,760,000
European Union (Commission)	22,000,000	0	0
World Bank	31,476,927	20,631,040	47,100,000
Germany	23,980,000	7,942,600	7,295,600
Russia	0	0	169,560,000
China	29,161,005	21,857,800	170,338,092
European Bank for Reconstruction and Development	0	0	11,960,000
Azerbaijan	0	31,560,000	0
Turkey	53,313,625	34,544,000	3,768,000
France	0	2,104,000	0
Commercial banks and institutional investors	147,481	148,098,000	189,787,360
<b>Total</b>	<b>409,382,333</b>	<b>331,067,240</b>	<b>672,525,852</b>

*Source:* Budget Laws, 2011, 2012 and 2013.

**(i) Annual deviation of actual budget support from the forecast provided by donor agencies**

The only budget support identified was the Second Public Expenditure Development Policy Loan (a World Bank program, approved and disbursed in a single tranche in 2011, US\$ 100 million). The Budget Law 2013 announced a Programmatic Budget Support operation (US\$ 100 million) from the Russian Federation, but there is no evidence in the budgetary reports that a disbursement from this program was made on 2013. In general, the Serbian Government, does not request and does not expect that donors prepares and submit disbursement forecasts for such type of programs. There is no evidence that donors that executed budget support programs in the years 2011, 2012, and 2013, prepared and submitted a disbursement forecast before the beginning of the fiscal year. Such programs were formally approved during the year and the disbursement was made on the following months of such year.

**Score D.** No comprehensive and timely forecast for the year(s) was provided by donor agencies. Fifty percent of the expected cooperation (Russian program) was not implemented.

**(ii) Timeliness of disbursements by donors during the year**

As defined by the Loan Agreement of the “Second Public Expenditure Development Policy Loan” operation, “*This Operation is a single-tranche loan. The loan proceeds would be made available to the Borrower upon the effectiveness of the Loan Agreement between the Bank and the Republic of Serbia.*” Thus, disbursement is not subject to a disbursement forecast but to the accomplishment of the Loan conditions (effectiveness). Although the loan was fully disbursed during the year, it was not possible to agree and include in the budget the disbursement before the beginning of the fiscal year, which is a requirement to merit a C or higher score.

**Score D.** The requirements for score C (or higher) were not met, for the sole example of a potential data set.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>D-1</b>	<b>D</b>	<b>D</b>	<b>Scoring Method M1</b>			
(i)	D	D	No comprehensive and timely forecast for the year(s) was provided by donors Donor disbursements must be predictable on a quarterly basis	SEIO has an expanded scope of activities coordinating international assistance.	In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by donor agencies	- Budget Law 2011, 2012 and 2013. - SEIO and World Bank data. - "Second Public Expenditure Development Policy Loan Agreement".
(ii)	D	D	- Quarterly disbursement estimates must be agreed with donors before the beginning of the fiscal year. - Actual disbursements delays have not exceeded 50% in two of the last three years.		The requirements for score C (or higher) are not met.	

## **D-2 Financial information provided by donors for budgeting and reporting on project and program aid**

### Rationale for this indicator:

*D-2 assesses the predictability of inflows of donor support for programs and projects in respect of the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and reporting on actual donor flows.*

*The assessment is based on quantitative data for the donors providing project and program support and focuses on the last completed fiscal year (2013).*

This indicator assesses the predictability of donor support for programs and projects in respect to the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and reporting on actual donor aid. The assessment focuses on the last completed fiscal year (2013).

Section 4 of the 2013 Budget Law has information of the "Instrument for Pre-Accession Assistance" (IPA) program provided by the European Union to the Serbian Government. The IPA program has two components: (i) a five-year (2008-2012) program that supports transition and institutional strengthening and had assigned a total of €158,114,000 for 2013, and (ii) technical assistance to support cross-border activities, which had assigned for execution in 2013 a total of €11,066,000. The Budget Law also explicitly refers to the counterpart amount committed by the Government as co-financing for the IPA program. Thus, the global amount of donor assistance reported in the Budget Law for the year 2013 is €169,180,000 (equivalent to RSD 20,233,928,000), and the global amount of the committed counterpart by the Serbian Government for the year 2013 represents RSD 3,723,423,000, totaling RSD 23,957,351,000.

Information provided by the Treasury Administration regarding budgetary expenditures for 2013 shows the following totals: Amount in the Budget Law RSD 33,593,620,000; amount as modified during the year RSD 34,687,684,047; and amount finally executed RSD 25,135,928,799.

As reported by the Integration European Office (SEIO) through the ISDACON system, the total amount received in 2013 by the Serbian Public Sector was €1,097.87 million (see Table 34).

**(i) Completeness and timeliness of budget estimates by donors for project support**

Only the IPA program (a small portion of received aid) and a (RSD 519,287,000) program from the World Bank under the Ministry of Education are included in the Budget Law. Treasury information shows that the amount of donor cooperation included in the Law was just about 71 percent of the initial amount recorded in the Treasury database as a beginning balance. Although the difference in the initial budgetary amount probably includes remaining balances from the prior year, it is clear that the information mentioned in the Budget Law about assistance programs does not include the majority of donor programs and it is not accurate. Delays on project implementation are relevant, showing that project planning is not realistic, severely impacting budget planning and preparation of budget estimates.

**Score D.** Not all major donors provide budget estimates for disbursement of project aid, and estimates for project execution are not accurate.

**(ii) Frequency and coverage of reporting by donors on actual donor flows for project support**

As noted in the 2010 PEFA assessment, the only information on donor assistance is reported in the SEIO-ISDACON system, which only provides an overview of the received assistance on completed years, without a quarterly distribution; therefore there is no evidence that donors report the status of their programs on a quarterly basis. Additionally, more than 50 percent of the donor aid is not included in the budget.

**Score D:** Donors do not provide quarterly reports within two months of end-of-quarter on disbursements made for at least 50 percent of externally financed project estimates in the budget.

PI	2010	2014	Score's justification	Changes since the prior assessment	Framework requirements	Evidence
<b>D-2</b>	<b>D</b>	<b>D</b>	<b>Scoring Method M1</b>			
(i)	D	D	Not all major donors provide budget estimates for disbursement of projected aid.  Project planning is not realistic, severely impacting budget planning and preparation of budget estimates.	In October 2013 the Government issued two Decrees establishing the national IPA Coordinator responsible for managing the IPA program in a decentralized manner	Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming FY and at least 3 months prior to its start.	<ul style="list-style-type: none"> <li>- SEIO &amp; ISDACOM websites.</li> <li>- Budget Law 2011, 2012 and 2013.</li> <li>- Treasury information on budget execution.</li> <li>- Decree IPA I TAIB.</li> <li>- Decree IPA IIb CBC.</li> <li>- Year-end Budget.</li> <li>- Execution Reports 2011, 2012, 2013.</li> </ul>
(ii)	D	D	There is no evidence that donors report the status of their programs on a quarterly basis..		Donors do not provide quarterly reports within 2 months of end-of-quarter on disbursements made for at least 50% of externally financed project estimates in the budget.	

### D-3 Proportion of aid that is managed by use of national procedures

Rationale for this indicator:

*D-3 assesses the use of national procedures including procurement, payment/accounting, audit, disbursement and reporting, using donor funds. The assessment focuses on the last completed fiscal year (FY2013).*

As noted in the discussion of Indicators D-1 and D-2, the amount of donor assistance that is managed through the budget system is only a small portion of the totality of such assistance. However, with the available information it is not possible to identify the proportion of the assistance that was provided to the central government, exclusive of the assistance provided to local governments, autonomous entities, and public enterprises.

Programs that are included on the Budget Law are normally executed using all the government systems, although the Audit Report to the 2013 Financial Statements refers in a few instances to some oversights and errors in applying government procedures.

**(i) Overall proportion of aid funds to central government that are managed through national procedures**

The PEFA methodology requires calculating the average of the following four percentages:

- *“Percentage of all donor funds to government that use the national procurement procedures*
- *Percentage of all donor funds to government that use the national payment / accounting procedures*
- *Percentage of all donor funds to government that use national audit procedures*
- *Percentage of all donor funds to government that use the national reporting procedures.”*

Since it is not possible to identify precisely the amount of assistance received by the central government, and from Budget Execution Reports it is not possible to identify clearly the source of funds used on all expenditures, the calculation of the required percentages is not feasible.

**Score NR.** The available information on assistance provided to the central government is not adequate to score the indicator.

PI	2010	2014	Score’s justification	Changes since the prior assessment	Framework requirements	Evidence
<b>D-3</b>	<b>D</b>	<b>NR</b>	<b>Scoring Method M1</b>			
(i)	D	NR	The available information is not adequate to assess the indicator.	None.	Percent of donor funds using procurement, payment, accounting, audit and reporting government procedures.	- SEIO & ISDACOM websites. - Budget Law 2013. - Treasury information on budget execution. - Year-end Budget Execution Report 2013.

## 4. Government reform process

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### 4.1 Description of recent and ongoing reforms

The Consolidated Treasury Account (CTA) was introduced in 2010, enabling much improved management and control of public funds, and this was followed by further refinements to the system. Inclusion of sources of financing other than budget revenue source in 2012, bringing a number of extra-budgetary funds into the budget and capturing own source revenue - further enhanced the coverage and transparency of the budget and budget execution system. There are plans to integrate indirect budget beneficiaries into the budget execution system (i.e. FMIS) within the Treasury. Additionally there is a plan to integrate foreign currency funds currently held in separate accounts in the National Bank of Serbia into a CTA coverage, action that was delayed on some occasions in the past.

Revisions to Budget System Law from 2013 targeted improvements in commitment control and prevention of creation and accumulation of expenditure arrears. This primarily relates to the introduction of the software for commitments control (RINO<sup>168</sup>) which is linked to the payments software. Improvements in commitment controls and a new Law on Deadlines for Payments in Commercial Transactions from March 2013 are aimed at stabilizing and reducing the level of arrears.

Revisions of the BSL foresee establishment of the centralized staff register and salary processing system, but the new Register is still not being used for salary calculation and processing. The legislative procedure to adopt a new Law on Salaries of Civil Servants is underway. The new Law is intended to introduce uniformity in the area of salaries and replace the current complex system, which includes over 20 pay basis and 800 coefficients used to calculate the salaries, with pay grades.

Forecasts of fiscal aggregates on the basis of the main categories of economic classification were introduced and prepared for two years following the budget year on a rolling annual basis, but with limited considerations of such forecasts during the following budget preparation cycle. After piloting program budgeting in five institutions, it has been rolled out in 2015 across all levels of government, but it is intended in upcoming budget cycles to further enhance features of quality program budgeting, such as establishing, measuring and reporting performance indicators.

The government has recognized the need to improve management of public investment as one of the priorities in the medium-term. In line with that, a capital investment unit has been formed within the sector for budget preparation at the MoF. Amongst its first tasks will be to coordinate a working group for preparation of a by-law intended to regulate identification, evaluation, selection, implementation and monitoring of public investment, as well as development of accompanying methodology for this process.

There was significant strengthening of capacity of the SAI over the past years in terms of number of staff, organizational structure and development of an audit methodology. The

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<sup>168</sup> RINO stands for “Registry of Settlement of Pecuniary Commitments”. The purpose of the application is to improve the availability of information about the assumed commitments, meeting of the statutory deadlines for payment and to prevent accumulation of potential arrears. While it covers transactions between the public and the commercial sector, it leaves out the information on transactions between public sector entities.



institution conducted its first performance audit in 2013, and the most recent development relates to establishing quality control department within the institution.

Legislative framework for implementation of Public Internal Financial Control (PIFC) was established by provisions of Budget System Law. Central Harmonization Unit is coordinating implementation. Internal audit and financial management and control have been rolled out in large number of entities. Nevertheless, since those functions (and in particular financial management and control) have not been established across all entities, or have not been made fully functional, there are further ongoing efforts in this direction. Progress in this area will be vital in the EU accession process considering that PIFC is in the center of chapter 32 on financial controls, which is expected to be among first chapters to be opened during negotiation. In line with the above, a new PIFC strategy/policy paper is in draft stage with further refinements to the document expected in the coming months. A PIFC strategy/policy paper is expected to make integral part of broader PFM strategy/programme document which is currently under preparation. PIFC is likewise recognized as a vital part of the overall Public Administration Reform Strategy.

Considerations with regard to shift from cash basis to accrual basis of accounting in the coming period were expressed by relevant government's institutions, with the intention being to carefully assess existing gap and possible trajectory to accrual.

Currently efforts are invested to enhance the government's oversight and monitoring of state-owned enterprises (public enterprises), with a unit in the Ministry of Economy in charge of corporate strategy and governance and monitoring of financial and operational performance of state-owned enterprises, and a unit in the Ministry of Finance which analyzes fiscal risk arising from operations of state-owned enterprises and provides further support in monitoring of financial performance, such as monitoring mass salaries and the implementation of legislative acts.

A new Public Procurement Law was adopted in December 2012 and became effective on April 1, 2013. The law had an objective to bring the Serbia public procurement system close to international procurement standards, but more importantly a step forward towards the alignment with the EU Procurement Directives (2004/18). To ensure implementation of the Law, a number of implementing regulations and model tender documents have been adopted during 2013, and a few others remain to be prepared.

#### ***4.2 Institutional factors supporting reform planning and implementation***

Serbia Public Administration Reform (PAR) Strategy provides a support framework to the Public Financial Management reform. The PAR is one of the Government priorities that adopted the Republic of Serbia Public Administration Reform Strategy in 2014. The implementation of the PAR Strategy has been supported by the implementation of the PAR Action Plan, for the period 2004-2008 and 2009-2019. Also, more specific and targeted Public Financial Management Program 2015-2017 is being developed, and it is in draft version at the time of this report. The European Union (EU) assistance to Serbia's ongoing reform is based on the EU integration process and aims to structural reforms and additionally to meet EU requirements on PFM specific aspects as taxation and customs (Chapter 16 and 29), budgetary frameworks (Chapter 17), public procurement (Chapter 5) and internal control and external audit (Chapter 32).

Commitment to further advance PFM reform is strong at Government level and institutions as shown by the reform strategic plans and the number of ongoing reform activities that set up a foundation of an enabling environment for the PFM reform.

Although a strong commitment exists, sustainability of the reform process is a challenge with two fold implications. On one side, frequent changes in the Government's composition pose a threat to sustainability of reforms as the momentum may be lost due to changed priorities. On the other hand, large part of reform initiatives is linked to international funding or cooperation, therefore outcomes of such undertakings should be properly managed in order to ensure that achieved results are sustainable in terms of transferred know-how and continued implementation benefits.

## Annex 1. Summary of Scores for PI and Dimensions (2010 and 2014)

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
<b>A</b>	<b>Budget credibility</b>				
<b>PI-1</b>	<b>Aggregate expenditure out-turn compared to original approved budget</b>	<b>B</b>	<b>B</b>	In no more than 1 of the last 3 years has actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 percent of budgeted expenditure.	Standard Classification Framework and budget codes table uses updated rulebook enacted in December 2011.
<b>PI-2</b>	<b>Composition of expenditure out-turn compared to original approved budget</b>	<b>A</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Variance in expenditure composition, excluding contingency items	A	D	The variance on expenditures for two of the three years analysed was higher than 15%.	Standard Classification Framework and budget codes table uses updated rulebook enacted in December 2011.
(ii)	The average amount of expenditure actually charged to the contingency vote	NA	A	The amount charged to contingency expenditures was lower than 3%.	No apparent change in practice.
<b>PI-3</b>	<b>Aggregate revenue out-turn compared to original approved budget</b>	<b>C</b>	<b>C</b>	Revenue was between 92% and 116% of budgeted revenue in years 2011 and 2012.	- Revenue agencies were transferred to the new Ministry of Finance (2013) - Tax Reform adopted in 2012 - Budget System Law was amended
<b>PI-4</b>	<b>Stock and monitoring of expenditure payment arrears</b>	<b>B</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Stock of expenditure payment arrears and a recent change in the stock	B	C	Stock of arrears is higher than 6% of the total expenditures and there is not clear evidence of a significant reduction since 2012.	- Law on Late Deadlines for Payments in Commercial Transactions. - Several measures to control and prevent further accumulation of arrears, and to deal with the already accumulated stock. Different application of assessment criteria.
(ii)	Availability of data for monitoring the stock payment arrears	B	D	There is no comprehensive central government data for arrears from the last two years.	- Law on Late Deadlines for Payments in Commercial Transactions. - Several measures to control and prevent further accumulation of arrears, and to deal with the already accumulated stock. Different application of assessment criteria.
<b>B</b>	<b>Key cross-cutting Issues: comprehensiveness and transparency</b>				
<b>PI-5</b>	<b>Classification of the budget</b>	<b>B</b>	<b>A</b>	Budget formulation and execution are based on administrative, economic and sub-functional classification, using GFS/COFOG standards.	Updated standard classification framework and budget codes table were enacted in December 2011.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
<b>PI-6</b>	<b>Comprehensiveness of information included in budget documentation</b>	<b>B</b>	<b>C</b>	The budget documentation fulfils four of the nine information benchmarks required by the PEFA methodology.	There are no legal framework changes since the last assessment. Different practices re assessed (budget execution not reported as approved and fiscal deficit considerations).
<b>PI-7</b>	<b>Extent of unreported government operations</b>	<b>B+</b>	<b>NR</b>	<b>Scoring method: M1</b>	
(i)	Level of unreported extra-budgetary expenditure	A	NR	Existing data does not enable quantifying unreported operations.	No apparent change.
(ii)	Income/expenditure information on donor-funded projects	B	B	Complete income/expenditure information is included in fiscal reports for all loan financed projects	No apparent change.
<b>PI-8</b>	<b>Transparency of inter-governmental fiscal relations</b>	<b>B</b>	<b>B</b>		
(i)	Transparency and objectivity in the horizontal allocation among SNGs	C	A	97% of all budgeted transfers from the central government to SNGs were calculated and transferred in a timely manner applying transparent and systemic rules.	None in the regulatory framework. The 2010 score was affected by the economic situation of public finances following the global crisis that reduced the capacity to transfer funds to subnational level.
(ii)	Timeliness of reliable information to SNGs on their allocations	C	D	Reliable estimates on transfers are issued but only after SN government budgets preparation process have been finalized.	None in the regulatory framework.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	A	A	- The Public Financial Bulletin and the Year-end Budget Execution Report shows consolidated fiscal data of the General Government - SNGs report every month their budgetary information to the MoF.	None.
<b>PI-9</b>	<b>Oversight of aggregate fiscal risk from other public sector entities</b>	<b>D+</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Extent of central government monitoring of AGAs/PEs	D	D	There is no evidence of annual monitoring of AGAs and PEs in 2013. Monitoring activities from the Ministry of Economy started in 2014.	None.
(ii)	Extent of central government monitoring of SNGs' fiscal position	A	A	SNGs cannot generate unauthorized fiscal liabilities for the central government, which also regularly monitors their fiscal position. SNG consolidated fiscal position is included in the Public Financial Bulletin and in Public Debt Reports.	None.
<b>PI-10</b>	<b>Public access to key fiscal information</b>	<b>A</b>	<b>B</b>	Four of the six elements fulfil the information benchmarks required by the PEFA methodology.	There are no changes in legal framework since the last assessment; however, there are changes in the practice, especially on publishing budgetary

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
					information. The Budget Memorandum was replaced by the Fiscal Strategy.
<b>C</b>	<b>Budget cycle</b>				
<b>C(i)</b>	<b>Policy-based budgeting</b>				
<b>PI-11</b>	<b>Orderliness and participation in the annual budget process</b>	<b>A</b>	<b>B+</b>	<b>Scoring method: M2</b>	
(i)	Existence of and adherence to a fixed budget calendar	A	C	Delays from the Ministry of Finance in providing key information to entities for budget preparation on the period under consideration suggest that the budget calendar does not effectively determine dates of delivery, which are largely nominal in impact, and thus do not qualify for a B score.	None.
(ii)	Guidance on the preparation of budget submissions	A	A	A comprehensive and clear Fiscal Strategy is issued to MDAs, which embodies ceilings approved by the Government.	None.
(iii)	Timely budget approval by the legislature	A	A	There were no delays in budget approval by the legislature for the last three fiscal years. The budget was always approved before the beginning of the fiscal year on the period under analysis.	None.
<b>PI-12</b>	<b>Multi-year perspective in fiscal planning, spending policy and budgeting</b>	<b>C</b>	<b>C+</b>	<b>Scoring method: M2</b>	
(i)	Multi-year fiscal forecast and functional allocations	C	C	Economic and functional/sector classification are clear, but links between multi-year estimates and subsequent setting of annual budget ceilings are not clear	None.
(ii)	Scope and frequency of debt sustainability analysis	B	A	DSA for external and domestic debt is undertaken annually since 2010.	Since 2010, Public Debt Administration is in charge of this function.
(iii)	Existence of costed sector strategies	D	D	Some sector strategies may have been prepared, but none of them have substantially complete investment costs and recurrent expenditures.	None.
(iv)	Linkages among investment budgets	C	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are rarely included in forward budget estimates. A higher score requires that investments must be selected on the basis of relevant sector strategies and recurrent cost implications and included in forward budget estimates.	None.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
<b>C(ii)</b>	<b>Predictability and control in budget execution</b>				
<b>PI-13</b>	<b>Transparency of taxpayer obligations and liabilities</b>	<b>B+</b>	<b>C+</b>		
(i)	Clarity and comprehensiveness of tax liabilities	A	C	Although legislation and procedures for some major taxes are comprehensive and clear (e.g., VAT and PIT), significant discretionary powers exist for tax collection entities (particularly in the case of audits executed by the STA), leading to disputed resolutions.	New evidence about discretionary decisions were assessed and studied to modify the previous scoring. No apparent change. Consideration on discretionary decisions affected assessment.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Taxpayers have access to some information on tax liabilities and administrative procedures, but the information is limited and lacks comprehensiveness and consistency, and thus does not strongly foster an environment of voluntary compliance.	None.
(iii)	Existence and functioning of a tax appeals mechanism	B	C	Although the tax appeals mechanism in Serbia has been revamped and is in operation, it is too early to assess its efficacy, efficiency and fairness, including in following up on its decisions.	No apparent change. Independence of tax appeals considered. Following the PEFA methodology a C score corresponds for this cases.
<b>PI-14</b>	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>B</b>	<b>C+</b>	<b>Scoring method: M2</b>	
(i)	Controls in taxpayer registration system	B	B	In Serbia taxpayers are registered in a single database system with some linkages to other government registration systems and financial sector regulations.	None.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	B	C	Although Serbia tax collection administrations are entitled to charge penalties and seize assets, substantial changes are required if they are to have a real impact on compliance, especially in the case of STA.	No changes on legal framework. Consideration on the impact and consistency of measures changed.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	B	C	Although both STA and SCA are producing annual audit plans, they are facing implementation challenges with respect to their risk-assessment criteria and the degree to which plans are implemented as designed.	No changes on legal framework. Consideration on the application of risk approach changed.
<b>PI-15</b>	<b>Effectiveness in collection of tax payments</b>	<b>D+</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal	D	D	The debt collection ratio in recent years (2012 and 2013) was below 60% and the total amount of tax arrears is significant.	None.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
	year, which was collected during that fiscal year				
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All tax revenue is paid directly into accounts controlled by the Treasury.	None.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	A	Complete reconciliation of revenue collection, tax assessments, arrears and transfers to Treasury occurs at least monthly, within one month of the end of the period.	None.
<b>PI-16</b>	<b>Predictability in the availability of funds for commitment of expenditure</b>	<b>C+</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Extent to which cash flows are forecast and monitored	A	A	A cash flow forecast is updated monthly on the basis of actual cash inflows and outflows.	None.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	D	MDAs are not provided with a reliable indication of actual commitments in terms of resource availability.	None in the legal framework, but there is better information available to help assess the indicator.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of line ministries	A	A	There were no significant in-year adjustments to budget allocations in 2013. Routine administrative changes were not significant and were undertaken in a transparent and predictable manner.	None.
<b>PI-17</b>	<b>Recording and management of cash balances, debt and guarantees</b>	<b>A</b>	<b>A</b>	<b>Scoring method: M2</b>	
(i)	Quality of debt data recording and reporting	A	A	Domestic and foreign debt records include central and local government debt (guaranteed and non-guaranteed), reconciled monthly with creditors records. Data is considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced monthly.	None.
(ii)	Extent of consolidation of the Government's cash balances	A	A	All cash balances are calculated daily and consolidated through the Consolidated Treasury Account.	None.
(iii)	Systems for contracting loans and issuance of guarantees	B	A	Central government's contracting of loans and issuance of guarantees need to be approved by the MoF. - The Public Debt Law set clear and transparent criteria for approving loans.	The Fiscal Strategy Report was not in place at the time of the 2010 PEFA assessment.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
<b>PI-18</b>	<b>Effectiveness of payroll controls</b>	<b>C+</b>	<b>C+</b>	<b>Scoring method: M1</b>	
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	B	Sector for Payroll Processing manages its own electronic personnel database and payroll software, but the two are not directly linked. The payroll is supported by full documentation for all changes made to personnel records and checked against the previous month's payroll data.	No change. Registry amendments to the Budget System Law in 2013 are still not used for payroll processing.
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Changes to payroll and personnel records are made without delay within the same month, and retroactive adjustments are reported as rare.	None.
(iii)	Internal controls of changes to personnel records and the payroll	A	A	Authority to change records in the personnel data base and payroll in the Treasury Administration is restricted to authorized, staff on the basis of documentary proof.	None.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	C	C	Despite the fact that centralized payroll is audited each year and there is increased audit coverage at individual DBBs and IBBs, not all central government entities have been subject to payroll audit (which would warrant a score of B). Accordingly, payroll audits conducted in the last three years are considered partial.	Increased (internal/external) audit coverage on payroll process, but not all central government entities are covered by annual payroll audits.
<b>PI-19</b>	<b>Competition, value for money and controls in procurement</b>	<b>B</b>	<b>B+</b>	<b>Scoring method: M2</b>	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	A	B	Five out of six requirements are met.	The method of scoring has changed since 2010;* therefore direct comparison of scores is not valid. However, considerable progress has been made in public procurement reform. The current PPL increased transparency, further defined the system for public procurement, regulated procurement planning, organized a register of bidders, and improved the procurement complaints mechanism (i.e., established an independent entity – the Republic Commission for Protection of Rights in Public Procurement Procedures).
(ii)	Use of competitive procurement methods	B	A	Appropriate justification for the use of less competitive methods seems to be available in all cases.	
(iii)	Public access to complete, reliable and timely procurement information	C	B	Mandates publishing of three of four key procurement information elements.	
(iv)	Existence of an independent administrative procurement complaints system	NA	A	All seven requirements are met.	
<b>PI-20</b>	<b>Effectiveness of internal controls for non-salary expenditure</b>	<b>C+</b>	<b>C+</b>	<b>Scoring method: M1</b>	
(i)	Effectiveness of expenditure commitment controls	A	A	Expenditure commitment controls in place on the level of the Treasury Administration effectively limit commitments to available budget appropriation and to actual cash availability.	No change, formal controls integrated into application to limit commitments are functioning as foreseen in the legislation.



No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Comprehensiveness, relevance and understanding of other internal control rules / procedures	C	C	Comprehensiveness of the internal control rules and procedures has improved and would merit a score of B, but improving staff understanding requires further training and the relevance of the rules is undermined by widespread infringements evidenced in the external audit reports; accordingly the score is C.	Evident progress has been made in introducing a comprehensive internal control rules and procedures since 2010 PEFA, but SAI continually reports major concerns regarding the staff understanding and infringements of the established internal controls.
(iii)	Degree of compliance with rules for processing and recording transactions	B	C	While the rules for processing and recording of transactions are complied with on the level of the Treasury Administration, findings documented in the work of the SAI and the Budget Inspection Unit point to the need for improvement in compliance with processing and recording of transactions on the level of DBBs and IBBS.	Since no substantial external audit work was available for the 2010 PEFA assessment, the previous rating was based only on the degree of formal introduction of FMC to date.
<b>PI-21</b>	<b>Effectiveness of internal audit</b>	<b>B</b>	<b>C+</b>	<b>Scoring method: M1</b>	
(i)	Coverage and quality of the internal audit function	B	C	Internal audit is operational for the majority of central government entities and substantially meets professional standards as evidenced by CHU monitoring of annual reports submitted by IA units. A system-based audit approach is embedded in the methodology and the training provided by CHU, but there is no evidence of allocation of 50% of staff time to systemic issues.	No change. PEFA 2010 did not take into account the availability of evidence of systemic focus.
(ii)	Frequency and distribution of reports	B	C	Internal audit reports are issued regularly for most audited government entities and distributed to the audited entity, but are only submitted to the SAI upon request.	No change. PEFA 2010 overrated the score on this dimension (in the light of Clarification 21-b of the Fieldguide).
(iii)	Extent of management response to internal audit findings	B	B	Close to 62% of audit recommendations are implemented within 12 months, indicating prompt and comprehensive action by many managers.	No change.
<b>C(iii)</b>	<b>Accounting, recording and reporting</b>				
<b>PI-22</b>	<b>Timeliness and regularity of accounts reconciliation</b>	<b>A</b>	<b>A</b>	<b>Scoring method: M2</b>	
(i)	Regularity of bank reconciliations	A	A	Statements for Treasury-managed bank accounts are generated daily and made available for reconciliation with spending units' auxiliary records and foreign currency accounts are reconciled within 4 weeks to meet the requirements of monthly execution reporting to the Treasury.	No change in score. PEFA 2010 overrated the score on this dimension by not including the foreign currency accounts for IFI-financed projects held in commercial banks/NBS.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(ii)	Regularity of reconciliation, clearance of suspense accounts and advances	A	A	Reconciliation and clearance of advances take place within the same period and no balances are brought forward.	No change.
<b>PI-23</b>	<b>Availability of information on resources received by service delivery units</b>	A	A	Data on salaries for teachers (primary and secondary schools) and data on capital investments and special programs in the health sector are collected and disseminated regularly in the budget execution reports by the Treasury, as they are executed through the CTA. Data on other expenditure in primary education and health care providers is available at least annually in the reports of the self-governance units and the Republican Fund for Health Insurance, respectively.	No change.
<b>PI-24</b>	<b>Quality and timeliness of in-year budget reports</b>	A	C+	<b>Scoring method: M1</b>	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	A	B	The expenditure is recorded in the FMIS system at the registration of the assumed commitments and at the payment stage, but the comparison to the original approved budget is limited to economic classification.	No apparent change in performance. PEFA 2010 was not clear which sets of in-year budget execution reports were used for the assessment and thus the basis for assignment of its score is unclear.
(ii)	Timeliness of the issue of reports	A	C	Reports are not produced for the first quarter, but are prepared within 15 days from the end of the covered period for second and third quarters.	No change in performance. This assessment takes into account MoF generated reports of which the statutory recipients are the Government and the Legislature.
(iii)	Quality of information	A	A	CTA records on budget execution, which serve as the basis for preparation of the in-year budget execution reports, provide information with no material concerns regarding accuracy.	No change.
<b>PI-25</b>	<b>Quality and timeliness of annual financial statements</b>	A	D+	<b>Scoring method: M1</b>	
(i)	Completeness of the financial statements	A	A	The Final Public Account of the Budget of the Republic of Serbia is prepared annually and contains full information on revenue, expenditure and financial assets/ liabilities.	No change.
(ii)	Timeliness of submission of the financial statements	A	B	The Final Account of the Budget of the Republic of Serbia for 2013 was submitted for external audit within 7 months of the end of the fiscal year.	No apparent change. The draft Final Account of the Budget of the Republic of Serbia for 2013 was submitted for audit on July 3, 2014.
(iii)	Accounting standards used	A	D	While the national accounting framework is applied for all financial statements and the statements have been submitted in a consistent format, the conflicting by-laws effectively	No change in performance. There is no evidence that disclosure of the accounting standards was not addressed in PEFA 2010. .

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
				prevent disclosure of the accounting standards used.	
<b>C(iv)</b>	<b>External scrutiny and audit</b>				
<b>PI-26</b>	<b>Scope, nature and follow-up of external audit</b>	<b>C</b>	<b>B</b>	<b>Scoring method: M1</b>	
(i)	Scope / nature of audit performed (incl. adherence to auditing standards)	C	B	Broad range of financial and regularity audits are conducted, covering 88% of central government expenditures and expenses in 2013 (the last FY audited). In 2013, the first performance audit was initiated. ISSAI, although not yet published in the Official Gazette, are applied in practice by the auditors.	The higher score reflects the substantially higher audit coverage as a result of increased audit capacity (167 auditors at end-2013 compared to 8 auditors at end-2009). The range of audits has been increased, with the first pilot performance audit in 2013.
(ii)	Timeliness of submission of audit reports to the legislature	C	B	The SAI submits its report within six months from the receipt of the final account for auditing, which as is considered a financial audit implies a score of B, despite the fact that the Audit Report on the Final Account of the Republic of Serbia is presented to the National Assembly only in December (within 12 months of end of the accounting period covered).	Audit opinion on Financial Statements submitted within six months from the receipt of the final account.
(iii)	Evidence of follow-up on audit recommendations	C	A	Follow-up activities of the auditees entail sending of a formal response within the statutory deadline and reporting on the status of the plan to implement the recommendations. SAI conducts follow-up activities for all response reports which are judged not authentic.	Higher score on this dimension reflects the increased capacity of the SAI to enforce the requirements for formal management response. Systemic follow-up is carried out by the SAI where these responses are deemed not authentic.
<b>PI-27</b>	<b>Legislative scrutiny of the annual budget law</b>	<b>C+</b>	<b>D+</b>	<b>Scoring method: M1</b>	
(i)	Scope of the legislature's scrutiny	B	A	Legislative review includes medium-term fiscal framework and medium-term priorities contained in the Fiscal Strategy and details of expenditure and revenue in the annual budget proposal.	Through amendments to Budget System Law, the Fiscal Council was established and the Memorandum on budget, economic and fiscal Policy was replaced with the Fiscal Strategy as the principal medium-term budgeting instrument.
(ii)	Extent to which the legislature's procedures are well-established and respected	B	C	The legislature's procedures for budget review are firmly established (and include internal organizational arrangements for legislative oversight). Although the procedures were respected for the annual budget proposal, such is not the case for adoption of the final account. The procedures are therefore considered to be partially respected.	No change. 2010 PEFA did not account for respect for the procedures for adoption of the final account.

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	C	C	The time for review of the initial annual budget proposal was statutory 45 days in the last completed period considered for this assessment (2013).	No change. Score C is assigned based on the score C for dimension (ii) within this indicator (reference Clarification 27-b, PEFA Fieldguide).
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	B	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but leave room for some administrative reallocations.	No change in performance.
<b>PI-28</b>	<b>Legislative scrutiny of external audit reports</b>	<b>D+</b>	<b>D</b>	<b>Scoring method: M1</b>	
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	B	D	There is no evidence of deliberation of the Audit Report on the Final Account of the Budget of Republic of Serbia in fiscal years 2011, 2012 and 2013 in the Committee or the National Assembly.	No change. This dimension in PEFA 2010 was rated without regard to the PEFA 2010 Fieldguide Clarification PI-28, 28-b.
(ii)	Extent of hearings on key findings undertaken by legislature	D	D	SAI representatives actively participated in activities foreseen by the Rules of Procedure of the National Assembly, but the legislative body did not conduct further in-depth hearings involving auditees.	No change since 2010 PEFA.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	D	D	The National Assembly has not issued any recommendations to the executive to implement SAI recommendations in the 12 months from the date of the assessment.	No change since 2010 PEFA.
<b>D</b>	<b>Donors practices</b>				
<b>D-1</b>	<b>Predictability of direct budget support</b>	<b>D</b>	<b>D</b>	<b>Scoring method: M1</b>	
(i)	Annual deviation of actual budget support from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	D	D	No comprehensive and timely forecast for the year(s) was provided by the donors Donor disbursements must be predictable on a quarterly basis	SEIO has an expanded scope of activities coordinating international assistance.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	D	- Quarterly disbursement estimates must be agreed with donors before the beginning of the fiscal year. - Actual disbursements delays have not exceeded 50% in two of the last three years.	SEIO has an expanded scope of activities coordinating international assistance.
<b>D-2</b>	<b>Financial information provided by donors for budgeting and</b>	<b>D</b>	<b>D</b>	<b>Scoring method: M1</b>	

No.	Indicator	Score 2010	Score 2014	Commentary	
				Basis for 2014 score	Performance change
	<b>reporting on project and program aid</b>				
(i)	Completeness and timeliness of budget estimates by donors for project support	D	D	Not all major donors provide budget estimates for disbursement of projected aid.  Project planning is not realistic, impacting severely budget planning and preparation of budget estimates.	In October 2013 the Government issued two Decrees establishing the national IPA Coordinator responsible for managing the IPA program in a decentralized manner
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	D	There is no evidence that donors report the status of their programs on a quarterly basis..	In October 2013 the Government issued two Decrees establishing the national IPA Coordinator responsible for managing the IPA program in a decentralized manner
<b>D-3</b>	<b>Overall proportion of aid funds to central government that are managed through national procedures</b>	<b>D</b>	<b>NR</b>	The available information is not adequate to assess the indicator.	No change.

## Annex 2. Budget Execution 2011 – 2013 – Primary Expenditures

2011						
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Ministry Of Finance	695,523,719,000	567,689,748,501	612,276,522,818	-44,586,774,317	44,586,774,317	7.3%
Ministry Of Education And Science	143,347,704,000	176,948,587,550	126,190,425,087	50,758,162,463	50,758,162,463	40.2%
Ministry Of Labour And Social Policy	118,031,749,000	117,791,883,751	103,904,535,368	13,887,348,383	13,887,348,383	13.4%
Ministry Of Defence	73,335,470,000	75,865,598,089	64,557,951,575	11,307,646,513	11,307,646,513	17.5%
Ministry Of The Interior	53,421,379,000	57,987,805,493	47,027,377,047	10,960,428,447	10,960,428,447	23.3%
Ministry Of Economy And Regional Development	46,721,872,000	48,809,993,444	41,129,733,676	7,680,259,768	7,680,259,768	18.7%
Ministry Of Agriculture, Trade, Forestry And Water Management	32,593,228,000	28,192,230,939	28,692,146,309	-499,915,371	499,915,371	1.7%
Ministry For National Investment Plan	32,394,729,000	87,435,031	28,517,405,644	-28,429,970,613	28,429,970,613	99.7%
Ministry Of Infrastructure And Energy	23,418,188,000	21,537,055,218	20,615,266,349	921,788,869	921,788,869	4.5%
Ministry Of Environment, Mining And Spatial Planning	21,717,051,000	8,480,598,200	19,117,738,344	-10,637,140,145	10,637,140,145	55.6%
Ministry Of Science And Technological Development	19,109,763,000	2,460,890,014	16,822,516,504	-14,361,626,490	14,361,626,490	85.4%
Ministry Of Health	15,598,136,000	5,381,090,765	13,731,195,949	-8,350,105,184	8,350,105,184	60.8%
Ministry Of Justice	13,482,190,000	8,464,806,327	11,868,507,411	-3,403,701,083	3,403,701,083	28.7%
Ministry Of Culture, Media And Information Society	6,121,888,000	8,225,154,427	5,389,159,558	2,835,994,869	2,835,994,869	52.6%
Ministry Of Trade And Services	6,180,638,000	156,936,126	5,440,877,773	-5,283,941,648	5,283,941,648	97.1%
Republic Geodetic Authority	5,041,991,000	4,723,329,495	4,438,515,371	284,814,125	284,814,125	6.4%
Ministry For Kosovo And Metohija	4,489,369,000	3,974,454,687	3,952,036,668	22,418,019	22,418,019	0.6%
Sum Of Rest	57,184,355,000	67,234,276,048	50,339,962,653.3	16,894,313,394.2	16,894,313,394.2	33.6%
Allocated expenditure	1,367,713,419,000	1,204,011,874,103	1,204,011,874,103	0	231,106,349,701	
Contingency	0	0				
Total expenditure	1,367,713,419,000	1,204,011,874,103				
Overall (PI-1) variance						12.0%
Composition (PI-2) variance						19.2%
Contingency share of budget						0.0%

2012						
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Ministry Of Finance And Economy	681,919,169,000	676,445,673,797	682,658,081,151	-6,212,407,354	6,212,407,354	0.9%
Ministry Of Education, Science And Technology Development	163,165,222,000	193,135,824,042	163,342,024,135	29,793,799,907	29,793,799,907	18.2%
Ministry Of Labour, Employment And Social Policy	118,499,672,000	129,305,882,107	118,628,075,558	10,677,806,549	10,677,806,549	9.0%
Ministry Of Interior	61,841,294,000	70,110,513,035	61,908,303,824	8,202,209,211	8,202,209,211	13.2%
Ministry Of Defence	53,247,830,000	54,014,381,154	53,305,528,141	708,853,012	708,853,012	1.3%
Ministry Of Agriculture, Trade, Forestry And Water Management	49,485,490,000	40,367,279,785	49,539,111,355	-9,171,831,570	9,171,831,570	18.5%
Ministry Of Economy And Regional Development	44,923,268,000	23,408,388,921	44,971,945,835	-21,563,556,914	21,563,556,914	47.9%
Ministry For Infrastructure And Power Industry	25,927,536,000	16,651,611,391	25,955,630,490	-9,304,019,099	9,304,019,099	35.8%
Ministry Of Justice And State Administration	18,050,537,000	12,662,659,494	18,070,096,153	-5,407,436,658	5,407,436,658	29.9%
Ministry Of Natural Resources, Mining And Spatial Planning	17,523,670,000	7,400,054,814	17,542,658,252	-10,142,603,437	10,142,603,437	57.8%
Courts	17,501,662,000	18,176,470,454	17,520,626,404	655,844,050	655,844,050	3.7%
Ministry Of Health	10,318,892,000	7,459,205,821	10,330,073,317	-2,870,867,496	2,870,867,496	27.8%
Ministry Of Culture And Information	7,405,771,000	6,998,075,077	7,413,795,726	-415,720,648	415,720,648	5.6%
The Republican Directorate For Commodity Reserves	6,050,720,000	7,396,754,022	6,057,276,423	1,339,477,599	1,339,477,599	22.1%
Ministry Of Foreign Affairs	5,675,654,000	6,704,486,340	5,681,804,010	1,022,682,330	1,022,682,330	18.0%
National Geodetic Authority	5,212,088,000	5,029,519,786	5,217,735,700	-188,215,915	188,215,915	3.6%
Ministry For Kosovo And Metohija	4,666,306,000	2,077,657,420	4,671,362,303	-2,593,704,883	2,593,704,883	55.6%
Sum Of Rest	32,945,566,000	48,450,956,385	32,981,265,068	15,469,691,316	15,469,691,316	47.0%
Allocated expenditure	1,324,360,347,000	1,325,795,393,846	1,325,795,393,846	0	135,740,727,949	
Contingency	0	0				
Total expenditure	1,324,360,347,000	1,325,795,393,846				
Overall (PI-1) variance						0.1%
Composition (PI-2) variance						10.2%
Contingency share of budget						0.0%

2013						
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Ministry Of Finance And Economy	759,701,993,000	523,028,219,617	767,004,661,764	-243,976,442,147	243,976,442,147	31.8%
Ministry Of Education, Science And Technology Development	167,492,984,000	195,427,205,041	169,103,017,663	26,324,187,378	26,324,187,378	15.6%
Ministry Of Labour, Employment And Social Policy	141,326,059,000	139,376,093,364	142,684,561,947	-3,308,468,583	3,308,468,583	2.3%
Department Of The Interior	72,411,603,000	70,154,222,818	73,107,662,713	-2,953,439,895	2,953,439,895	4.0%
Ministry Of Defence	59,942,039,000	55,612,486,657	60,518,234,482	-4,905,747,824	4,905,747,824	8.1%
Ministry Of Agriculture, Forestry And Water Management	48,434,882,000	37,101,554,378	48,900,464,430	-11,798,910,052	11,798,910,052	24.1%
Ministry Of Transportation	25,241,703,000	23,170,675,714	25,484,339,978	-2,313,664,264	2,313,664,264	9.1%
Courts	19,297,743,000	18,753,576,753	19,483,243,402	-729,666,648	729,666,648	3.7%
Ministry Of Justice And State Administration	14,222,483,000	12,254,032,774	14,359,197,242	-2,105,164,469	2,105,164,469	14.7%
Ministry Of Regional Development And Local Government	10,830,324,000	3,914,555,142	10,934,430,965	-7,019,875,823	7,019,875,823	64.2%
Ministry Of Health	10,152,003,000	5,118,758,320	10,249,589,575	-5,130,831,254	5,130,831,254	50.1%
Ministry Of Energy, Development And Environment	8,533,114,000	7,921,192,279	8,615,138,933	-693,946,654	693,946,654	8.1%
Ministry Of Foreign Affairs	6,849,134,000	6,435,563,254	6,914,971,601	-479,408,347	479,408,347	6.9%
Ministry Of Culture And Information	6,023,792,000	6,255,460,040	6,081,695,965	173,764,075	173,764,075	2.9%
The Republican Directorate For Commodity Reserves	5,149,832,000	2,086,137,284	5,199,334,986	-3,113,197,702	3,113,197,702	60.5%
Ministry Of Youth And Sports	4,827,853,000	4,452,870,677	4,874,260,949	-421,390,272	421,390,272	8.7%
Security - Information Agency	4,758,852,000	4,345,172,643	4,804,596,674	-459,424,030	459,424,030	9.7%
Sum Of Rest	36,559,270,000	299,822,324,100	36,910,697,588	262,911,626,512	262,911,626,512	719.1%
Allocated expenditure	1,401,755,663,000	1,415,230,100,857	1,415,230,100,857	0	578,819,155,931	
Contingency	0	0				
Total expenditure	1,401,755,663,000	1,415,230,100,857				
Overall (PI-1) variance						1.0%
Composition (PI-2) variance						40.9%
Contingency share of budget						0.0%



### Annex 3. Sources of Information for Performance Indicators

	PEFA RESULTS: Credibility of budget	Information sources
PI-1	Aggregate expenditure out-turn compared with original approved budget	<ul style="list-style-type: none"> <li>Budget Law (2011, 2012, 2013)</li> <li>Year-end Budget Execution Reports (2011, 2012, 2013)</li> </ul>
PI-2	Deviations of budgetary expenditure in comparison with original approved budget	<ul style="list-style-type: none"> <li>Data provided by the Budget laws and the Year-end reports for years 2011, 2012 and 2013.</li> </ul>
PI-3	Deviations in aggregate revenue out-turn compared with original budget	<ul style="list-style-type: none"> <li>Budget Law (2011, 2012, 2013)</li> <li>Budget Year-end Report (2011, 2012, 2013)</li> </ul>
PI-4	Stock and monitoring of expenditure payment arrears	<ul style="list-style-type: none"> <li>Assessment of the Draft 2013 Budget Law, Fiscal Council, 2012</li> <li>Law on Late Payments in Commercial Transactions</li> <li>Data provided by the Treasury and MFAD to the PEFA mission</li> </ul>
PI-5	Budgetary classification	<ul style="list-style-type: none"> <li>Budget laws and the Year-end reports for years 2011, 2012 and 2013</li> <li>Rulebook on Budget Execution System</li> <li>Budget Classification and Chart of Accounts</li> </ul>
PI-6	Comprehensiveness of information included in budgetary documentation	<ul style="list-style-type: none"> <li>Budget System Law</li> <li>Budget Memorandum 2014</li> </ul>
PI-7	Extent of unreported government operations	<ul style="list-style-type: none"> <li>14 Annual Budget Law 2013</li> <li>Year-end Budget Process in the Republic of Serbia, Fiscal Council, December 2014 Execution Report 2013</li> <li>Quarterly Budget Execution Reports from DBB</li> </ul>
PI-8	Transparency of inter-governmental fiscal relations	<ul style="list-style-type: none"> <li>Budget Laws 2011, 2012, 2013</li> <li>Budget System Law</li> <li>Year-end Budget Execution Reports 2011, 2012, 2013</li> <li>Fiscal Strategy 2013</li> </ul>
PI-9	Oversight of aggregate fiscal risk caused by other public sector bodies	<ul style="list-style-type: none"> <li>Database of PEs provided by the Directorate for Control and Supervision of Public Enterprises of the Ministry of Economy</li> <li>Public Finance Bulletin</li> <li>Public Debt Reports</li> <li>Budget System Law Art. 35, 36 and 89</li> </ul>
PI-10	Public access to key fiscal information	<ul style="list-style-type: none"> <li>Public entities' websites (Government, SAI, National Assembly, Ministries of Finance, Education and Health, Public Procurement).</li> </ul>
PI-11	Orderliness and participation in annual budget process	<ul style="list-style-type: none"> <li>Budget System Law</li> <li>Fiscal Council Report on Budgetary Process</li> <li>Annual Budget Laws 2011, 2012 and 2013</li> </ul>

	PEFA RESULTS: Credibility of budget	Information sources
		<ul style="list-style-type: none"> <li>• Fiscal Strategy 2013-2015</li> <li>• Budget Memorandum 2011, 2012</li> <li>• National Assembly website, December 28, 2014</li> </ul>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<ul style="list-style-type: none"> <li>• Fiscal Council Reports</li> <li>• Budget System Law</li> <li>• Fiscal Strategy</li> <li>• National Bank of Serbia reports</li> <li>• Fiscal Strategy</li> <li>• Debt Management Reports</li> </ul>
PI-13	Transparency of taxpayers' obligations and liabilities	<ul style="list-style-type: none"> <li>• Summary of interviews</li> <li>• Websites of tax agencies</li> <li>• IMF reports</li> <li>• Specialized publications</li> </ul>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	<ul style="list-style-type: none"> <li>• Summary of interviews</li> <li>• STA and SCA documentation IMF reports</li> <li>• IMF reports</li> </ul>
PI-15	Effectiveness of tax collection	<ul style="list-style-type: none"> <li>• Summary of interviews</li> <li>• STA and SCA documentation</li> </ul>
PI-16	Predictability in the availability of funds for commitment of expenditure	<ul style="list-style-type: none"> <li>• Budget System Law</li> <li>• Rulebook of Budget Execution</li> <li>• Fiscal Council Report</li> </ul>
PI-17	Recording and management of cash, debt and guarantee balances	<ul style="list-style-type: none"> <li>• Public Debt Law</li> <li>• Quarterly Debt Statistic Reports</li> <li>• Monthly Debt Reports</li> <li>• MoF Public Financial Bulletin</li> <li>• Year-end Budget Execution Report</li> <li>• Treasury practice</li> <li>• Fiscal Strategy 2013-2015</li> </ul>
PI-18	Effectiveness of payroll controls	<ul style="list-style-type: none"> <li>• Budget System Law</li> <li>• Information from the Sector for Payroll Processing</li> <li>• Decree on Contents of Information, Manner of Filling of Forms, Manner of Submission, and Processing of Data Entered into the Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector</li> <li>• Information from the Sector for Payroll Processing</li> </ul>

PEFA RESULTS: Credibility of budget		Information sources
		<ul style="list-style-type: none"> <li>• Information from Treasury Administration</li> <li>• Audit trail information provided by the Treasury Administration</li> <li>• CHU Annual Report (2011, 2012, 2013)</li> <li>• SAI Annual Activity Report (2011, 2012, 2013)</li> </ul>
PI-19	Competition, value for money and controls in procurements	<ul style="list-style-type: none"> <li>• The Public Procurement Law of 2012</li> <li>• The Law on Post Flood Rehabilitation</li> <li>• PPA 2013 Annual Report and Semi-annual Report, January 1-June 30, 2014</li> <li>• Reports by the Republic Commission for periods: April 1-June 30, 2013; July 1-December 31 2013; January 1-June 30, 2014</li> </ul>
PI-20	Effectiveness of internal controls on non-salary expenditure	<ul style="list-style-type: none"> <li>• Budget System Law</li> <li>• IMF report “Strengthening Budget Planning and Budget Execution” (December 2013)</li> <li>• CHU Annual Report, 2011/2012/2013</li> <li>• SAI Annual Activity Report, 2013</li> <li>• EU Screening Report, Chapter 32</li> <li>• SAI Annual Activity Report, 2013</li> <li>• Budget Inspection Annual Report, 2013</li> </ul>
PI-21	Effectiveness of internal audit	<ul style="list-style-type: none"> <li>• 2013 CHU Annual Report</li> <li>• Internal Audit Manual</li> <li>• Information provided to PEFA team by CHU</li> <li>• Internal Audit Manual (standards)</li> <li>• Internal audit units functional review reports</li> </ul>
PI-22	Timeliness and regularity of accounts reconciliation	<ul style="list-style-type: none"> <li>• Information from the Treasury Administration</li> <li>• Decree on Compensation of Costs and Severance Payment of Civil Servants and Employees</li> </ul>
PI-23	Availability of information on resources received by service delivery units	<ul style="list-style-type: none"> <li>• Information from the Treasury Administration</li> <li>• Information from the Ministry of Education</li> <li>• Information from the Ministry of Health</li> <li>• Law on Health Care</li> </ul>
PI-24	Quality and timeliness of in-year budget reports	<ul style="list-style-type: none"> <li>• Budget System Law</li> <li>• IMF report “Strengthening Budget Planning and Budget Execution” (December 2013)</li> <li>• Ad hoc reports generated by the Treasury Administration</li> </ul>

	PEFA RESULTS: Credibility of budget	Information sources
		<ul style="list-style-type: none"> <li>• Template for in-year budget execution report of DBBs and mandatory social insurance organizations</li> <li>• Government in-year budget execution reports for 2013 (six-month and nine-month)</li> <li>• Information received from the Treasury</li> <li>• Government in-year budget execution reports for 2013 (six-month and nine-month)</li> </ul>
PI-25	Quality and timeliness of annual financial statements	<ul style="list-style-type: none"> <li>• Proposal of the Law on the Final Account of the Budget of Republic of Serbia</li> <li>• SAI Audit Report on the Final Account of the Budget of Republic of Serbia, 2012 and 2013</li> <li>• Information received from Treasury</li> <li>• Information received from the SAI</li> </ul>
PI-26	Scope, nature and follow-up of external audit	<ul style="list-style-type: none"> <li>• SAI Annual Activity Report 2013</li> <li>• Information/data provided by the SAI</li> <li>• EU Screening Report, Chapter 32-</li> <li>• Information/data provided by the SAI</li> <li>• Data provided by the Committee for Budget and Finance</li> <li>• Audit Report of the Final Account of the Budget of RoS for 2011, 2012, 2013</li> </ul>
PI-27	Legislative scrutiny of the annual budget law	<ul style="list-style-type: none"> <li>• Analysis of Fiscal Strategy / Analysis of Budget Proposal produced by the Fiscal Council</li> <li>• Constitution of the Republic of Serbia</li> <li>• Rules of Procedure of the National Assembly</li> <li>• Budget System Law</li> </ul>
PI-28	Legislative scrutiny of external audit reports	<ul style="list-style-type: none"> <li>• SAI Annual Activity Report, 2013</li> <li>• “Kvorum,” Bulletin of the National Assembly, no.7</li> <li>• Report of the Committee on the deliberation of the SAI Annual Activity Report for 2012, with the proposal of Conclusions for the National Assembly, June 2013</li> <li>• Information from the Committee on Finance, National Assembly</li> </ul>
D-1	Predictability of direct budgetary support	<ul style="list-style-type: none"> <li>• Budget Law 2011, 2012 and 2013.</li> <li>• SEIO and World Bank data</li> <li>• “Second Public Expenditure Development Policy Loan Agreement”</li> </ul>
D-2	Financial information provided by donors for budgeting and reporting on projects and programs	<ul style="list-style-type: none"> <li>• SEIO &amp; ISDACOM websites</li> <li>• Budget Law 2011, 2012 and 2013</li> </ul>

	PEFA RESULTS: Credibility of budget	Information sources
		<ul style="list-style-type: none"> <li>• Treasury information on budget execution</li> <li>• Decree IPA I TAIB</li> <li>• Decree IPA IIb CBC</li> <li>• Year-end Budget Execution Reports 2011, 2012, 2013</li> </ul>
D-3	Proportion of aid managed through use of national procedures	<ul style="list-style-type: none"> <li>• SEIO &amp; ISDACOM websites</li> <li>• Budget Law 2013</li> <li>• Treasury information on budget execution</li> <li>• Year-end Budget Execution Report 2013</li> </ul>

## Annex 4. Stakeholders Interviewed

Institution	Position	Name
EU Delegation to the Republic of Serbia	Head of Operations – Section 2	Mr. José Gómez Gómez
	Project Managers	Mr. Vladan Petrović, Ms. Danka Bogetić
Swiss Cooperation Office	Deputy Director of Cooperation	Ms. Gabriela Schafroth
	National Programme Officer	Ms. Ana Pajković
	Consultant	Mr. Sinisa Jovanović
National Assembly, Committee for Finances, Budget of the Republic and Control of Spending of Public Assets, Secretariat	Staff	Ms. Aleksandra Saso, Mr. Drago Pavlović, Ms. Vesna Lalović, Mr. Marko Manojlović
Fiscal Council	Member	Mr. Nikola Altiparmakov
MoF, Budget Department	Assistant Minister and staff	Ms. Mirjana Cojbašić, Ms. Nada Mirković, Mr. Miroslav Bunčić
MoF	State Secretary	Mr. Milovan Filimonović
Ministry of Finance-Macro Fiscal Analysis Department	Assistant Minister	Ms. Jelena Rančić
MoF, Sector for Internal Control and Internal Audit	Assistant Minister and staff	Mr. Goran Cvejić, Mr. Zoran Živojinović, Mr. Ljubinko
MoF, Budget Inspection Unit	Head	Mr. Žarko Savić
MoF, Public Debt Administration	Director and staff	Mr. Branko Drčelić
MoF, Treasury Administration	Deputy Director	Mr. Milorad Ivšan
Budget Accounting and Reporting Sector	Head of Sector and staff	Ms. Mirjana Pokrajac, Ms. Olga Kostić, Ms. Zorica Djuričić
Budget Execution Sector	Head of Sector	Ms. Gordana Pulja
Payroll Processing Sector	Head of Sector	Ms. Dragica Jovanović
IT Sector	Head of Sector and staff	Mr. Marko Ivezić, Mr. Dragan Šobot
Department of Financial Planning, Liquidity Management and Business Processes	Head of Department	Ms. Vesna Korać, Mr. Marko Jovanović
MoF, Customs Administration	Assistant Director	Ms. Sofija Radulović
MoF, Tobacco Administration	Director	Ms. Slavica Jelača
MoF, Tax Administration	Acting Director	Ms. Marko Marinković
MoF, Tax Administration	Acting Director and staff	Ms. Dragana Marković
Ministry of Economy	Head of Sector for SoE and advisor	Ms. Stanimirka Mijailović, Mr. Radomir Medić

Public Procurement Administration	Director and staff	Mr. Predrag Jovanović, Ms. Danijela Bokan, Mr. Borisav Knežević
The Republic Commission for Protection of Rights in the Public Procurement Procedure	President and staff	Mr. Saša Varinac Mr. Filip Vladisavljević
Ministry of Education, Science and Technological Development	Assistant Minister and staff	Zoran Tubić Irena Grujičić
Administration for Joint Services of the Republic Bodies	Director and staff	Mr. Zoran Trninić Mr. Ivica Zdravković
Ministry of Health, Finance Department	Special adviser and staff	Ms. Dragana Jovanović, Ms. Snežana Simić, Ms. Nada Maslovarić,
Ministry of Health, Finance Department	Assistant Minister and staff	Mr. Zoran Tubić, Ms. Vesna Vranjković
Serbian European Integration Office	Advisor	Ms. Milena Radomirović
Economic Court	Administrative Director	Ms. Violeta Lazić
Chamber of Commerce	Head and staff	Mr. Vladimir Đelić, Ms. Jelena Vasić
Supreme Audit Institution	President of the Council (Auditor General) and members	Mr. Radoslav Sretenović, Ms. Gordana Tišma, Ms. Natalija Čatović, Mr. Miroslav Mitrović, Ms. Bojana Mitrović,
Sector for auditing of the budget of the Republic and of budget funds	Supreme Auditor and staff	Ms. Olga Lukić, Ms. Mirjana Gačević, Ms. Gordana Petrović
Sector for auditing of the National Bank of Serbia, public agencies and other public funds beneficiaries	Supreme State Auditor	Ms. Ljubica Janković-Andrijević
Sector for auditing of organizations of mandatory social insurance	Supreme State Auditor	Ms. Radulka Urošević

Indicators	Description	Organizations Consulted
PI-1	Aggregate expenditure variance	- MoF, Treasury Administration, Budget Accounting and Reporting Sector
PI-2	Expenditure composition variance	- MoF, Treasury Administration, Budget Accounting and Reporting Sector
PI-3	Revenue variance	- MoF, Treasury Administration, Budget Accounting and Reporting Sector
PI-4	Arrears	MoF, MFAD, Treasury, Fiscal Council
PI-5	Budget classification	- MoF, Treasury Administration, Budget Accounting and Reporting Sector
PI-6	Comprehensiveness of budget documents	- National Assembly, Committee for Finances, Budget of the Republic and Control of Spending of Public Assets, Secretariat
PI-7	Unreported operations	- MoF, Treasury Administration, Budget Accounting and Reporting Sector, Fiscal Council
PI-8	Intergovernmental fiscal relations	MoF, Treasury
PI-9	Fiscal risks	- MoE, MoF, Fiscal Council
PI-10	Public access to information	- MoF
PI-11	Annual budget process	- MoF, Budget Department - Fiscal Council
PI-12	Multi-year perspective	- MoF, MFAD, Fiscal Council
PI-13	Taxpayer obligations	- MoF, Tax Administration
PI-14	Taxpayer registration	- MoF, Tax Administration
PI-15	Tax collection	- MoF, Tax Administration
PI-16	Predictability of funds	- MoF, Treasury, MoEducation,
PI-17	Cash, debt and guarantee management	- MoF, Public Debt Administration
PI-18	Payroll controls	- MoF, Treasury Administration, Sector for Payroll Processing - SAI, Sector for auditing of the budget of the Republic and of budget funds - MoF, Sector for Internal Control and Internal Audit - Direct budget beneficiary (Ministry of Education, Finance Department) - Indirect budget beneficiary (high school, management and finance department)
PI-19	Procurement	- Public Procurement Administration - Administration for Joint Services of the Republican Bodies - SAI, Council - SAI, Sector for auditing of the budget of the Republic and of budget funds - SAI, Sector for auditing of organizations of mandatory social insurance - SAI, Sector for auditing of the National Bank of Serbia, public agencies and other public funds beneficiaries
PI-20	Internal control	- MoF, Sector for Internal Control and Internal Audit - SAI, Sector for auditing of the budget of the Republic and of budget funds - MoF, Budget Inspection Unit - MoF, Treasury Administration, Budget Execution Sector - MoF, Treasury Administration, IT Department



		- EU Delegation to the Republic of Serbia
<b>PI-21</b>	Internal audit	- MoF, Sector for Internal Control and Internal Audit - SAI, Sector for auditing of the budget of the Republic and of budget funds - Ministry of Education, Internal Audit Unit - EU Delegation to the Republic of Serbia
<b>PI-22</b>	Accounts reconciliation	- MoF, Treasury Administration, Budget Accounting and Reporting Sector - SAI, Sector for auditing of the budget of the Republic and of budget funds
<b>PI-23</b>	Resources received by service delivery units	- Ministry of Education, Finance Department - Ministry of Health, Finance Department - MoF, Budget Accounting and Reporting Sector - Public Health Institute
<b>PI-24</b>	In-year budget reporting	- MoF, Budget Accounting and Reporting Sector - SAI, Sector for auditing of the budget of the Republic and of budget funds
<b>PI-25</b>	Annual financial statements	- MoF, Budget Accounting and Reporting Sector - SAI, Sector for auditing of the budget of the Republic and of budget funds - SAI, Sector for auditing of organizations of mandatory social insurance
<b>PI-26</b>	External audit	- SAI, Council (Auditor General and supreme auditors) - SAI, Sector for auditing of the budget of the Republic and of budget funds - SAI, Sector for auditing of organizations of mandatory social insurance - SAI, Sector for auditing of the National Bank of Serbia, public agencies and other public funds beneficiaries - National Assembly, Committee for Finances, Budget of the Republic and Control of Spending of Public Assets, Secretariat - EU Delegation to the Republic of Serbia
<b>PI-27</b>	Legislative review of budget law	- National Assembly, Committee for Finances, Budget of the Republic and Control of Spending of Public Assets, Secretariat - MoF, Budget Sector
<b>PI-28</b>	Legislative review of external audit reports	- National Assembly, Committee for Finances, Budget of the Republic and Control of Spending of Public Assets, Secretariat - SAI, Council(Auditor General and supreme auditors) - SAI, Sector for auditing of the budget of the Republic and of budget funds
<b>D-1</b>	Direct budget support	- Serbian European Integration Office, Public Administration Reform Sector
<b>D-2</b>	Financial information by donors	- Serbian European Integration Office, Public Administration Reform Sector
<b>D-3</b>	Use of national procedures	- Serbian European Integration Office, Public Administration Reform Sector

## Annex 5. Disclosure of Quality Assurance Mechanism

### PEFA Assessment Management Organization

*Government Oversight Focus Point: Milovan Filimonovic, State Secretary, Ministry of Finance*

*Assessment Manager: Soukeyna Kane, GGODR, WB*

*Assessment Team Leader and Team Members:*

#### (a) World Bank

Antonio Blasco  
Aleksandar Crnomarkovic  
Jose Eduardo Gutierrez Ossio  
Kashmira Daruwalla  
Desanka Stanic  
Andrew J. Mackey

#### (b) Independent consultants

Nihad Nakas  
Hernan Pflucker  
Mirjana Simic Bowen

### Review of Concept Note and/or Terms of Reference

*Date of reviewed draft concept note and/or terms of reference:* October 16, 2014

#### *Invited reviewers:*

Milovan Filimonović, State Secretary, Ministry of Finance, Republic of Serbia  
Gabriela Schafroth, SCO  
Irene Frei, SECO  
Vladan Petrovic, EU  
Frank Bessette, Senior FMS, GG, WB  
PEFA Secretariat

#### *Reviewers who provided comments:*

Milovan Filimonovic, State Secretary, Ministry of Finance, Republic of Serbia  
(date of the review: October 15, 2014)  
Irene Frei, Gabriela Schafroth and Ana Pajkovic (consolidated comments)  
SECO/SCO (date of the review: October 15, 2014)  
Vladan Petrovic, EU (date of the review: October 15, 2014)  
Frank Bessette, Senior FMS, GGODR, WB (date of the review: October 15, 2014)  
PEFA Secretariat (date of the review: October 17, 2014)

Date of final concept note<sup>169</sup>: October 23, 2014

### Review of the Assessment Report

Dates of Reviewed draft report: June 29 2015 circulated to peer reviewers for response by July 16, 2015.

#### *Invited reviewers:*

Milovan Filimonovic, State Secretary, Ministry of Finance, Republic of Serbia  
Gabriela Schafroth, SCO  
Irene Frei, SECO

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<sup>169</sup> The final version of the concept note is Annex 7 of this report.

Vladan Petrovic, EU  
Frank Bessette, Senior FMS, GG, WB  
PEFA Secretariat

*Reviewers who provided comments:*

Gabriela Schafroth, SCO  
Irene Frei, SECO  
Vladan Petrovic, EU  
Frank Bessette, Senior FMS, GG, WB  
PEFA Secretariat

Date of final Draft Report Decision Meeting: August 26, 2015

A revised final draft assessment was forwarded to reviewers on October 21 and included a table showing the response to all comments raised by all reviewers



Serbia  
Public Expenditure and Financial Accountability (PEFA) Performance  
Report: Repeat Assessment  
June 29, 2015

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the **‘PEFA CHECK’**.

PEFA Secretariat  
October 22, 2015

## Annex 6. Assessment Team Composition and Roles

Name	Title	Role
Aleksandar Crnomarkovic	Senior Financial Management Specialist	Co-team leader and report coordinator. Responsible for project management, content development and quality, lead responsibility for preparing summary assessment and government reform process sections.
Antonio Blasco	Senior Financial Management Specialist	Co-team leader and report coordinator. Responsible for project management, content development and quality, lead responsibility for preparing summary assessment and government reform process sections.
Nihad Nahas	Consultant	Principal assessor for budget execution, internal control, accounting, reporting and auditing matters, lead responsibility for assessment of PI: 18-28.
Jose Eduardo Gutierrez Ossio	Senior Public Sector Specialist	Principal assessor for tax administration matters, lead responsibility for assessment of PI: 13-15.
Hernan Pflucker	Consultant	Principal assessor for arrears, policy-based budgeting, comprehensiveness and transparency and predictability of funds indicators, lead responsibility for assessment of PI: 4-12, 16 and 17.
Kashmira Daruwalla	Senior Procurement Specialist	Principal assessor for procurement, lead responsibility for assessment of PI-19.
Mirjana Simic Bowen	Consultant	Responsible for procurement indicator assessment of PI-19.
Desanka Stanic	Team Assistant	Responsible for logistics, translation and administrative support.
Jamie Lazaro	Junior Professional Associate	Responsible for document proofreading and general support
Andrew James Mackie	Senior Financial Management Specialist	Assessment advisor and report internal review. Responsible for advising the team on technical issues, report internal review and quality assurance.

## **Annex 7. PEFA Methodological Framework through Time**

Through time, the PEFA Secretariat has developed - as part of its mandate - various technical guidance notes and tools to facilitate the work of assessors or any stakeholder conducting a Public Expenditure and Financial Accountability PEFA-based Public Financial Management (PFM) assessment and seeking guidance on how to go about it. Most of these guidance notes are based on reviews and comments on carried-out assessments or have been developed in response to questions received from teams applying the Framework at country level, and are updated regularly. The additional guidance and clarification provided through the time helps to clarify the methodology, sources of information and calibrate better the scoring in PEFA dimensions. A non-comprehensive list of updates is presented below to illustrate how the Framework has evolved through time:

- Issues in Comparison and Aggregation of PEFA Assessment Results over Time and Across Countries (May 2009). How to use the data available from PEFA assessments to make meaningful comparisons of scores over time within countries and cross-country comparisons both at a given point of time and over time?
- Guidance Note for Repeat Assessments (February 2010). Suggestions for each stage of a typical repeat assessment in order to provide a clear picture of specific changes in performance since the initial or baseline assessment.
- Spreadsheets to assist in the calculation of PI-1 and PI-2 (revised January 2011).
- "No Score" for an indicator or dimension date (July 2011) methodology for a detailed solution for assessors when they encounter a no scoring situation in order to ensure clarity and consistency of terminology and justification.
- CN & TOR Checklist revised (June 7, 2012) replaces the English and Spanish versions from March 2007. A list prepared to assist those who prepare and review concept notes and terms of reference for Public Expenditure and Financial Accountability (PEFA) assessments.
- Good Practices in Applying the PEFA Framework revised (June 7, 2012) replaces the version of March 2009. Guidance for assessors and managers for the planning, management of and follow-up on assessments.
- Clarifications to the Framework (last update January 2012) in English: a set of notes based on FAQs and providing additional guidance for those who are applying the PFM Performance Indicators and the Performance Report.
- Fieldguide (May 2012) in English. The fieldguide combines the contents of several earlier guidance.
- Quality Review Templates for CN/TORs and Assessment Reports (January 2013).
- Guidelines for the application of the PEFA Framework at the Sub National Government level (Updated January 2013). A set of practical and detailed guidelines for the application of all specific indicators and individual dimensions for applications at the Subnational level.

## Annex 8. Project Concept Note

### Concept Note Serbia

#### Serbia Public Expenditure and Financial Accountability- PEFA Report (P152125)

##### Background and context

1. **Serbia is an upper-middle-income country.** Economic growth was strong during the early and mid-2000s, with economic reforms helping to stimulate new export dynamism and significant domestic demand. However, the expansion was also fueled by domestic consumption, large capital inflows, and a credit boom and the 2008 downturn left Serbia looking for new sources of growth. Like many countries in the region, the challenge for Serbia has been to translate tenuous economic recovery into jobs and poverty reduction in difficult domestic and regional environments. Both unemployment and poverty rates saw sharp reversals in the wake of the crises; unemployment increased from below 15 percent in 2008 to nearly 25 percent in 2012, increasing most among the lowest income earners, and poverty jumped from about 6 percent in 2008 (after falling by more than half since 2002) to more than 9 percent in 2009. To address these economic and social challenges, Serbia's challenges are to improve competitiveness and the efficiency and outcomes of its social spending.
2. **Serbia opened a negotiations process with the European Union (EU) in January 2014.** Part of this process will involve identification of goals and objectives for Instrument for Pre-Accession Assistance (IPA) support, including public administration, and PFM reform, as a core component in relation to Chapter 32 of the *acquis comunitaire*, Financial Control and as described in the Pre-accession Economic Programme for 2014 of the GoS. Continuing on a number of ongoing and completed reform initiatives, the government and the donor community are working on identifying ways to further pursue a PFM reform agenda, and are seeking up to date information on the current performance and priority areas that need external support. Further improvement in the PFM system is a part of Public Administration Reform Strategy (January 2014), which is one of the Government's priorities in the period to come.
3. **The authorities have sought to strengthen the public financial management in recent years.** Numbers of areas of the PFM system were marked by legislative and institutional developments. Law enforcement and functioning of institutions developed at a slower pace, but still registering improvements. The State Audit Institution came a long way since its foundations and start of audit work in 2008.<sup>170</sup> Coverage of public expenditures which are audited, number of entities and capacity of the SAI increased substantially. The Budget System Law defined in 2009 the establishment of the Public Internal Financial Control (PIFC) framework. Ever since, development of internal audit function experienced progress, and at a slower rate - financial management and control. There are five pilot ministries for introduction of program budgeting, which should be implemented across central and local level in 2015. An amendment to the Budget System Law including Budget Accounting is in preparation which is expected to bring about improvements with regard to clarity of

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<sup>170</sup> Serbia's SAI was established with the SAI law in 2005 but become operational only in September 2007 and started activities gradually in 2008.

accounting standards used and reliability and completeness of financial reporting. There were changes in the Budget System Law in 2013 with the aim to enhance management of arrears and commitment control.

4. **A letter with the official request from the Government to conduct a PEFA assessment was submitted to the World Bank.** Letter dated July 7 2014 and signed by (now former) Minister of Finance, has been received by the Bank on July 15 2014. The letter emphasized the Government' expectation that PEFA will provide relevant findings to help the Government in the process of preparing the PFM reform programme and identify priority areas. The letter also requests PEFA assessment team's input to corresponding action plans in priority areas identified by the PFM reform programme. The Government's commitment to the task has been re-confirmed with the new Minister of Finance.
5. **Previous PEFA assessments in Serbia were conducted in 2007 and 2010.** The PEFA 2010 registered overall improvement comparing to the assessment from 2007. The 2010 assessment identified the following areas as key strengths of the PFM system in Serbia: public access to key fiscal information; orderliness and participation in the annual budget process; accounting, recording and reconciliations; in-year and annual reporting. Main areas for improvement as per the assessment were planning and budget formulation including costing of sector strategies: recording and management of arrears, procurement competitive practices; effectiveness in collection of tax payments and customs fees; legislative scrutiny of external audit reports and; donor practices. One of the outcomes of the PEFA 2014 will be to measure progress and changes comparing to the previous assessment.
6. **The government intends to adopt a new PFM Reform Programme in 2015.** The EU's new enlargement strategy now foresees a more comprehensive approach to PFM in all enlargement countries and those countries are expected to prepare multi-annual PFM programs. A credible and relevant PFM programme is also one of the four pre-conditions for using IPA funds in form of sector budget support. Since all PFM sub-systems are strongly inter-linked, a credible reform programme will need to address all public financial management sub-systems, including revenue administration, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control (including internal audit), and external audit, as well as adequately sequence reform actions both within and between the sub-systems. The building block for enlargement countries to work on a programme is to have a comprehensive diagnostics of the situation, covering all PFM sub-systems, and the preferred diagnostic assessment is PEFA.

### **Purpose, scope and coverage**

7. **The purpose of this project is to provide the Government of Serbia with an updated assessment of the performance of the public financial management system.** The assessment process seeks to provide better understanding of the performance of the public financial management system and those areas where further attention is needed to strengthen the framework and move to a higher standard in terms of international good practice. The assessment is expected to provide relevant information to be used for preparation of PFM Reform Programme by the Government. This efforts form part and are aligned to the country's objective to get access to the EC as a mean to improve the economic growth and share prosperity in the country. At the same time, the task itself will provide input to PFM

Reform Programme and associated actions plans for PFM reform in priority areas identified by the PFM Reform Programme.

8. **The proposed assessment will discuss progress since the 2010 assessment.** As one of the priorities, the PEFA will include discussion and presentation of the changes since the previous assessment and a discussion of the differences between the indicator scores of the two assessments. This assessment will cover the core financial management and planning systems for the institutions of central government that are funded from the national budget. For example, it will not include public enterprises or local self-governments, except to the extent envisaged by related indicators ie. PI-9 and PI-8, respectively.
9. **The proposed assessment will cover central government level.** Applying the indicators in the six performance dimensions of an openly and orderly PFM system will be conducted as defined by the PEFA framework. The central government comprises a central group of ministries and departments. The Government with the support from the SECO Swiss cooperation is simultaneously applying the PEFA methodology at subnational level for six municipalities. Coordination between the assessments will be critical to ensure consistency and that will be pursued by reciprocal peer reviewing for National and Subnational PEFA from both institutions.

#### **Stakeholders and their roles**

10. **The Government of the Republic of Serbia will be the primary audience and the final owner of the report.** The Ministry of Finance will be main Government counterpart for the assessment. The Ministry of Finance will coordinate with representatives from all key institutions involved in the assessment that will be act as a PEFA working group, acting as focal point of contact and cooperation for the assessment team. It will include representatives of the Ministry of Finance, Treasury, Tax Administration, State Audit Institution and Public Procurement Administration. Members of the working group will provide most of the relevant information to the assessment team during data collection and will coordinate communication between the team and public officials, thus facilitating provision of the remaining information. The assessment team will draft the report and assign ratings that will be validated within the working group. The members of the group will review and provide comments on each draft of the report. Members of the working group are expected to attend initial training/launch workshop and final report/dissemination event. Other audience will include the donor community and other relevant institutions in PFM area.
11. **The World Bank will lead and manage the assessment team, which will consist of the World Bank's staff, international and local consultants.** The assessment team will be responsible for data collection, preparation of draft report, revising the report for comments by the Government and peer reviewers, and producing the final report. The assessment will comply with PEFA CHECK quality assurance guidelines with the aim of having the assessment endorsed by the PEFA Secretariat. The PEFA Secretariat will provide comments on the design and content of the assessment but will not participate in the project in any other way, as is the case with all individual assessments.
12. **The project will be funded by the Strengthening Accountability and the Fiduciary Environment (SAFE) Trust Fund.** SAFE Trust Fund already financed a number of PEFA



assessments, most recent cases in the region are Montenegro and Bosnia and Herzegovina. Financiers of the Trust Fund are the Swiss State Secretariat for Economic Affairs (SECO) and the European Commission (EC). This task will be funded by both pools of the SAFE's financing. There will be a minimum of four reviewer institutions as required by the PEFA check methodology: Government of Serbia, the PEFA Secretariat, EU, the Swiss Government and the World Bank. The peer reviewers will be as follows: Milovan Filimonovic, Assistant Minister of Finance; Gabriela Schafroth and Irene Frei (SECO); Vladan Petrovic (EU); The PEFA Secretariat; Franck Bessette, Sr. Financial Management Specialist, GGP MENA Region, and Lazar Sestovic, Country Economist for Serbia (World Bank). The PEFA Secretariat will have a central role in assuring compliance with the methodology and achievement of quality standards. If assessed to meet the required quality assurance procedures, the PEFA Secretariat will endorse the final assessment by issuing PEFA CHECK.

### **Methodology**

13. **The assessment will be conducted in line with existing PEFA methodology at the time of preparation and data collection for the assessment.** The assessment's methodology will not incorporate revisions to PEFA methodology expected to be valid from January 1 2015. This should allow comparability of ratings with the 2010 assessment, and more meaningful analysis of progress/changes that occurred between two assessments. Training in PEFA methodology will be delivered to Client's staff. A new adjusted PEFA framework has been recently published for consultation and there is the possibility for piloting the new adjusted framework in parallel with the PEFA methodology in addition to the current PEFA methodology report. This possibility will be discussed with the Government and the PEFA Secretariat to explore the application as a test of the adjusted methodology on a pilot basis. If the test of the new adjusted framework is agreed it would be prepared as a separate document and it will not part of the quality assurance mechanisms including the PEFA Check. The pilot document is an agreement between the Government, the World Bank and the PEFA Secretariat and will remain confidential unless the Government decides on its publication and would be delivered for Government comments after the PEFA Report delivery.
14. **The PEFA assessment will be conducted in line with PEFA Framework as approved by the PEFA Steering Committee.** This means that the assessment will review and assign rating over 28 main indicators of performance in PFM area, plus three indicators related to donor practices. As indicated above, the assessment will apply current methodology as published on the PEFA Secretariat website, as adopted in January 2011 after revisions to indicators PI-2, PI-3 and PI-19. It will not apply revisions to the methodology, expected to be adopted from January 1 2015. The assessment is based on a review of information for the last three complete budget consecutive years, and in this case it will cover 2011, 2012 and 2013 and in some cases the current status of the PFM function under analysis.
15. **The assessment team will also use other methodological guidance and practice tools.** Other technical guidance and tools developed by the PEFA Secretariat which will be used for the assessment include: the PEFA Field Guide, Good practice in applying the PEFA Framework, Guidance Note for Repeat Assessments as well as other guidance from the PEFA Secretariat. The draft and final reports will be prepared in English and Serbian

language with the English version being the authorized version if different interpretations occur. Both versions of the report will be published on the Government/MoF website and will be linked to the PEFA website to allow general access to the documents. Both versions will be printed and distributed in limited number of copies.

### **Schedule of Work**

16. **The PEFA assessment is expected to be completed by December 31 2015, while input to PFM Reform Programme and action plans in priority areas will be provided to the Government preliminary in January 2015 with a final document by July 2015.** Finalization of the assessment report will be subject to availability of data upon requests for information being submitted by the PEFA team and timely provision of comments on various versions of draft report by the key country institutions. Input to the PFM Reform Programme and action plans will depend on the pace of Government's preparation of those documents. The estimated timetable and a description of the key stages are provided below.

#### *A. Concept Note*

17. **The draft concept note will be submitted to the Serbian Government, PEFA Secretariat and peer reviewers for comments before finalization.** World Bank procedures will be followed in preparation and implementation of the project, requiring authorization of the project by the Country Director. Once it is approved and funds are allocated, the final team will be engaged, including appointment of consultants, and preparatory research will commence.

#### *B. Training/Launch Workshop*

18. **Launch workshop which will focus on training of selected Government's staff in PEFA methodology and the ways PEFA findings can be used.** The workshop will include around 20 participants from relevant country institutions, and representatives of the donor community or other relevant stakeholders in addition to that number. The workshop will intend to provide general and technical knowledge to the Client's staff with regard to PEFA methodology. The workshop will provide an introduction to the PEFA methodology based on the PEFA Secretariat training materials. It will explain the purpose of the assessment, the roles and responsibilities of the various entities and provide an overview of the methodology for each indicator.

#### *C. Data Collection*

19. **The assessment team will meet with Government officials and other key institutions in order to obtain information needed for the assessment.** Prior to data collection mission, the assessment team will perform desk review of available documentation and analysis of information collected based on the questionnaires to be sent to all relevant institutions. During the data collection mission the assessment team will clarify information received and obtain additional information and knowledge regarding the functioning of financial management arrangements, verify information received where possible and discuss reform options. The data collection mission is anticipated to last two to three weeks. At the end of the data collection mission, the assessment team will discuss preliminary findings with the working group and seek their verbal input/comments on the initial observations on each of the indicators.

#### *D. Draft PEFA Assessment*

20. **The assessment team will draft PEFA assessment report based on the evidence gathered during the data collection mission.** Continuous communication by the assessment team will be maintained with the participating institutions, and in particular members of the working group, during the process of drafting, with the goal to avoid any incorrect interpretations or inaccurate findings/conclusions.

#### *E. Consultations and revisions of the draft PEFA Report*

21. **The draft PEFA report will be shared with the Government for review and comments.** A period of two to three weeks will be given to all participating country institutions to review their respective indicators (and report as a whole) and provide any comments they may have.
22. **A second field mission by the assessment team will be organized to discuss the Client's comments on the draft report and collect any additional information needed to address the comments.** During this mission the assessment team will meet with counterparts in the areas of any concern with regard to ambiguity, accuracy or completeness of the PEFA report findings, which were identified during the Client's review of the PEFA draft. The assessment team will work with the working group during that process.
23. **Revised draft report will be prepared based on revisions agreed with Government during the second field mission.** The assessment team will revise the draft report in line with the result of discussion with the Client about any questionable areas/indicators. At this point, revised draft will be shared for views and comments with a number of institutions in the PFM community prior to the formal peer review.

#### *F. Decision Review/Peer Review*

24. **There will be an independent peer review of the revised draft assessment before final delivery to the Government and publishing.** It will be targeted to have the same peer reviewers as for the concept note, in order to achieve consistency and have peer reviewers with prior knowledge of task and assessment. This means that peer reviewers will be selected from Government of Serbia, the PEFA Secretariat, the World Bank (other than members of the assessment team) and other institutions and international organisations including EU and the Swiss Government. In the scope and as a result of a formal decision review, the assessment will be reviewed and endorsed by the World Bank's management.

#### *G. Final Report Workshop/Dissemination Event*

25. **The final assessment will be presented to the Government and representatives of the PFM community through a dissemination event.** One day event will be organized with participation of officials from all institutions that participated in the assessment, including members of the working group, and representatives of donor community and other relevant PFM institutions in the country. The final report will be published after dissemination on the Government's/MoFs website with the link to PEFA website. Both the original English version and Serbian translation of the report will be printed and distributed in limited number of copies. Other channels of reaching to broader public in raising awareness about the PEFA assessment will also be used, such as written media.

#### *H. PEFA Report follow up and Input to Government's PFM Reform Programme and Action Plans in priority areas*

**The assessment team will provide input to the Government's PFM Reform Programme and action plans for reform in priority PFM areas.** It is expected that findings of the PEFA assessment will identify strengths of the PFM system, as well as areas for improvements, and thus serve as guidance to the Government in preparing PFM Reform Programme. Action plans will be prepared for priority reform areas as identified by the PFM Reform Programme, and the assessment team is expected to provide input to specific action plans to the Government. The preliminary input is expected to be provided in January 2015 in time for the Government to take the recommendation into account for the development of the PFM reform plan that will start be discussed in February 2015. The final input is expected to be delivered in July 2015 as part of the ongoing dialogue that the Bank will engage after the final report is disseminated. Dissemination will be discussed with the Government and will take place after the final delivery.

#### **Summary Schedule of Work**

<b>Activity</b>	<b>Timetable</b>
Concept note preparation and clearance	October 17, 2014
Consultant selection	October 17, 2014
Establishment of the Client's Working Group	October 31, 2014
PEFA training/launch workshop	October 31, 2014
Data collection	November 30, 2014
Draft report	January 15, 2015
Preliminary input for PFM reform provided to the Government	January 20, 2015
Comments from Client on the draft	February 1, 2015
Second field mission	February 5, 2015
Revised draft	February 10, 2015
Peer Review/Decision Review	Feb 20, 2015
Report delivery to the Government and dissemination	April 30 2015
Final Input for PFM reform	July 24, 2015
Final delivery/ completion summary	December 31, 2015

#### **Outputs**

- 26. PEFA assessment report delivered to the Government and published.** The report will follow quality assurance criteria defined by PEFA CHECK and seek endorsement by the PEFA Secretariat. The assessment will cover the years 2011, 2012 and 2013. The report will include ratings and description of performance relating to 28 main indicators and three donor indicators. Other outputs will include training for the Client's staff in PEFA methodology/Launch workshop and final dissemination event by the PEFA team. Concept note and revised draft report will be subject to formal peer. The final report will be published on the Government/MoF website and this undertaking will be considered as adoption of the report by the Government.
- 27. Input to the Government's PFM Reform Programme and action plans in priority areas of PFM reform.** This will represent a follow up action to the PEFA assessment and report, and will be an integral part of the project. It will represent a specific written input including advice and recommendations for PFM reform and specific actions. PFM Reform Programme

and action plans will be Government documents and will include time bound specific reform actions and responsibilities for their undertaking.

### **Resources**

28. **The assessment team will be led by the World Bank.** The assessment team will be in charge of data collection, drafting and finalizing the assessment report. The team will include:
- Antonio Blasco and Aleksandar Crnomarkovic, Senior Financial Management Specialists, will co-lead the task and the assessment team and undertake data collection, drafting and internal quality assurance;
  - World Bank staff (as detailed in the CN template) with expertise in fiscal policy, budget policy, custom and tax policy and administration, budget execution, procurement, internal control and audit, accounting and reporting, external auditing, parliamentary oversight of financial management and experience in applying PEFA assessment methodology, who will undertake data collection and drafting of certain indicators;
  - International consultants with substantial experience in conducting PEFA assessments, and expertise in collecting and analyzing data, and drafting write ups for a group or all indicators. The consultants will collect data and draft indicators and other parts of the report;
  - Local consultant(s) with knowledge of Serbian public financial management system and expertise in PEFA related areas and excellent English language skills. The consultant(s) will facilitate collection and interpretation of data, and is expected to provide needed information on the PFM system in Serbia.
29. **The following institutions will support the assessment** through provision of data, inputs and comments on the draft report and overall implementation process:
- Relevant country institutions, with the working group to be established by the Government as the focal point for cooperation. Country institutions relevant for PEFA assessment include Ministry of Finance, Treasury, Tax Administration, Customs, State Audit Institution, Parliamentary Finance Committee and Public Procurement Administration.
  - EU and SECO will provide financial and non-financial support, through involvement in implementation by providing advice and comments, as well as being invited as formal peer reviewers.
  - Other representatives of donor community and relevant institutions in PFM area will be consulted with regard to PEFA findings, invited to launch and dissemination workshops, as well as invited as informal and formal peer reviewers.

Estimated Budget allocation is not included for confidentiality reasons.

## **Annex 9. Bibliography**

### **Legislation**

- Constitution of the Republic of Serbia
- The Law on Budget System of the Republic of Serbia
- Annual Law on the Budget of the RoS, 2011, 2012, 2013
- Law on Amendments to the Law on Budget of Republic of Serbia, 2013
- Proposal of the Law on the Final Account of the Budget of the RoS, 2011, 2012, 2013
- Law on Late Payments in Commercial Transactions
- Law on Public Debt
- Privatization Law
- Customs Law
- Law on Salaries of Civil Servants and Employees
- Law on Civil Service
- Law on Local Government Finance
- Law on State Audit Institution
- Law on Post Flood Rehabilitation in the Republic of Serbia
- Law on Health Care
- Public Procurement Law
- Value Added Tax Law
- Customs Tariff Law
- Law on the National Assembly

### **By-laws**

- Rulebook on Standard Classification Framework and Chart of Accounts for the Budget System
- Rulebook on Budget Execution System
- Rulebook on Common Criteria and Standards for Organization, and Standards for Methodological Instructions for Operations and Reporting of Internal Audit
- Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Institutions
- Decree on Budget Accounting
- Decree on Contents of Information, Manner of Filling of Forms, Manner of Submission, and Processing of Data Entered into the Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector
- Decree on Application of International Public Sector Accounting Standards (IPSAS)
- Decree on Compensation of Costs and Severance Payment of Civil Servants and Employees
- Decree IPA IIb CBC
- Decree IPA I TAIB
- National Assembly Rules of Procedure
- SAI Rules of Procedure

## Reports

- SAI Annual Activity Report (2011, 2012, 2013)
- MoF, Sector for Internal Control and Internal Audit, Annual Report (2011, 2012, 2013)
- Audit report on Final Account of the Budget of RoS, final accounts of the mandatory social insurance organizations and consolidated financial statements of the Republic, 2011, 2012, 2013.
- Budget Execution Report, six- and nine-month, 2011, 2012, 2013
- IMF report “Strengthening Budget Planning and Budget Execution” (December 2013)
- Internal audit units functional review reports
- Monthly Debt Report and Quarterly Debt Statistic Reports
- Fiscal Council “Budget Process in the Republic of Serbia: Deficiencies and Recommendations,” December 2014
- National Bank of Serbia reports
- Budget Inspection Annual Report, 2013
- Reports by the Republic Commission for periods: April 1-June 30, 2013; July 1-December 31 2013; January 1-June 30, 2014
- PPA 2013 Annual Report and Semi-annual Report, January 1-June 30, 2014
- EU Chapter 32 Screening Report, accessed at [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/140429-screening-report-chapter-32-serbia.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/140429-screening-report-chapter-32-serbia.pdf)
- Definitions of Government in IMF-Supported Programs, IMF, May 2013
- IMF, Staff report for the 2013 Article IV consultations, July 2013. <http://www.imf.org/external/pubs/ft/scr/2013/cr13206.pdf>.

## Strategies

- Fiscal Strategy 2013-2015
- Public Administration Reform Strategy in the Republic of Serbia, accessed at <http://www.mduls.gov.rs/doc/Strategija%20reformne%20javne%20uprave%20u%20Republici%20Srbiji.pdf>
- Draft Strategy for Development of Public Internal Financial Control, 2015-2019

## Other documents

- MoF Public Financial Bulletin
- Second Public Expenditure Development Policy Loan Agreement
- Analysis of Fiscal Strategy / Analysis of Budget Proposal produced by the Fiscal Council
- Internal Audit Manual
- Bulletin of the National Assembly, no.7
- National Assembly, Committee on Finance, State Budget and Control of Public Spending, documents from official proceedings

- INTOSAI, *GOV 9100, Guidelines for Internal Control Standards for the Public Sector*, (<http://www.intosai.org/issai-executive-summaries/view/article/intosai-gov-9100-guidelines-for-internal-control-standards-for-the-public-sector.html>)

## Websites

- Ministry of Finance, RoS: <http://www.mfin.gov.rs/>
- Supreme Audit Institution: <http://www.dri.rs/>
- Open Government Partnership: <http://www.opengovpartnership.org/>
- PEFA Secretariat: [www.pefa.org](http://www.pefa.org)
- World Bank's Open Data: [http://data.worldbank.org/country/serbia#cp\\_fin](http://data.worldbank.org/country/serbia#cp_fin).
- European Integration Office (<http://www.seio.gov.rs>)
- [http://www.evropa.gov.rs/Documents/Home/DACU/12/83/238/ R\\_OverviewOfInternationalAssistanceByDevelopmentPartners\\_total\\_eng.pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/83/238/R_OverviewOfInternationalAssistanceByDevelopmentPartners_total_eng.pdf)