

**THEMATIC COMPILATION OF RELEVANT INFORMATION SUBMITTED BY
SERBIA**

ARTICLE 9

Management of Public Finances

SERBIA (FOURTEENTH MEETING)

Cooperation with the supreme audit institutions in the prevention of and fight against corruption

(Within the purview of the Agency for Prevention of Corruption)

Prevention stands for detection and elimination of sources (factors) of risk for the occurrence of corruption (normative, institutional, procedural and personal) through the design and application of appropriate measures for managing respective risks. As the pillar of the APC's activity, it entails identifying the phenomena and situations that provide opportunities for corrupt behaviour. These opportunities do not necessarily lead to acts of corruption but are ever-present in the form of temptation for those who work in such environments. In addition to identification, preventive activities include the design and establishment of mechanisms with the purpose to eliminate the opportunities for corruption before they lead to corrupt behavior.

The APC is also entrusted with the competencies aimed at establishing and implementing oversight and control over the proper and purposeful use of public authority bestowed to officials so they can take care of the protection of public interest in the areas in which they carry out their duties.

Risk assessment is an area of pivotal importance when it comes to the possibilities of achieving synergy of efforts of anti-corruption bodies and audit institutions which should be focused on strengthening the accountability, transparency, and integrity of public sector entities.

On the other side, audit institutions are of utmost importance for detection of corruption by identifying and monitoring vulnerable areas and focusing their efforts on the areas conducive to corruption. Through improvement of this risk-based approach anti-corruption and audit bodies can tackle irregularities and lack of integrity in a comprehensive and properly structured manner.

One of the main roles of the APC is to contribute to improving the transparency of disposing of public funds as one of the main sources of financing of political entities as well as build capacities of political entities to manage finance in a responsible and transparent way, and to present relevant reports (both annual financial and election campaign reports) in accordance with the law and principles of good governance.

The Law on Financing of Political Activities stipulates that the APC may, after the control of the financial reports of a political entity, forward a request to the State Audit Institution to audit these reports (those that were also the subject of the APC's control). After completion of audit, if the State Audit Institution finds irregularities in the work of a political entity, it notifies the APC thereof, but only for those that were the subject of the audit. Acting upon these notifications on suspicion of violation of the Law on Financing of Political Activities, the APC submits the requests for initiating misdemeanour proceedings to the competent court.

In the field of conflict of interest, after pursuing audit of consolidated financial reports of the final statement of accounts and regularity of work of the local self-government units, the State Audit Institution refers significant information with evidence to the APC as to determine existence of conflict of interest of public officials in these local self-government units. Based on the respective information, the APC initiates proceedings against the pertinent public officials due to various violations of the conflict of interest related provisions of the Law on Prevention of Corruption.

SERBIA (SIXTH MEETING)

Information regarding Transparency and Accountability in Public Finance Management

1. Measures undertaken for ensuring transparent procedures for adoption of the budget.

Budget System Law, via Articles 26 through 48, defines in detail preparation of budgets and financial plans, budget calendar, guidance for development of budget, submitting budget proposals, publication of the budget etc. In its reports published in 2014, the State Audit institution stated that the budget funds beneficiaries in the Republic of Serbia did not plan, execute and record expenditures in prescribed economic classifications, as prescribed by the Budget System Law. This points to the fact that, in addition to good regulations, further work is necessary on implementation of procedures regarding adoption of the budget.

2. Measures which provide that reporting on revenues and expenditures are public, timely and regular, and which ensure sanctions for entities that do not report within prescribed deadline.

Budget System Law, via Articles 74 through 79a, defines budget accounting, responsibility for adoption of budget accounting regulations, submitting reports, calendar for submitting reports and contents of the annual financial statements. This Law, in Article 103, regulates also penalties for entities which do not observe provisions of the stated Articles of the Law.

3. Measures providing that effective accounting and auditing system is in place, and that there is effective supervision over budget revenues and expenditures, with obligatory requirements regarding training and certification of state accountants and auditors.

Current Budget Accounting Decree prescribes (Article 19) that keeping business books, preparing, submitting and publishing of financial statements shall be done by a competent person, who was not convicted for criminal acts which make him unworthy of the conduct of activities in the area of accounting. Also, this Article prescribes that conditions for training professionals and acquiring professional titles shall be defined by the national standard. The national standard has not been adopted. Budget Accounting Decree has been adopted based on the Budget System Law which ceased to be valid. It is necessary to adopt a new regulation on budget accounting, which would, among other things, regulate conditions for keeping business books.

In its reports published in 2014, the State Audit institution stated that:

- certain number of transactions and changes to assets and liabilities are recorded manually in the general ledger of the Treasury, which may represent risk of non-compliance of the stated data with data recorded in business books of the funds' beneficiaries.
- Budget funds beneficiaries of the Republic of Serbia did not harmonize data from their business books in terms of expenditure transactions with transactions recorded in the general ledger, which is kept in the Ministry of Finance - Treasury.
- Accounting and information system was not defined uniformly, which makes harder to keep unified and comprehensive records on financial transactions of public funds beneficiaries, particularly including the balance and changes to assets, receivables and obligations.

Regarding state audit, Law on State Audit Institution regulates, in Article 28, who may conduct audit and conditions for acquiring auditor's titles. This Law states that the State Audit Institution is the highest authority for auditing of public funds in the Republic of Serbia. This Law regulates free access to all requested data and documents, including confidential data and documents necessary for planning and conducting audit.

- 4. Measures ensuring that effective and efficient risk management and internal control system is in place, with clear separation and description of duties and responsibilities, and description stating how units in charge of risk management and internal control are organized, and how they keep the data.**

Budget System Law, in Articles 80 through 83, creates foundations for further definition and establishment of public internal financial control. These articles state that Public Internal Financial Control include the following: financial management and control of public funds beneficiaries, internal audit of public funds beneficiaries and harmonization and coordination of financial management and control and internal audit, exercised by the Ministry of Finance - Central Harmonization Unit.

Development Strategy for Public Internal Financial Control in the Republic of Serbia determined activity plan regarding establishment and development of comprehensive and efficient Public Internal Financial Control.

Minister of Finance adopted a Rulebook on joint criteria and standards for the setting up and functioning of the Public Internal Financial Control, prescribing criteria and standards for the setting up and functioning and reporting on the Internal Financial Control at public funds beneficiaries.

Rulebook on Joint Criteria For Organizing and on Standards and Methodological Instructions for Handling and Reporting on Internal Audit in the Public Sector prescribes joint criteria for organizing and standards and methodological instructions for handling and reporting on internal audit, and internal audit activities at public funds beneficiaries are defined in more detail.

Implementation of financial management and control system is in early stage, while risk management is not applied in a systematic manner. Drafting of bylaws for better definition of managerial accountability is yet to be done. Understanding principles of managerial accountability and internal control standards at

central and local levels and in public enterprises is still poor, and such understanding of senior managers needs to be strengthened also.

In its reports published in 2014, the State Audit institution stated that:

- in majority of audited entities, internal control system has been established in such manner that its functioning does not ensure: operations in compliance with the regulations, internal enactments and contracts; reality and integrity of financial and business reports; and achievement of other objectives in compliance with regulations; as well as that
- internal audit was not organized so that it provides full implementation of regulations, rules and procedures, as well as realization of other objectives which are the reasons for its establishment at all budget funds beneficiaries, according to the Law.

5. Measures ensuring corrective actions, in case of non-compliance with legal requirements and description of procedure for monitoring and implementation.

Budget System Law, in Article 84 through 91, regulate activities and competences of the Budget Inspection. Articles 103 and 104 of this Law regulate penalties in case of failure to observe provisions of the Budget System Law, as well as conducting misdemeanor proceedings. It is necessary to develop and define in more detail the function of Central Budget Inspection, in compliance with the requirements of PIFC.