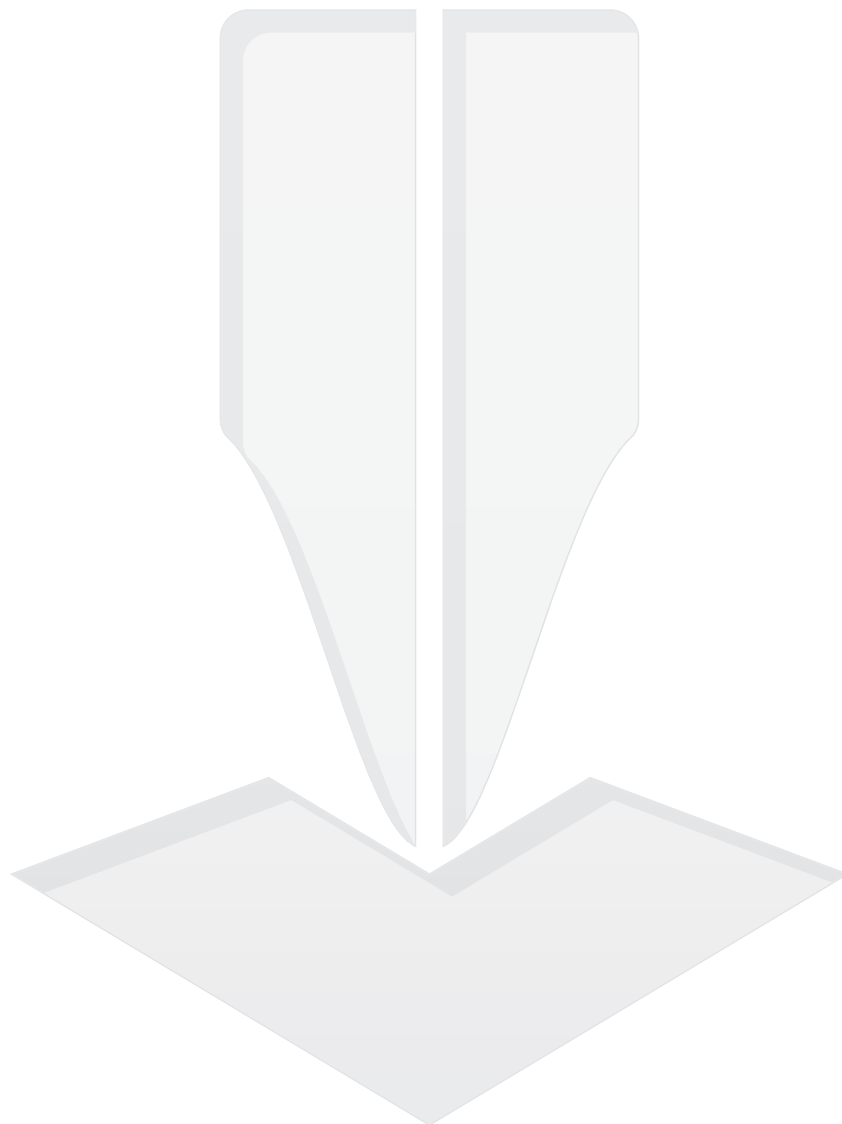




ДРЖАВНА  
РЕВИЗОРСКА  
ИНСТИТУЦИЈА

# STRATEGIC PLAN OF THE STATE AUDIT INSTITUTION FOR THE PERIOD 2019–2023







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# Glossary of Terms

*Acquis communautaire* – Legal framework of the European Union

AMS – Audit Management System

AFCOS Network – Network for the combating of irregularities and fraud in the handling of financial resources of the European Union

GDP – Gross Domestic Product

SAI\* – Supreme Audit Institution

GOPAC - Global Organization of Parliamentarians against Corruption

SAI – State Audit Institution

EU – European Union

EUROSAI – European Organization of Supreme Audit Institutions

IZIS – Integrated health care information system

ICT – Information and Communication Technologies

INTOSAI - International Organization of Supreme Audit Institutions

INTOSAI GOV – INTOSAI Guidance for Good Governance

IntoSAINT - INTOSAI tool for integrity self-assessment

ISA – International Standards on Auditing

ISSAI – International Standards of Supreme Audit Institutions

IT – Information Technology

ITSA – Self-assessment of information technology

NATO – North Atlantic Treaty Organization

OECD – Organization for Economic Cooperation and Development

PEFA – Public Expenditure and Financial Accountability

PIO – Pension and Disability Insurance

SIGMA – Support for Improvement in Governance and Management – a joint initiative of the OECD and the EU, funded largely by the EU

SAA – Stabilization and Association Agreement

SDG – Sustainable Development Goals



# Message from the President

We live in a time of challenges for the public sector and in this regard we are looking to improve the results and quality of services provided by the public sector. Such significant changes carry with them the opportunity for efficiency, as well as the risks for the purpose of service delivery. Successful resolution of these challenges will largely depend on the Government's capability and effective prioritization. Our strategy reflects the way in which we support the National Assembly to respond to the challenges that the Republic of Serbia is facing. The Strategy prepares us for future challenges so that we can continue to be a valuable partner to the National Assembly. It shows the way in which we use our own capacities and resources to add value to our society through support to the National Assembly and to extend our influence through focusing on issues of the highest priority in order to further contribute to accountability and improvement.

In this context, the role of the State Audit Institution (DRI) has never been more important. Our relationship with the National Assembly, our independence and our commitment to high-quality work based on evidence means that we are in a position to comprehensively and objectively assess auditees and enable transparency and accountability. We are in a good position to look at the overall public administration and to determine the systemic issues, and, by conducting audits, check the effects of public policies to citizens, and to contribute to real and beneficial changes with our own influence.

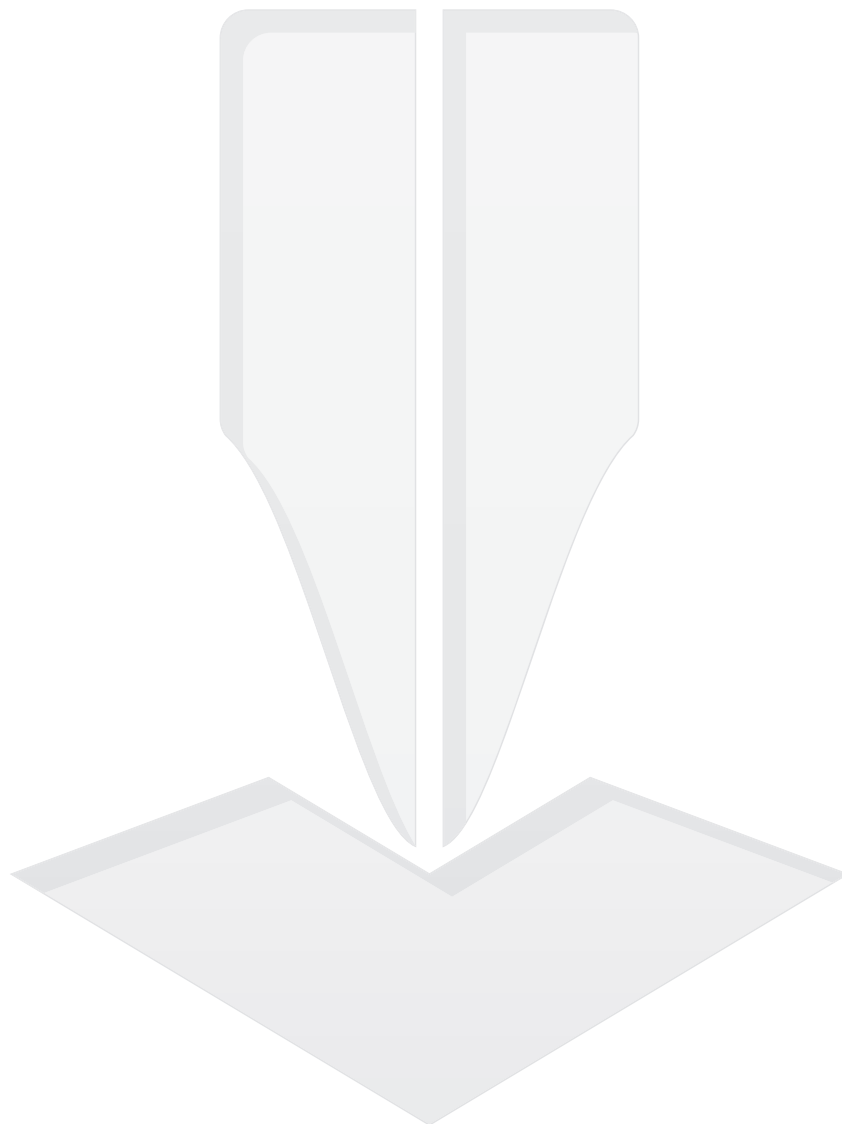
Times change and we set priorities that reflect these changes. We guarantee professionalism by applying the latest standards and good audit practices with the necessary preservation of the independence of the SAI and auditors. We will continue to use in the best way our collective knowledge, skills and experience that we undoubtedly have. In the future audits, primarily compliance and performance audits, we will plan topics that have the potential to maximize the benefits for society and citizens. We will deal mainly with topics related to health, social protection, environmental protection, public services, economic growth and development, education, culture, sports, as well as other topics that are of interest to all stakeholders. We will direct audits to issues that are important for society and citizens, in order to achieve the so-called "3 E" (economy, efficiency and effectiveness), that is, to get value for the money invested. We plan to raise cooperation with all stakeholders to a higher level. We will take advantage of the latest information and communication technologies. We will show our own performance and responsibility. We will make joint efforts on modernizing our work and further training in every sense.

Each of us wants to make progress, work in a better team or organization. In order to succeed in so doing, we need a quality and comprehensive approach that will adequately change the way we use resources, business and operational processes of relevance to the SAI. The changes that we are introducing in the SAI in this Strategic Plan give structured approach which allows the plan to be implemented successfully and for the achieved results to be sustainable. Changes are always directed primarily to people, because changes in organizations come down to depending on the people. For this reason, this Strategic Plan will be accompanied by the Human Resources Management Strategy. The environment in which the change takes place has a major impact on many aspects of the change itself, as the change will alter the very environment too. For this reason, in the following period, we will also prepare the Communications Strategy, i.e. the Stakeholders Engagement Strategy to accompany this Strategic Plan.

Through this Strategic Plan, we strive to establish a structured and strategically driven process that connects horizontal, vertical (top-down and bottom-up) approaches, with people who manage these processes. Only strategic change management can provide the desired results. As the most important factors for the implementation of the Strategic Plan, we recognize: leadership, clear vision and capacity of the SAI.

*Duško Pejović PhD*

SAI PRESIDENT





# Introduction

DRI Strategic Plan for the period 2019–2023 is organized around three key goals, two of which are externally and one internally oriented, and all together provide a general strategic orientation for the SAI. The Strategic Plan includes the mission, vision and values that are the foundation of the work of the SAI during this strategic period.

While the previous Strategic Plan clearly focused on the development of the SAI and improvement of audit quality, the Strategic Plan for the period 2019–2023 will focus on improving performance management and increasing the impact of the SAI as a sustainable mature organization.

The main areas of strategic development over the past five years related to the increase in the number of state auditors, the increase in the number of audits, the increase in the total amount of audited public funds and the expansion of the scope of auditees; improving the quality of audits and ensuring the quality control of audits in accordance with the ISSAI framework; improving the programming, planning and implementation of audits; ensuring the existence of an efficient system for reporting and monitoring the implementation of the SAI recommendations and improving the internal organization of the Institution.

An assessment of the Law on the SAI was carried out to identify potential deficiencies and provide the basis for further harmonization with applicable international standards. The conclusion of the assessment was that the law generally complies with the INTOSAI standards and the EU acquis (acquis communautaire), and may require improvements and clarifications in certain points.

SIGMA conducted a functional review of the SAI during 2016. The review covered the following areas: jurisdiction of the SAI, including its so-called “audit universe” (potential auditees and audit topics), strategic planning of audit, human resource management, and organization management. The aim of the review was to give the SAI an independent assessment of its capacity to effectively and efficiently carry out tasks within its jurisdiction, and to enable the SAI to make qualified decisions regarding its capacities and resources, organizational structure and management, and the need for further support and assistance.

Given that the SAI has been in existence for more than a decade, as well as that it has more than 11,000 potential auditees, to which political parties can be added, it has been recognized that there is a need to make a complete change in the organizational structure and systematized jobs. After collecting data related to the organizational structures of various European SAIs and in line with the recommendations of the SIGMA functional review, in 2018, activities were undertaken to change the organizational structure in order for the SAI to function more effectively and efficiently. The optimized organizational structure of the SAI consists of five audit departments and one audit support department. Audit departments are organized according to public administration departments and are trained to implement all three types of audit. The Audit Support Department consists of the Legal and General Affairs Unit, the Human Resources Unit, the Finance and Accounting Unit, the International Cooperation and Public Relations Unit, and the Information Technology Unit. There is also a special internal unit at the SAI - the Internal Audit Unit.

The SAI has 310 employees (compared to the 431 in the job classification), the average age is 42.3. Of these, 210 are women (67.7%) and 100 men (32.3%). Employees have average working experience in state bodies of 7.8 years, and 289 employees (or 93.2%) have a university degree.

Two comprehensive audit manuals (Manual on Financial and Compliance Audit, and Performance Audit Manual) were adopted in 2015. Both Manuals are fully compliant with INTOSAI standards. Over 50 auditors are trained in detail during pilot audits. Over 150 employees at the Institution have attended the introductory training on new methodologies. During March 2016, the Institution organized a three-day internal training for the practical implementation of audit manuals for all (new) employees.





In the course of 2016 and 2017, a number of Rules of Procedure were adopted by the SAI for audit purposes (Instructions for the post-audit procedure, Guidelines for assessing the manner of violating the obligation of good business practice of auditees, Instructions for preparing reports on the audit of financial statements and compliance of business practice, Checklists for control the quality of the audit of the financial statements and the compliance of the business practice, New examples of the form of audit reports (in accordance with the revised International Standard of Audit - ISA 700)). The Rules of Procedure are in compliance with the law, ISSAI standards and audit manuals.

As it strengthened the capacity for performance audit, the SAI conducted six performance audits in the period 2013–2018.

Having strengthened its capacity to audit parliamentary political parties, the SAI conducted 17 audits of political parties in the period 2015–2018.

Guidelines for quality control and quality assurance with checklists (for financial audit, compliance audit and performance audit) were adopted in 2018. Quality control guidelines were tested by the SAI audit teams during four pilot audits. The total of 74 auditors took the training on the ISSAI framework. A Policy and Action Plan for the introduction and implementation of standards related to audit quality were developed. The total of 70 auditors took the training on detailed procedures for quality control and quality assurance..

During the year 2018, performance auditing training was conducted, which resulted in an increase in the number of performance auditors from 9 to 48. This increased capacities, so the SAI has at its disposal 12 performance audit teams, a six-fold increase compared to the previous Audit Program.

During the year 2018, a new Rulebook for acquiring a title of the state auditor was adopted and new state auditors appointed. Additional training was organized as well as the examination for acquiring the title of State Auditor for about 60 employees in the State Audit Institution, which means that in the coming period, the SAI will have about 140 potential team leaders at its disposal. After that, the certification process will begin to acquire the title of an authorized state auditor.

The SAI is a full member of the International (INTOSAI) and the European Organization of Supreme Audit Institutions (EUROSAI) and the Network of Supreme Audit Institutions of Candidate and Potential Candidate Countries for the European Union and the European Court of Auditors. The SAI also has the role of an active observer in the Contact Committee of the Supreme Audit Institutions of the EU until the date of accession, after which it becomes a full member. Within EUROSAI, the SAI is a member of the IT Working Group, the Working Group on Audit and Ethics, the Working Group on the Audit of Funds Allocated to Disasters and Catastrophes, and the Working Group on Municipal Audit. Within INTOSAI, DRI is a member of the Public Procurement Audit Group.

Within the process of accession of the Republic of Serbia to the European Union, the Institution participates in the work of three Negotiating Groups – 32 “Financial Control”, 23 “Judiciary and Fundamental Rights” and 5 “Public Procurement”. In the area of implementation of the Stabilization and Association Agreement between the EU and Serbia (SAA), the Institution participates in the work of the Stabilization and Association Committee; in the work of the Subcommittee on Economic and Financial Affairs and Statistics; in the work of the Subcommittee on the Internal Market and Competition and the Subcommittee on Justice, Freedom and Security; as well as in the work of the Special Group for Public Administration Reform.

The SAI is one of the members of the AFCOS Network, formed in 2015 by the Government Decision, with the aim of preventing irregularities and fraud in the handling of EU funds throughout the duration of providing financial assistance to the Republic of Serbia by the EU for programs financed by 2020. The Law on SAI, inter alia, stipulates that auditees may be beneficiaries of EU funds, donations and assistance from international organizations, foreign governments and non-governmental organizations. The EU funds in 2015 became an integral part of the budget, i.e. of the financial plans





of the fund beneficiaries, so that they will be subject to audit in accordance with the audit program. In order to improve cooperation with state bodies and institutions, whose representatives are members of the AFCOS Network, agreements on cooperation were signed in 2018 between the Ministry of Finance and the Republic Public Prosecutor's Office, the Anti-Corruption Agency, the EU Funds Audit Office and the State Audit Institution.

The Financial Crime Investigation Strategy for the period from 2015 to 2016, addressing the problem of financial crime by a comprehensive approach, recognized the lack of cooperation and exchange of information between the police and the public prosecutor's office, on the one hand, and state authorities that may be in possession of facts relevant to implementation and the course of the investigation, on the other hand, which reflects on the effectiveness of the detection and prosecution of perpetrators of criminal offenses of financial crime. In order to eliminate the identified shortcomings, it is necessary to appoint liaison officers with the public prosecutor's office and the police in any state body with jurisdiction such that they come into contact with facts related to financial crime which can be evidence in criminal proceedings or lead to such evidence. The SAI is one of the state authorities required to designate a liaison officer allowing two bodies to further recognize ways in which they can cooperate and speed up the exchange of information. The SAI officer was appointed and took special training.

The SAI is one of the important factors when it comes to the implementation of several strategic documents of the Republic of Serbia – Public Finance Management Program for the period 2016–2020; Action Plan for Implementation of the Public Administration Reform Strategy in the Republic of Serbia for the period 2018–2020; Strategy for Development of Internal Financial Control in the Public Sector in the Republic of Serbia for the period 2017–2020; Strategy for Combating Irregularities and Fraud in the Handling of EU Funds in the Republic of Serbia for the period 2017–2020.

Effectiveness in the work of the DRI positively reflects on the effectiveness in the work of the National Assembly. This is the reason why the DRI is continuously working with all relevant parliamentary committees, in particular with the Committee on Finance, Republican Budget and the Control of Public Spending, and the Subcommittee for Reviewing the SAI Audit Reports. Subcommittee for reviewing the audit reports of the State Audit Institution was established in 2015, and in the same year the Memorandum of Cooperation between the Committee and the SAI was signed. The guidelines for reviewing the SAI's audit report were adopted in 2017.

Unlike the previous two SAI strategic plans that were internally oriented and related to the development of SAI capacity, this third Strategic Plan, in addition the goal of further improvement of the SAI, takes into account the external dimension too for the first time. In carrying out tasks within its jurisdiction, the SAI audits will also cover issues of the highest level of priority for the Republic of Serbia, such as: linking Serbia with Europe and the world (accession to the European Union, partnerships around the world, cooperation with countries in the region); faster economic growth (macroeconomic stability, controlled inflation and stability of the financial sector, economic growth, employment through the development of innovative entrepreneurship and small and medium enterprises, reduction of the informal economy, solving the status of state enterprises, building infrastructure, exploitation of agricultural potentials, development of potential in mining, energy sector improvement, potentials of tourism, creative industries and culture); increasing the efficiency of providing public services (modernization of public administration, better targeted social protection, reform of salary system, modern and functional health care, healthy environment); protection of human rights and security (fight against corruption and organized crime, speeding up court procedures and increasing citizens' confidence in the judiciary; advancement of E-justice; advocacy for peace, stability and security; commitment to human and minority rights, vulnerable groups and social inclusion; dialogue and cooperation between the state, church and religious communities); digitization (potentials of digital revolution; digital society; digital services of the state; digital business); improving and modernizing education, improving the quality and accessibility of sports.



The Republic of Serbia's negotiations on EU membership officially began in 2014. Since December 2015, when the first two chapters were opened, 16 have been opened to date. Two have been temporarily closed. In order for the chapter to be closed, Serbia must fulfil all the measures from the action plans and adjust the legislation to the EU rules.

The Republic of Serbia is committed to the 2030 Agenda for Sustainable Development adopted by the UN General Assembly as a continuation of the implementation of the Millennium Development Goals. The procedure of prioritization and adjustment of the development goals to the situation in our country is in progress. The Sustainable Development Goals (SDGs) of the 2030 Agenda officially came into force on January 1, 2016. Over the next 15 years, States which adopted the Agenda are expected to mobilize all resources in order to eradicate poverty, fight inequality and find answers to climate change. Serbia is currently in the process of establishing an institutional framework for monitoring of the achievement of sustainable development goals in the country. Bearing in mind that accession to the European Union is a strategic goal of the country and that all reforms are in function of achieving this goal, there is a complete consensus that the realization of the sustainable development goals is to be carried out through the EU integration process. Consequently, the process of prioritization and nationalization of sustainable development goals in the RS should follow the same principle and standards established within the EU. This means that all development documents of the RS and public policy documents should integrate the UN 2030 Agenda through the EU accession process, and use it for the purpose of profiling RS as a future EU member state.

In December 2015, the Government established an Interdepartmental Working Group on Sustainable Development Goals, tasked with nationalizing, implementing and monitoring SDGs in the Republic of Serbia. A report of the MAPS mission conducted by UN experts is expected in mid-December 2018. This report will be of importance for the preparation of the Voluntary National Review Report, but also in determining the priorities of the Republic of Serbia among the goals and objectives of sustainable development. The Roadmap was adopted for the preparation of the Voluntary National Review Report, which is the first step towards the drafting of this document, which will be presented by Serbia for the first time at the High-level Political Forum at the United Nations in New York in 2019.

INTOSAI responded to 2030 Agenda by integrating sustainable development goals into the INTOSAI Crosscutting Priorities for the period from 2017 to 2022. The priority addresses how to contribute to monitoring and reviewing the objectives of sustainable development in the context of concrete efforts for the sustainable development of each nation and the responsibilities of individual SAIs. INTOSAI provides support to the SAI\* in the implementation of high quality performance audits of the national readiness for implementation of 2030 Agenda, which contributes to the value and benefits for citizens. In addition to such an audit enabling the SAI\* to gain a good overview of the preparation for the implementation of 2030 Agenda, it will also enable the SAI in its country to have its voice during the implementation discussion. Through the audit, the SAI\* can also contribute to the efforts that the state invests through the submission of proposals for preparation for implementation and by drawing attention to the key issues to be considered during the preparation for the realization of the sustainable development goals.



## STATE AUDIT INSTITUTION

### Strategic Plan of the State Audit Institution for the period 2019-2023.



#### SAI VISION

The SAI is an independent supreme audit institution that helps the Republic of Serbia to manage and use its resources wisely.

#### SAI MISSION

Through reliable information, the SAI contributes to good governance, transparency and accountability in the public sector.

## STRATEGIC GOALS

### Goal 1: Respond to current and urgent challenges in the operation of public funds beneficiaries

- Objective 1.0: Social Welfare
- Objective 1.1: General Public Services
- Objective 1.2: Defence
- Objective 1.3: Public Order and Safety
- Objective 1.4: Economic Affairs
- Objective 1.5: Environmental Protection
- Objective 1.6: Housing and Community Affairs
- Objective 1.7: Health Care
- Objective 1.8: Recreation, Sports, Culture and Religion
- Objective 1.9: Education

### Goal 2: Identify problems and propose solution for cross-sectorial problems at all levels to enhance accountability and transparency

- Objective 2.1: Ensure compliance with accounting standards and financial reporting standards
- Objective 2.2: Improve financial planning, management and recording
- Objective 2.3: Establish and maintain a good control environment at all public funds beneficiaries
- Objective 2.4: Ensure proper management of public procurement in public administration
- Objective 2.5: Improve management in public sector and use of information technology (IT)
- Objective 2.6: Improve the management of infrastructure investments and other investments

### Goal 3: Strengthening the SAI and its Role

- Objective 3.1: Improve the SAI Independence
- Objective 3.2: Conduct Quality and Timely Audits
- Objective 3.3: Improve Organizational Capacities
- Objective 3.4: Preserve Reputation and Strengthen the Impact of the SAI through Partnering with Key Stakeholders

## CORE VALUES

\*CONSISTENT

\*RELEVANT

\*INNOVATIVE



## Vision and Mission

### **Vision**

*The SAI is an independent supreme audit institution that helps the Republic of Serbia to manage and use its resources wisely.*

### **Mission**

*Through reliable information, the SAI contributes to good governance, transparency and accountability in the public sector.*



## Core Values

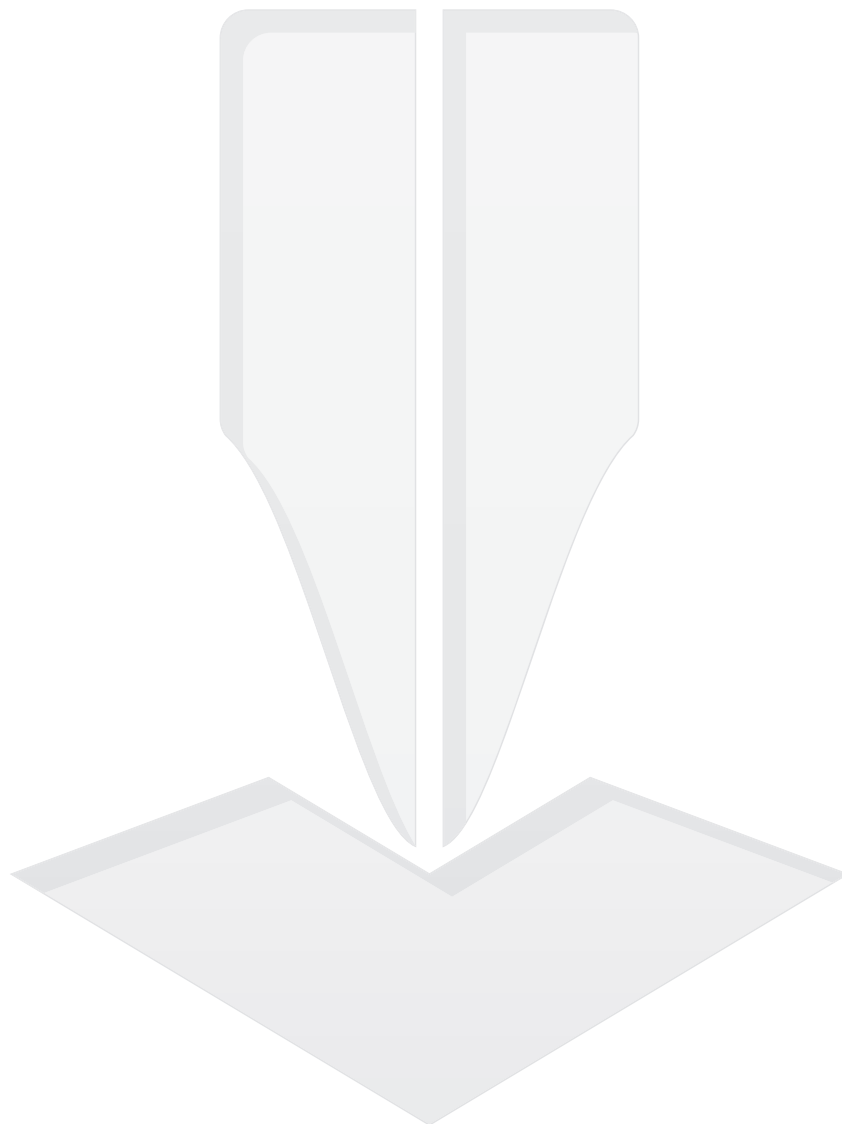
Without giving up the strategically already defined core values, instructive to the SAI and its employees in the execution of the SAI mission, the next period will be focusing on promoting consistency, relevance and innovation.

***Consistent*** – The SAI consistently applies international audit standards and adopted methodology to ensure the quality of its work.

***Relevant*** – The SAI continually shows relevance through appropriate response to the challenges the citizens face, to the expectations of stakeholders, and to the emerging risks and changes in the environment in which audits are conducted. The SAI has a good understanding of developments in the public sector and leads a significant dialog with stakeholders on the way in which the SAI can facilitate public sector improvements.

***Innovative*** – The SAI is constantly striving for the improvement of practice and the introduction of innovation when it comes to audit and management approaches, as well as the way of communication with taxpayers and other stakeholders. We strive to improve our results and engage more actively when it comes to relations with our auditees, the National Assembly, the media and citizens. Professional and competent, collecting, evaluating and selecting new ideas and good practices, processes, audit products, tools and methodologies, or a combination of everything stated above will be done with the aim of responding to social need or social problem in a better way.

The initial letters of these three core values in Serbian form the acronym identical to the abbreviated name of the SAI.





# Goal 1:

## *Respond to current and urgent challenges in the operation of public funds beneficiaries*

The first strategic goal is aimed at the SAI support to beneficial changes in the work of public funds beneficiaries. This support will be achieved by responding to challenges faced by citizens, stakeholder expectations and emerging risks, as well as to the changing environments in which audits are carried out.

The SAO will evaluate the risks that occur and change at the public funds beneficiaries in order to respond to them in a timely manner. This risk assessment will be carried out in accordance with the general goals and tasks of the Republic of Serbia established in the functional classification. We will respond to these risks in a timely manner, and thus enable strengthening of the transparency, accountability and integrity of the public funds beneficiaries.

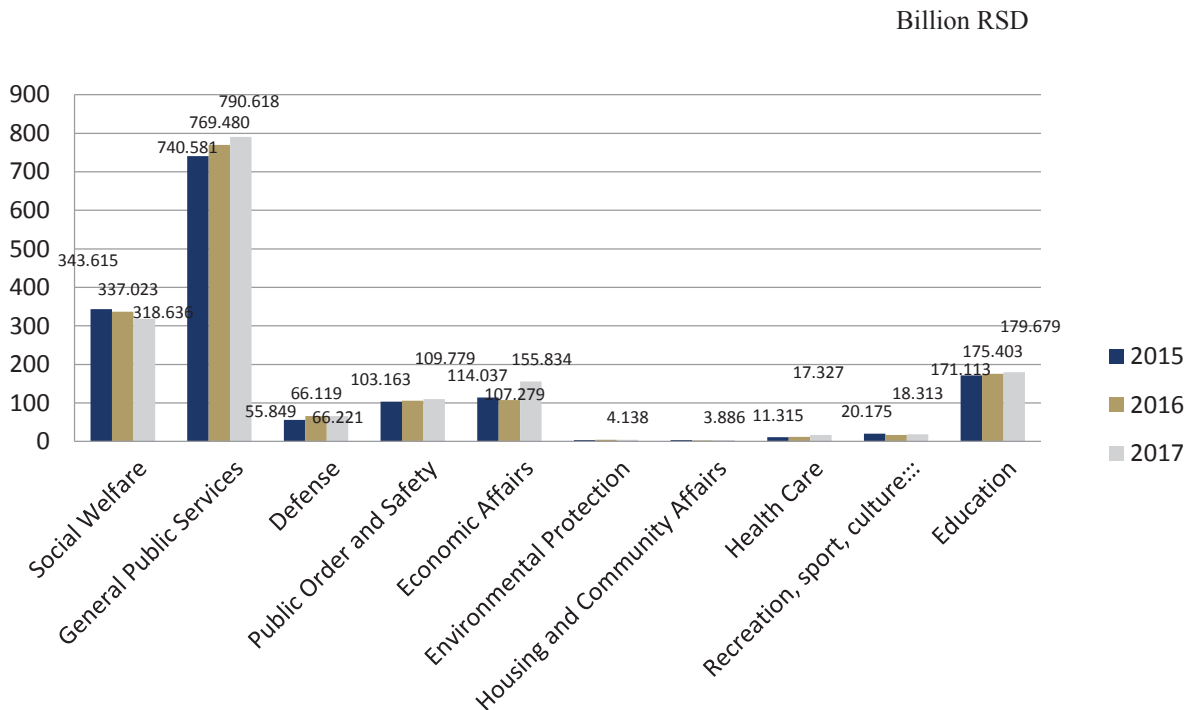
The State Audit Institution will in the following period:

- ▶ Audit financial statements in order to confirm whether they are in accordance with generally accepted accounting principles and standards and influence the improvement of financial reporting,
- ▶ Audit the compliance of the operation of public funds beneficiaries in order to positively influence their compliance with the law, other regulations, authorizations given and planned purposes, and
- ▶ Evaluate the effective, cost-effective and efficient use of resources and provide recommendations for improvement.





Figure 1. Execution of the budget of the Republic of Serbia according to the functional classification



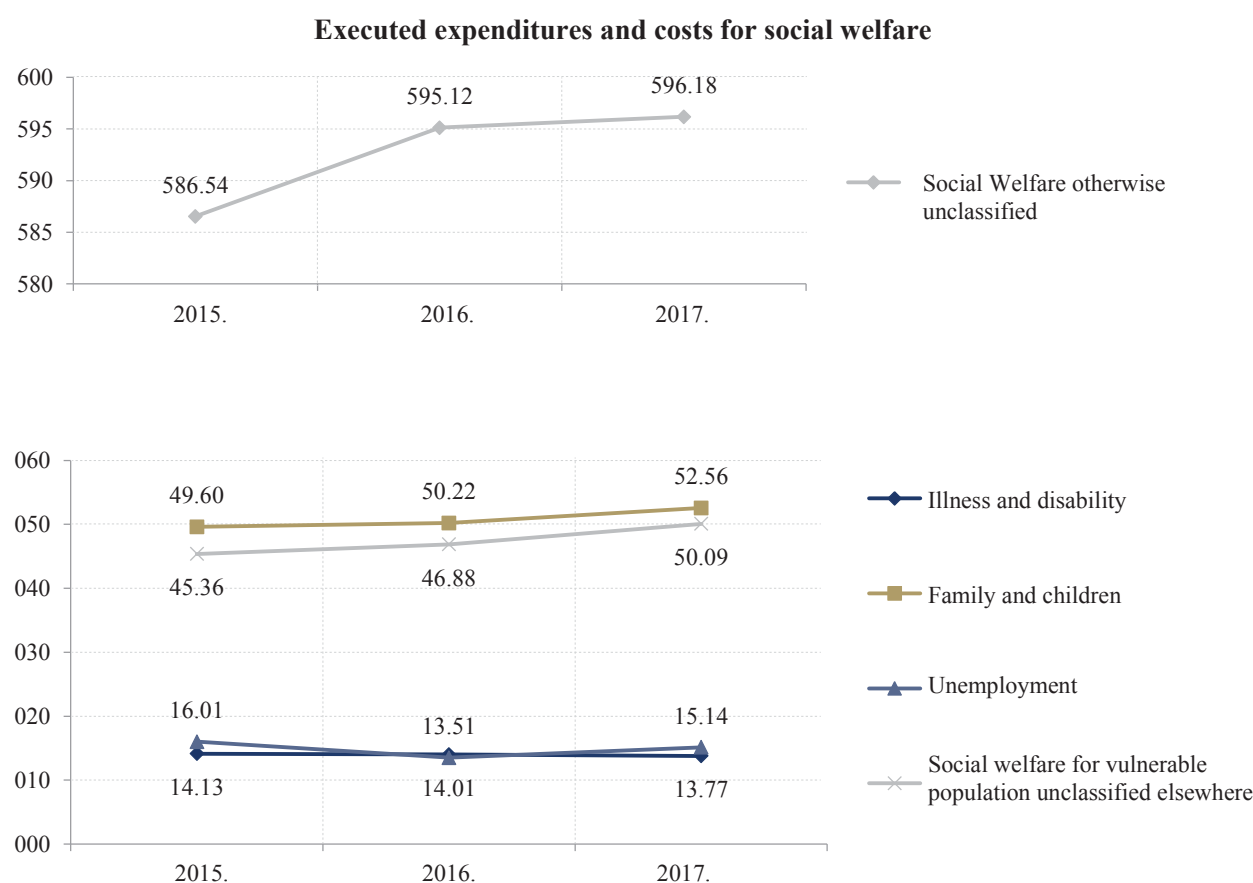
### Objective 1.0: Social Welfare

The SAI will identify problems and propose solutions to assist Serbia in protecting and helping its most vulnerable citizens. Specifically, the SAI will audit the state spending in the area of social welfare, including costs for services and transfers to individuals and households, as well as costs for services provided on a collective basis, and ensure that funds allocated to social welfare are used economically, efficiently and effectively, as well as in accordance with the law, other regulations and given authorizations.

State expenditures in the area of social welfare include expenditures for services and transfers to individuals and households, as well as expenditures for the services provided on a collective basis. Collective social welfare services pertain to issues of formulation and administration of state policies; drafting and implementation of regulations and standards for providing social welfare; as well as applied research and experimental development in the field of social welfare affairs and services. Social welfare functions include: illness and disability; age; family pension beneficiaries; family and children; unemployment; housing; social assistance to vulnerable populations unclassified elsewhere; social welfare – research and development and social welfare unclassified elsewhere.

**Figure 2. Settled expenditures and costs for social welfare at the central level of the Statey**

Billion RSD



Although allocations for illness and disability, family and children, unemployment and social assistance to the vulnerable population from the budget of the Republic of Serbia in the period 2015–2017 were stable, the total amount defined for the category of Social Welfare shows a stable trend of growth due to higher allocations for social welfare unclassified elsewhere. In addition to the fact that transfers from the budget of the Republic of Serbia to the Republican Pension and Disability Insurance Fund are reduced, due to better collection of social security contributions by the Tax Administration, the amount of funds for exercising rights from the scope of the Pension Fund are constantly increasing.

At the central level of the state for the implementation of the function 0 – Social Welfare, most of the funds were executed with the Republican Pension and Disability Insurance Fund (51.65%), the Ministry of Finance (27.27%) and the Ministry of Labour, Employment, Veterans' Affairs and Social Affairs (18.50%), while the remainder was executed with the National Employment Service, the Commissariat for Refugees and Migration and the budget funds for social welfare institutions and programs for the promotion of the situation and welfare of the of persons with disabilities.

The most important strategic documents of the Republic of Serbia in the field of social welfare are: Strategy for Development of Social Welfare and Poverty Reduction Strategy in Serbia. The main goal of the reform of the social welfare system is to develop integrated social welfare in which social actors use in the most efficient way the existing and develop new resources through accessible, quality and diverse services, in order to preserve and improve the quality of life of vulnerable and



marginalized individuals and groups, increasing capacity for a productive life in community and prevention of dependence on social services. Two specific outlined goals of the Social Welfare Development Strategy are: improving the welfare of the poorest citizens and developing a community service network.

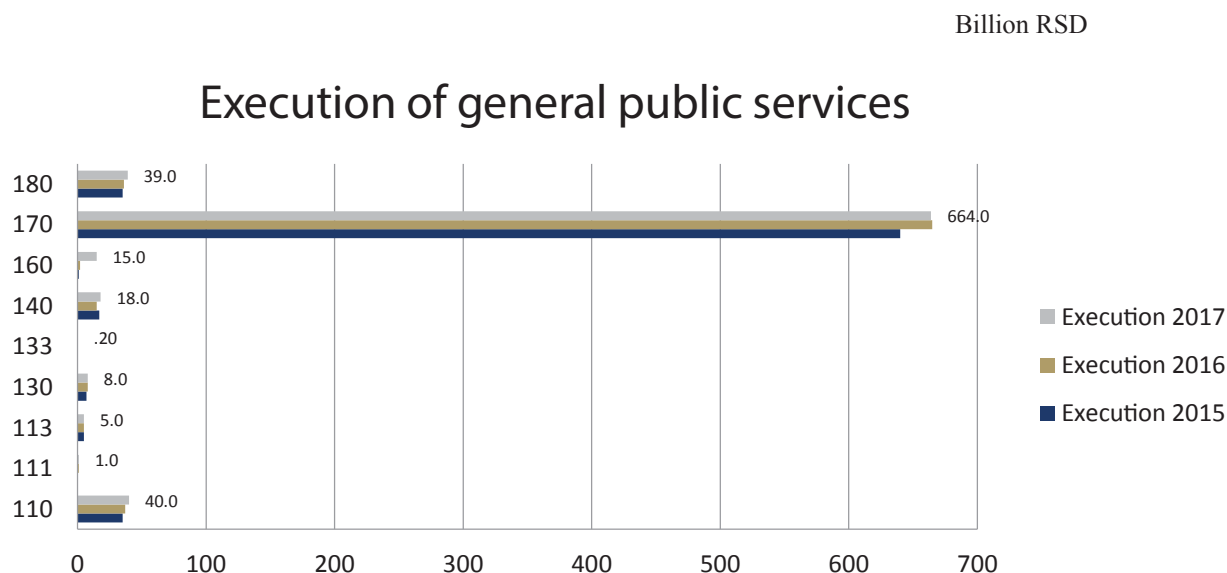
In the following period, the State Audit Institution will assess the effective and efficient use of resources for achieving and maintaining the minimum material security and independence of the individual and family in meeting the living needs, ensuring the availability of services and exercising rights in social welfare, and making recommendations for the improvement of the overall social welfare system.

### Objective 1.1: General Public Services

The SAI will work to improve general public services. In particular, the SAI will carry out audits of state and local programs in the areas: executive and legislative bodies, financial and fiscal affairs and external affairs; economic assistance abroad; general services; basic research; general public services – research and development; general public services unclassified elsewhere; public debt transactions and general-purpose transfers between different levels of government.

At the level of the budget of the Republic of Serbia in the period 2015–2017, general public services on average account for 48% of total expenditures and costs.

Figure 3. Settled expenditures and costs for general public services





A large number of direct budget users in the budget of the Republic of Serbia show their expenditures and costs under this functional budget classification. This percentage of participation in total expenditures and costs is the result of public debt transactions, which in the mentioned period accounted for 85.6% of general public services. Public debt is an unconditional and irrevocable obligation of the Republic of Serbia, and the repayment of public debt has a permanent absorption in the budget of the Republic and a priority in payment in relation to other public expenditures determined by the law regulating the budget of the Republic.

General public services are a prerequisite for strategic goals and allocations for their achievement are made in other functional budget categories.

The most important strategic document is the Fiscal Strategy, which for the period of three consecutive fiscal years contains the goals of the fiscal policy of the Government and gives an assessment of the sustainability of fiscal policy. The public debt management strategy as part of the Fiscal Strategy is adopted for the same period, so it is in line with the medium-term macroeconomic and fiscal framework, which suggests that in the upcoming period the trend of public debt reduction at the general state level will continue. To a great extent, the Government's Economic Reform Program of the Republic of Serbia, which is being developed on an annual basis, leans on the Fiscal Strategy.

In the further work of the SAI, the Public Administration Reform Strategy is also inevitable, which aims to ensure the high quality of services for citizens and businesses, and the creation of such a public administration in the Republic of Serbia, which will significantly contribute to economic stability and increase the living standards of citizens. This strategy represents a framework for the Strategy for Regulatory Reform and the Improvement of Public Policy Management System that focuses on establishing a legal and institutional framework that will provide to citizens and the economy with an environment in which they will be able to exercise their rights effectively and fulfil their obligations, as well as for the Program of Public Finance Management Reform that contains concrete measures and activities needed to achieve a viable budget with a lower debt ratio than the GDP.

Important for further improvement of the work of the entire public administration is the Strategy of Development of Internal Financial Control in the Public Sector in the Republic of Serbia, which aims to incorporate the standard practice of financial management and control into regular management processes and the function of internal audit as a tool for the leaders for good governance.

The Strategy for Combating Irregularities and Fraud in the Handling of EU Funds in the Republic of Serbia is aimed at ensuring responsible handling of these funds, but at the same time timely detection of omissions and mistakes that can occur in the system.

In addition to the aforementioned, as a horizontal strategic document, the National Program of Natural Disasters Risk Management is important, having the aim of building an adequate long-term system for managing the risks of natural disasters in the country, where different institutions would cooperate and work together to reduce risk and respond to disasters more effectively.

As many strategic goals are difficult to achieve without scientific research and innovation, in the Science and Technology Development Strategy of the Republic of Serbia – "Research for Innovation", one of the specific goals important from the aspect of the competencies of the Institution is to encourage the excellence and relevance of scientific research in the Republic of Serbia, with benefit for society being the realization indicator.

In the audits conducted so far in the area of this functional category, the State Audit Institution has, among other things, provided recommendations concerning the establishment of a record of the structure and value of non-financial assets, as well as the establishment of a financial management and control system that ensures business operations in accordance with the goals of that system.

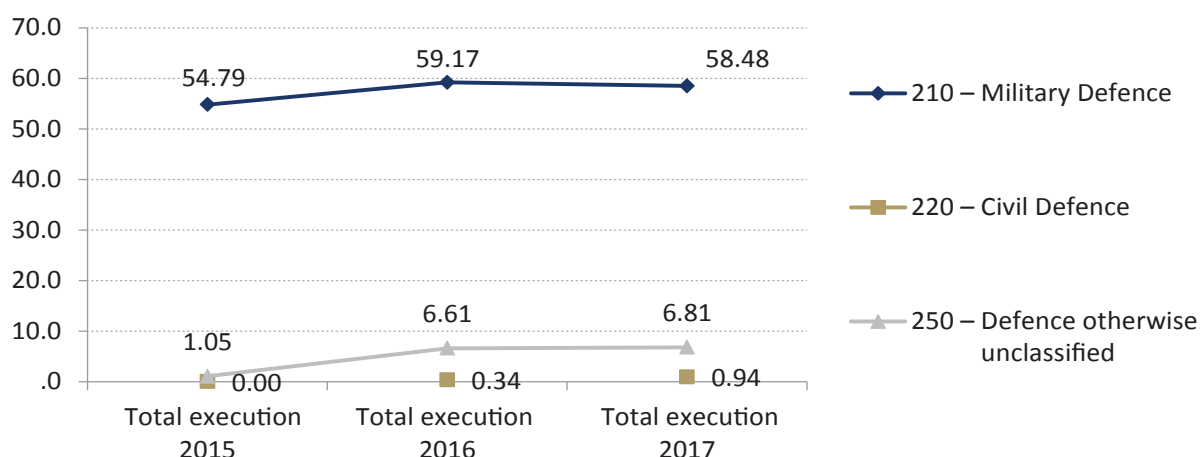


In the following period, the State Audit Institution will assess the effective and efficient use of resources in the management of public funds and public assets, as well as in the conduct of public administration in providing high quality services.

## Objective 1.2: Defence

The SAI will identify problems in the dedicated and purposeful spending of the funds intended for defence and propose solutions in order to positively influence the strengthening of combat readiness of the military. The general defence-related goals and tasks of the state are grouped within the functional budget category 2. Expenditures and costs for this area are reported in the budgets at central and local level, independently of the organizations that carry out this function. Within this classification, the following areas are covered: military defence, civil defence, military assistance abroad – research, development and defence unclassified elsewhere. Due to the nature of defence-related tasks, the defence expenditures and costs are concentrated at the central level of the state, except for civil defence, where certain funds are also planned in the budgets of local governments. The SAI will conduct an audit of auditees in the field of military, civilian and defence unclassified elsewhere.

**Figure 4. Settled expenditures and costs for defence from the budget of the Republic of Serbia**  
Billion RSD



Increased execution for the class – Defence Unclassified Elsewhere was due to increased allocations for weapons and military equipment.

At the central level of the state, the funds for the implementation of the function 2 – Defence are granted to the Ministry of Defence (99.96% of the total funds) and the Mine Action Centre (00.04% of the total funds). In the budget, within the division of the Ministry of Defence, there is a separate presentation of funds for weapons and military equipment, the needs of military education and military scientific research activities, the needs of a system of special connections and the financing of housing needs of professional members of the Serbian Armed Forces and employees of the Ministry of Defence.

The most important strategic documents of the Republic of Serbia in the field of national security and defence are the National Security Strategy of the Republic of Serbia and the Defence Strategy of the Republic of Serbia. Both strategies were enacted in 2009 and a public debate is under way



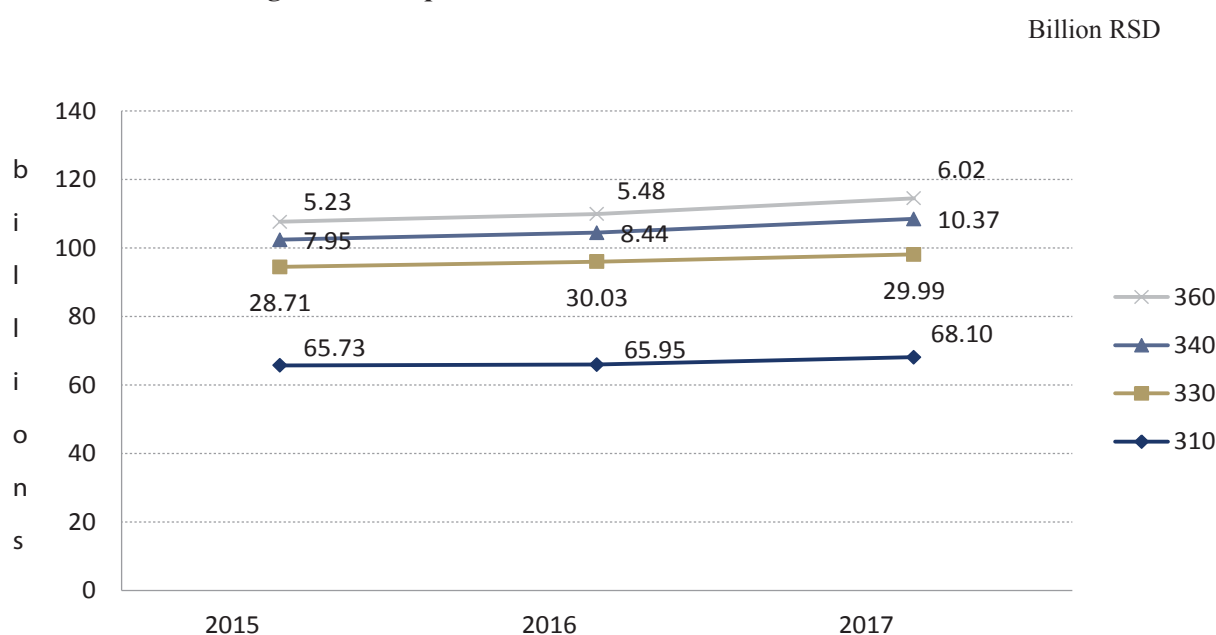
for the adoption of new ones. The goals of the national security policy are to improve the safety of citizens, society and the state, strengthen national security institutions, preventive action through the implementation of effective measures and activities, and adequate addressing of the risks and threats to security in order to protect national interests. The basic defence goals are: efficient defence system, peace and favourable security environment, integration into European and other international security structures and participation in the NATO Partnership for Peace program.

In its performance audit titled “Rationale for Payment of Pension Insurance for More Qualifying Years than Years Worked in Certain Posts or Positions”, the SAI recommended to the Ministry of Defence to review the rationale of having this policy in place. In the following period, the SAI will assess the effective and efficient use of resources to improve citizen security, maintain an effective defence system, and adequately address risks and threats to security in order to protect national interests and make recommendations for improvement.

### Objective 1.3: Public Order and Safety

The SAI will identify problems in the dedicated and purposeful execution of funds intended for public order and safety and propose solutions in order to positively influence the achievement of the goals and tasks from this function. The functional budget category 3 groups the general goals and tasks of the state related to public order and safety. Expenditures and costs for this area are reported in the budgets at central and local level, independently of the organizations that carry out this function. The areas in this function are: police services, fire protection services, courts, prisons, public order and safety – research and development and public order and safety not elsewhere classified. At the central level, state funds are approved to the Ministry of the Interior (60%), courts and prosecutors’ offices (27%) and the others 13%. The SAI will conduct audits of auditees in these areas.

**Figure 5. Settled expenditures and costs for public order and safety from the budget of the Republic of Serbia**





The most important strategic documents of the Republic of Serbia in this area is the National Security Strategy of the Republic of Serbia. The strategy was enacted in 2009 and a public debate is under way for the adoption of new strategy. In addition to the above strategy, strategies have been adopted in the field of combating terrorism, fighting organized crime, integrated border management, preventing and combating trafficking in human beings, in particular women and children, and protecting victims, to combat violence and misbehaviour at sports events; and other strategies. Some of the goals of the national security policy are: improvement of the safety of citizens, society and the state, strengthening of national security institutions, and preventive action through the implementation of effective measures and activities. The protection of the democratic political system, human rights and freedoms, public order and peace and the property safety of citizens and other social values is ensured by the Internal Security Policy.

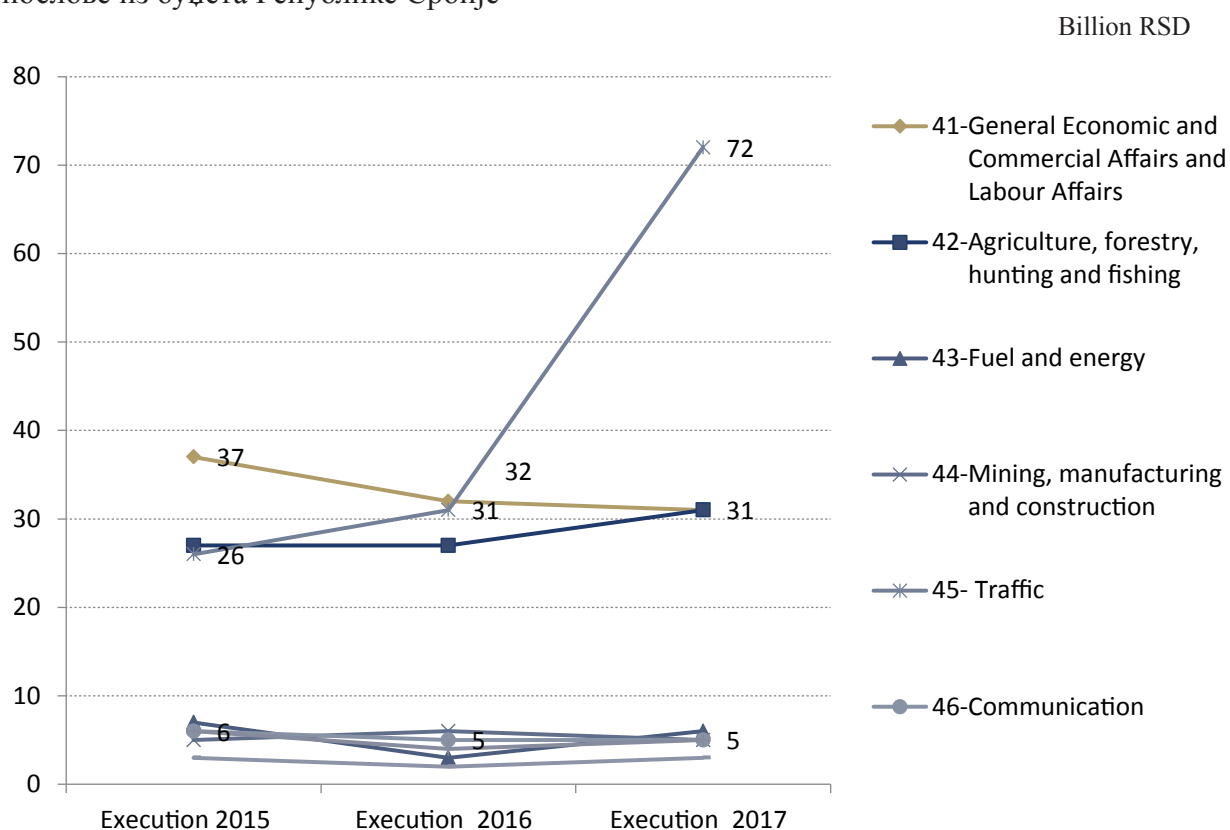
In its performance audit “Rationale for Payment of Pension Insurance for More Qualifying Years than Years Worked in Certain Posts or Positions” the SAI recommended to the Ministry of Internal Affairs and the Security and Information Agency to conduct a revision of the rules of procedure defining the positions/posts for which the insurance period is longer than period in employment, so as not to include administrative-technical posts, or posts with identical working conditions in other state bodies which do not qualify for this benefit. In the following period, the SAI will assess the effective and efficient use of resources for improving the work of judicial authorities, monitoring and securing the state border in accordance with European standards and actions in emergency situations (fire, natural disasters, technical and technological accidents).





## Objective 1.4: Economic Affairs

The State Audit Institution will identify problems and propose solutions to assist the faster economic development of the Republic of Serbia. In particular, the State Audit Institution will audit state expenditures in the area of functional budget category 4, which covers the following areas: general economic and commercial affairs and labour affairs, agriculture, forestry, hunting and fishing, fuel and energy, mining, production and construction, traffic, communications, other activities and economic affairs not elsewhere classified. Слика 6. Извршени расходи и издаци за економске послове из буџета Републике Србије



For the area of transport, the funds are approved to the Ministry of Construction, Transport and Infrastructure (99.10% of total funds), and to others (0.9% of the total funds), (Government of Serbia Aero Service, Waterways Directorate, Railway Directorate, Directorate for Transport of Hazardous Cargo, Directorate for Determining Vessel Navigability) for the implementation of the program of regulation and supervision in the field of traffic, infrastructure projects of importance to the Republic of Serbia, as well as planning and supervision in the field of planning and construction.

The most important strategic documents of the Republic of Serbia in the field of transport are strategies and plans in the field of development of railway, road, water, air, intermodal transport and road safety. The stages of development of railway, road, water, air and intermodal transport in the Republic of Serbia are: restoration, reconstruction and modernization, and construction. In the restoration phase, the goal is to bring the transport system to the projected state as a basis for further investment. At the stage of reconstruction, the goal is to reach a level that is comparable and compatible with the level in the member states of the European Union in order to equalize the characteristics of transport infrastructure and flows. In the modernization and construction phase, the goal is for the transport system of the Republic of Serbia to be compatible with the transport system of the European Union with the tendency of further modernization.



The most important strategic documents of the Republic of Serbia in the field of transport are strategies and plans in the field of development of railway, road, water, air, intermodal transport and road safety. The stages of development of railway, road, water, air and intermodal transport in the Republic of Serbia are: restoration, reconstruction and modernization, and construction. In the restoration phase, the goal is to bring the transport system to the projected state as a basis for further investment. At the stage of reconstruction, the goal is to reach a level that is comparable and compatible with the level in the member states of the European Union in order to equalize the characteristics of transport infrastructure and flows. In the modernization and construction phase, the goal is for the transport system of the Republic of Serbia to be compatible with the transport system of the European Union with the tendency of further modernization.

For Agriculture, forestry, hunting and fishing, the funds are granted to the Administration for Agricultural Payments (85.32% of the total funds) and to others the remaining 14.68% of the total funds (Budget Fund for Development Hunting of the Republic of Serbia, Budget Fund for the Forests of the Republic of Serbia, the Directorate for National Reference Laboratories, the Ministry of Agriculture and Environmental Protection, the Republic Hydro-meteorological Institute, the Administration for Tobacco, the Plant Protection Administration, the Agricultural Land Administration, the Forest Administration, the Fund for Encouraging the Development of Agricultural Production in the Republic). In the budget, within the allocation of the Administration for Agricultural Payments, funds are separately presented within in direct payments, incentives for rural development measures, as well as special incentives.

The National Strategy for Agriculture and Rural Development 2014–2024 is the most important strategic document of the Republic of Serbia in the field of agriculture, forestry, hunting and fishing. The development of this strategy is motivated by the need for a new concept of agricultural policy to respond to internal and external challenges, such as:

- 1) The need to reduce technological development lag behind competitor countries and to enable the agricultural sector to face the effects of climate change in a more efficient way;
- 2) The necessity of increasing the efficiency of the food chain and the competitiveness of the agricultural-food sector;
- 3) Ensuring a stable income and business environment for farmers and other entrepreneurs;
- 4) Achieving the economic, ecological and social goals of sustainable development, in which multi-functional agriculture and rural development have a special place;
- 5) Readiness to respond to requirements arising from the process of accession to the World Trade Organization and the European Union.

For the field of the General Economic and Commercial Affairs and Labour Affairs, the funds are allocated to the Ministry of Economy (46% of the total funds); to the Ministry of Labour, Employment, Veterans' and Social Affairs (26.52% of the total funds); to the Republic Geodetic Authority (13.15% of the total funds); and to others (the remaining 13.96% of the total funds) for the development of the national system of quality infrastructure, regulation and supervision in the field of economic and regional development, incentives for the development of competitiveness of the economy, attracting investments, and regional development.

The main strategic documents of the Ministry responsible for economy are Strategies for supporting the development of small and medium enterprises, entrepreneurship and competitiveness, improvement of the system of quality infrastructure, employment.

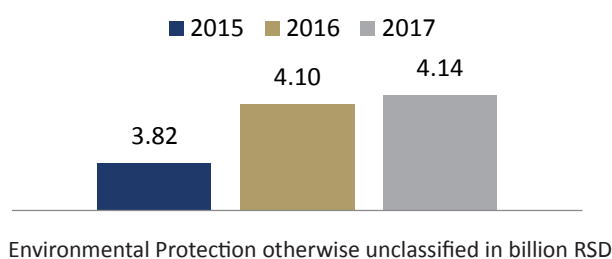
In the following period, the SAI will audit the implementation of infrastructure projects of importance for the Republic of Serbia, incentives for the development of agricultural production in the Republic, incentives for the development of competitiveness of the economy, attracting investment and regional development.



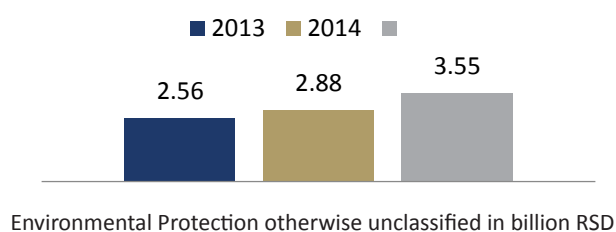
## Objective 1.5: Environmental Protection

The SAI will contribute to improving the quality of environmental protection. In particular, the SAI will audit the public funds beneficiaries who are granted environmental protection funds and who are competent for the planning and management of these funds. The functional budget category 5 groups the general goals and tasks of the state related to environmental protection. Within this classification, the following areas are covered: waste management, waste water management, pollution reduction, protection of plants and animals and landscape, environmental protection – research and development, environmental protection not elsewhere classified.

**Figure 7. Execution for the RS Budget**



**Figure 8. Execution of LSU budget**



The most important strategic documents of the Republic of Serbia in the field of environmental protection are: National Environmental Protection Program and National Environmental Approximation Strategy of the Republic of Serbia. Some of the common goals of these strategic documents are the analysis of identified environmental problems and the analysis of legal, institutional and infrastructure causes of the problems. At the central level of the state for the implementation of function 5 – Environmental Protection, funds are allocated to the ministry responsible for environmental protection, the Environmental Protection Agency and the Green Fund of the Republic of Serbia. At the local level, environmental protection funds are mainly implemented through budget funds for environmental protection, of which there were 48 on 31 August 2018.

According to the analysis of the Fiscal Council, Serbia is currently among the ecologically most polluted countries in Europe. Serbia is obliged to significantly increase investments in this area in the process of EU accession. Estimates from 2015 indicate that by 2030, the costs in this area, only for investment, will reach 10 billion euros. At a meeting dedicated to the dialogue between the Negotiating Group for Chapter 27 and the civil sector, the state secretary of the ministry responsible for environmental protection said that it is estimated that costs for this chapter for Serbia will be between 11.5 and 15 billion euros.

At one of the sessions dedicated to sustainable development, the Environmental Protection Committee pointed out that the comprehensive goals of sustainable development are social and economic development in line with the protection and improvement of the environment, and the need for cooperation between the institutions in order to achieve these goals. One of the publicly stated goals of the ministry responsible for environmental protection is to ensure pollution reduction and resource conservation with regional cooperation.



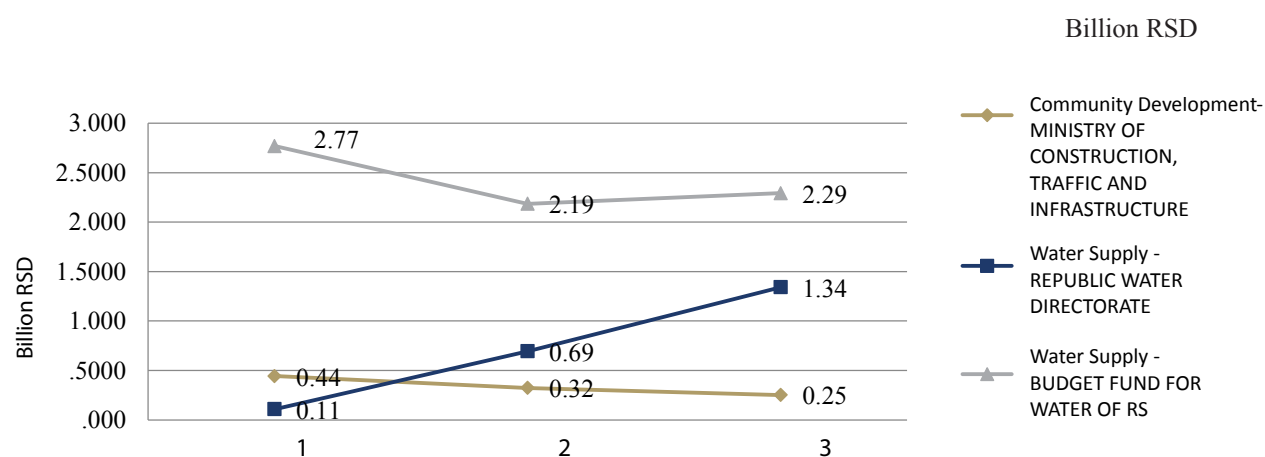
On the basis of its audits, the State Audit Institution has sent a recommendation to the National Assembly to harmonize regulations governing the purpose of revenues that local self-government units realize under special laws. The Environmental Protection Law determines the special purpose of revenues from environmental protection and improvement, unlike the Law on the Budget System. The Law on Fees adopted in December 2018 deleted the provisions of the Environmental Protection Law, which determined the purpose of revenues from the fee for environmental protection and improvement.

In the following period, the State Audit Institution will assess the effective and efficient use of resources for the improvement of environmental protection, harmonization with EU standards, improvement of municipal infrastructure, management and monitoring systems in this area, and give recommendations for improvement.

## Objective 1.6: Housing and Community Affairs

The State Audit Institution will contribute to improving the quality of life of all citizens of the Republic of Serbia. In particular, the State Audit Institution will audit the expenditures in the area of housing and community affairs, which are grouped within the functional budget category 6, which includes the following areas: housing development, community development, water supply, street lighting, housing and community affairs – research and development, and housing and community affairs not elsewhere classified. Due to the nature of work related to housing and community, expenditures and costs for these purposes are planned in the budgets of local governments, except for community development and water supply where certain funds are also planned at the central government level.

**Figure 9. Settled Expenditures and costs for housing and community affairs from the budget of the Republic of Serbia**



In the area of water supply, the Water Management Strategy in the Territory of the Republic of Serbia until 2034 was adopted in 2017 stating the plan to invest 8.5 billion euros in improving the infrastructure for water supply, sewage and protection from floods, flash floods and erosion. The strategic goal established by this document is to ensure such water management which achieves maximum economic and social effects in a fair manner. In addition to the aforementioned, the National Social Housing Strategy, which was adopted in 2012 for the next ten-year period, is of the utmost importance, having a goal to provide access to affordable and healthy housing in accordance with the principles of sustain-



able development to those households which, for social, economic and other reasons, cannot secure an apartment under market conditions.

Utility services are of utmost importance for the normal functioning of the community, its inhabitants and legal entities. Determination of prices of utility services is under the jurisdiction of local governments and affects the amount of funds in the budgets of local governments intended for subsidies to ensure the functioning of utility companies. According to the Report of the State Audit Institution on performance audit “Subsidies of Local Self-government Units to Public Companies”, carried out in 2018, the LSGs awarded an annual average of 20 billion dinars to local public companies in the period from 2015 to 2017. The subsidy amount in 2017 increased by about 7 billion dinars compared to the previous year.

Continuous activities are ongoing toward regulatory changes on strengthening the capacity and functionality of municipal infrastructure are ongoing, on providing funds for financing the construction of communal infrastructure, on monitoring the quality of utility services, and undertaking measures for the continuous execution of utility activities, including the recognized need for determining the methodology for the pricing of utility services. Also, in the previous audits of the financial statements and compliance of operations, the State Audit Institution found that no complete and up-to-date record of public property used by local governments and utility companies was made and made recommendations for the elimination of identified irregularities. The main goal of these activities and recommendations is to contribute to strengthening the financial position of local governments and utility companies and reducing the need for subsidizing utility companies by local self-governments as founders.

In the coming period, the SAI will audit:

- ▶ Recording and accounting of public property and determining the financial results of utility companies,
- ▶ Implementation of regulations in the field of public procurement, trust in the performance of communal activities, employment and prices of utility services, and
- ▶ The ratio of prices, quality and accessibility of utility services to citizens and the economy, and the subsidies of founders to utility companies, as well as the justification of granting the use of or investing of publicly property into the capital of utility companies, and give recommendations for improvement.

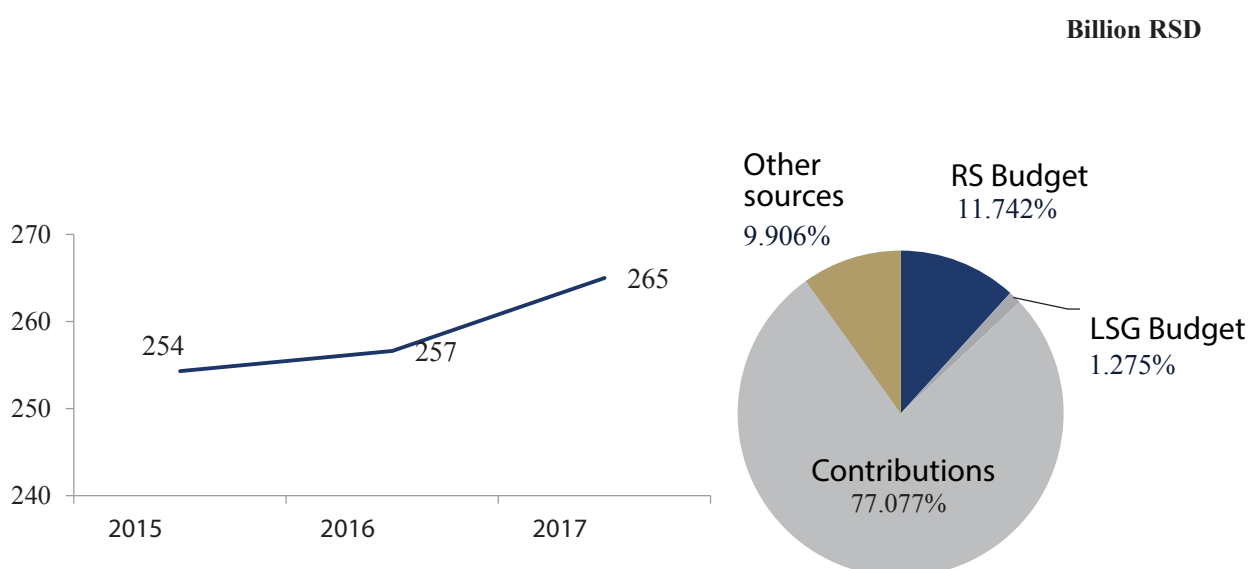


## Objective 1.7: Health Care

By its work, the SAI will contribute to the improvement of the health care of citizens. Each year the SAI carries out an audit of health insurance funds and a number of health care and pharmacy institutions in which health care services are provided.

Funds for financing health care in Serbia are provided from funds of paid contributions for health insurance, allocation of funds from the budget (includes budget funds, loan funds, European Union assistance and other public revenues), received donations and personal participation of citizens in the costs of treatment. The total health care costs on an annual basis in the period 2015–2017 amounted to 254–265 billion dinars. The costs of the health care system relate to the provision of hospital and out-of-hospital services, public health services, medical products, supplies and equipment, research and development in the field of health and other health care activities.

**Figure 10. Presentation of the amount of health care resources spent in the period 2015-2017 and their structure according to sources of financing**



The health care policy of the Republic of Serbia is aimed to strengthen the health care system through the introduction of modern technologies and modernization of health care institutions, as well as the entire treatment process, with the goal of contributing to the preservation and development of the health of all citizens.

The health care system of Serbia is faced with challenges that imply the initiated structural reforms: introduction of IZIS system for direct booking of specialist appointments, e-prescriptions, preparations for introducing financing of health services by the method of diagnostically related groups, ensuring the necessary number of staff, reducing the participation of administrative staff in the health care system, gradual inclusion of private sector into the system of compulsory health care.

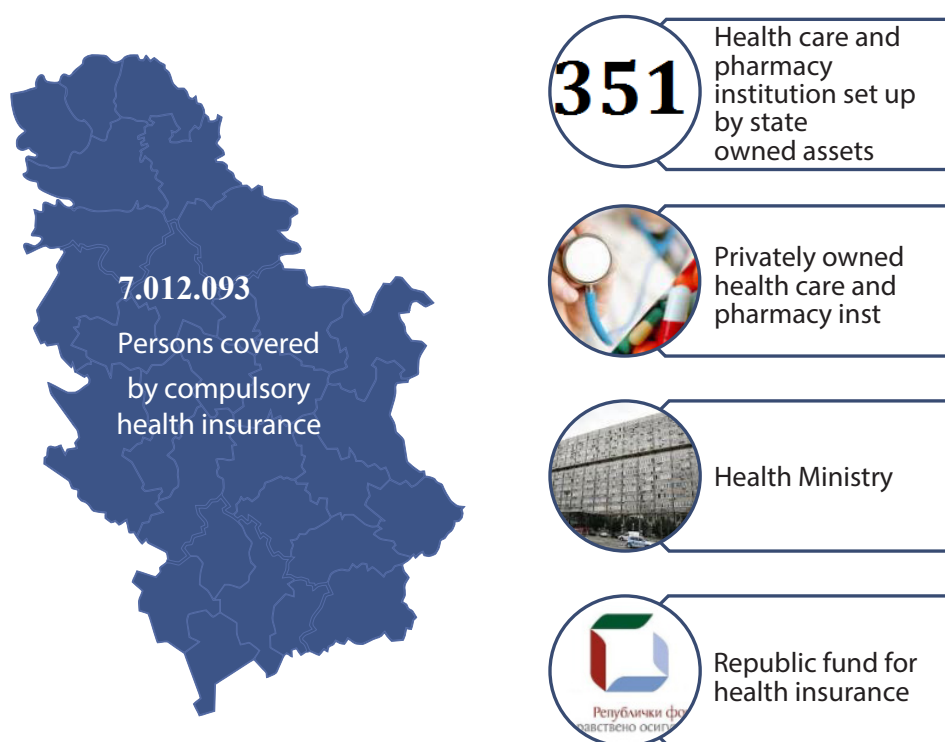




Serbia has adopted several strategies for the protection of the most vulnerable population groups and is introducing early disease prevention, which is the most common cause of premature death through national screening programs. In 2017, the realization of the screening program was 5% of the planned number.

The audits carried out so far by the State Audit Institution have contributed to the improvement of the compliance of the operations of health institutions, to the more cost-effective, more efficient and effective spending of the funds from the contributions for compulsory health insurance and the strengthening of the responsibility for the accuracy of presentations in the financial statements. Based on the recommendations given and information shared, significant harmonization of the regulations governing this area has been made.

**Figure 11. Overview of the Serbian health care system capacity**



In the coming period, the State Audit Institution will also carry out audit of health care and pharmacy institutions and other institutions in charge of planning, financing and exercising the rights of patients, in order to collect data on the use of resources for maintaining and improving the health status of citizens, and give recommendations for improving the functioning of health care system.



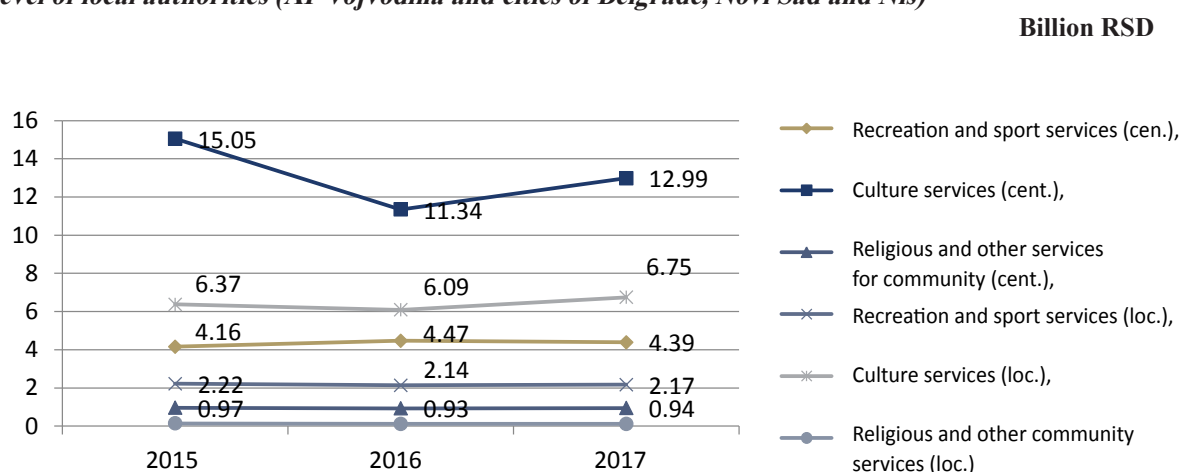


## Objective 1.8: Recreation, Sports, Culture and Religion

Through its work, the SAI will identify shortcomings and propose solutions to help achieve the country's strategic goals in the field of recreation, sports, culture and religion. Specifically, the SAI will audit the public funds beneficiaries that execute expenditures and costs for recreation, sports, culture and religion. The functional budget category 8 groups the general goals and tasks of the state related to the following areas: recreation and sports services, cultural services, broadcasting and printing services, religious and other community services; recreation, sport, culture and religion – research and development, and recreation, sport, culture and religion unclassified elsewhere. Expenditures and costs for this area are shown in budgets at central and local level.

At the central level of the state, implementation of functions: (1) Recreation and sports services are financed through: Ministry of Youth and Sports (88.1%); institutions in the field of physical culture (8.3%); Budget Fund for Financing Sports (2.6%); Anti-Doping Agency of the Republic of Serbia (0,6%) and institutions in the field of anti-doping (0,4%); (2) Culture services are financed through: Ministry of Culture and Information (60.6%) and cultural institutions (39.4%); and (3) Religious and other community services are financed through the Administration for Cooperation with Churches and Religious Communities. Also funding for activities within Category 8. Recreation, Sports, Culture and Religion is largely done from the level of local authorities.

**Figure 12. Settled expenditures and costs for recreation, sports, culture and religion at the central level and at the level of local authorities (AP Vojvodina and cities of Belgrade, Novi Sad and Nis)**



In the area of recreation and sports, the Strategy for the Development of Sport in the period 2014–2018 has been adopted. The Strategy defines four priority areas, and the action plan defines both general goals and specific objectives through the following priorities: the development of children and youth sports, including school sports; increasing the scope of citizens' participation in sports through the development and improvement of sports recreation; development and improvement of top level competitive sports and development and improvement of sports infrastructure. The strategy recognized that in practice, the absence of clear criteria and procedures for financing programs in many local self-government units was a problem, which was further complicated by the lack of adequate control of the expenditure of approved funds and the effects of program implementation. Priorities established by the Law on Sport are largely ignored. Particularly discernible is the disparity between the financing of recreation and competitive sports, and within the competitive sport, the privileged position of certain sports, although there are no adequate return effects.



In the field of culture, the Government of the Republic of Serbia has established the Draft Strategy for the Development of Culture from 2017 to 2027. In the proposal of the Strategy, the field of culture is defined as one of the key dimensions of the sustainable development of the Republic of Serbia and three priorities are defined: human resources development, infrastructure development, and European integration and international cooperation.

In the field of broadcasting and printing, the work is under way on draft version of the Strategy for the Development of the Public Information System until 2023. Funding of information services at central level of the state was carried out within the function of the Culture Service.

Activities in the field of religion are carried out through the Administration for Cooperation with Churches and Religious Communities of the Ministry of Justice, through the Program of State Cooperation with Churches and Religious Communities.

In the coming period, the State Audit Institution will evaluate the effective and efficient use of funds for the improvement and development of recreation, sports, culture and religion in the Republic of Serbia.

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### ***Objective 1.9: Education***

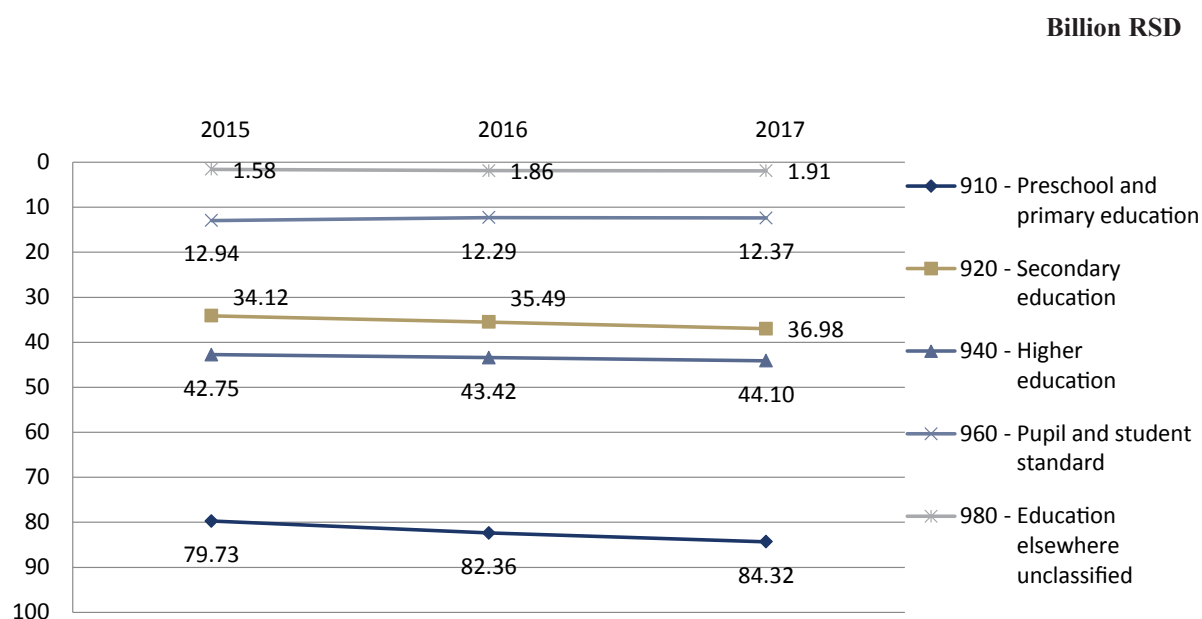
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Through its work, the SAI will identify shortcomings and propose solutions to help achieve the goals and fulfil tasks of the state related to education. Specifically, the SAI will audit the public funds beneficiaries that execute expenditure and costs for education. The functional budget category 9 groups the general goals and tasks of the state related to education: Expenditures and costs for this area are reported in the budgets at central and local level. Within this classification, the following areas are covered: preschool and elementary education, secondary education, higher education, pupil and student standards, and education unclassified elsewhere.

At the central level of the state, the funds for the implementation of function 9 – Education are allocated to the Ministry of Education, Science and Technological Development (99.38%) and the Ministry of Youth and Sports (00.62%). The budget of the Republic of Serbia also presents the funds of 1986 indirect budget users in the field of education (transfers from the second level of government, own revenues, donations and other revenue and income), so that the total funds allocated for the function 9 – Education are reported as divided to the Ministry of Education, Science and Technological Development (99.56% of total funds) and the Ministry of Youth and Sports (00.44% of total funds). Structure of education expenditures in the Republic of Serbia is inadequate (about 80% are employees' salaries), although the total allocations for education are not small. Within the allocation of the Ministry of Education, Science and Technological Education, the budget specifies the funds for each level of education, and within the division of the Ministry of Youth and Sports for the Fund for Young Talents.



Figure 13. Settled expenditures and costs for education by year



The most important strategic document of the Republic of Serbia in the field of education is the Strategy for the Development of Education in Serbia until 2020. A separate part of this strategy and the Action Plan is the Financing of Education, divided according to the levels of education, or particular areas, as follows: 1) Financing of pre-university education, 2) Financing of higher education, 3) Financing pupil and student standards, 4) Financing adult education. The strategy defined, among other goals, the goal of allocations for education reaching 6% of gross domestic product by 2020. The Strategy envisages a gradual increase in the share of allocations for education in the GDP, as well as an increase in the absolute amount of funds, so that in 2020 it is planned to allocate 6.0% of gross domestic product (of which 1.20% for higher education). Increasing public expenditure for education must achieve four key effects: 1) increasing the quality of education; 2) improving accessibility, i.e. coverage of education; 3) increasing the efficiency of the education system; 4) increasing the relevance of education, i.e. providing support to those levels, forms and programs of education that give the greatest contribution to the development of society and the economy. In addition to the above strategy, the National Strategy for Youth for the period from 2015 to 2025 is also linked to the function 9 – Education.

In the following period, the State Audit Institution will evaluate the effective and efficient use of resources to increase the quality of education, increase the coverage of education (improving accessibility), increase the efficiency of the education system and provide support to those levels, forms and programs of education that give the greatest contribution to the development of society and the economy.



# *Goal 2:*

## *Identify problems and propose solutions for cross-sectorial problems at all levels to enhance accountability and transparency*

In addition to auditing individual public funds beneficiaries, the SAI plans to conduct its audits related to cross-sectorial issues – problems that are common to all public funds beneficiaries. To some extent, the SAI has realized this through its financial audits, compliance and performance audits – in which some cross-cutting problems were observed throughout the public administration in financial reporting and recording of expenditures and revenues, implementation of internal controls and public procurements. Increasing the number of performance audits will provide additional opportunities for identifying cross-sectorial problems, finding solutions, promoting best practices, and generally improving the broader areas of public activities in public administration bodies both at central and local level. Such a cross-sectorial approach of the SAI will increase transparency and discourage further excessive spending, fraud, abuse and corruption in public sector programs. The SAI will thus also help to identify challenges and propose solutions for the Republic of Serbia on its way to meeting the conditions for EU accession.

### ***Objective 2.1: Ensure compliance with accounting standards and financial reporting standards***

Compliance with regulations and standards governing accounting and financial reporting in accounting systems is essential for transparent and responsible management of public funds. In the SAI Annual Report for 2017, the total of 192 irregularities in the field of information and communication were pointed out. Some of these irregularities are invalid and incomplete accounting records, incorrect recording and non-existence of records. In the audits carried out in 2017, we were not assured that the system of financial management and control was established in such a way that its functioning ensures business operations in line with the goals of that system. Through its future work, the SAI will assess compliance of public funds beneficiaries with standards and requirements for financial reporting and make recommendations for improvement, which will positively influence objective reporting.



### ***Objective 2.2: Improve financial planning, management and recording***

Public funds beneficiaries have the obligation to implement the planning and management of funds in accordance with regulations. Audits conducted by the SAI during 2017 indicated a wide range of cross-sectorial problems in a large number of auditees when it comes to budget planning and recording expenditures, costs, revenue and income. For example, financial plans are submitted with delay, unplanned liabilities are incurred, elements in the financial plans that prescribed by law were missing, the execution of the budget was not in accordance with the approved funds, the revenues were incorrectly presented or not recorded, and there were some uncollected receivables. The SAI will, through its work, help to eliminate existing shortcomings in the planning, management and recording of revenues, expenditures, incomes and costs.

### ***Objective 2.3: Establish and maintain a good control environment at all public funds beneficiaries***

Good internal control systems are key to ensuring that public programs are implemented in accordance with law, policies and regulations. Such control controls increase the degree of transparency and deter excessive spending of resources, fraud and abuse. Previous audits conducted by the SAI in a large number of ministries, local self-government units, and public enterprises pointed to general shortcomings in internal control systems. For example, in many cases there are no internal controls or are incomplete and there is no possibility to monitor them. During the period of the new Strategic Plan, the SAI will expand its activities to assess the adequacy of internal controls and make recommendations for improving this function for all public funds beneficiaries.

### ***Objective 2.4: Ensure proper management of public procurement in public administration***

At all levels of public administration in Serbia, public procurement of goods and services is conducted. The Performance Audit Report, published in September 2017, showed that the public procurement system in Serbia has a constant problem that relates to the lack of competition and the lack of efficiency in selecting the type of public procurement to be carried out by the contracting authorities. Specific problems related to the lack of market research documentation, the lack of a life cycle costing process for the subject of public procurement, the lack of criteria for the award of a contract. All in all, this led to uneconomical and inefficient public procurements conducted using the negotiation procedure of limited bidding/selective tendering. The SAI has made several recommendations for improving the process. The SAI will continue to work toward public procurement becoming economical, effective and efficient; in order to identify improvements and best practices; and deter abuse in public procurement.

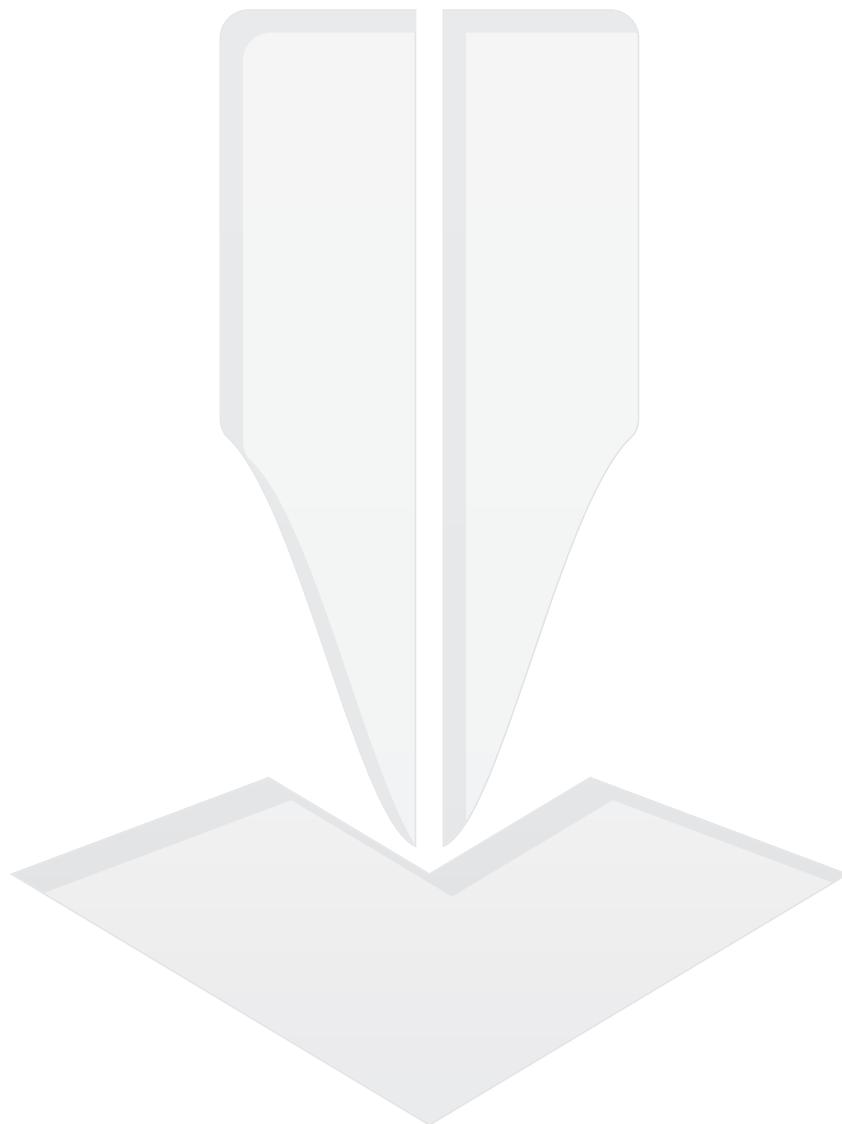


### ***Objective 2.5: Improve Public Management and Use of Information Technology (IT)***

IT systems are critical to doing business within the public sector and activities are becoming more expensive and more complex, just like the degree of sensitivity of the data they contain. In addition, the introduction of e-Government in Serbia aims to improve the use of IT and the Internet throughout the public administration to provide information and services to citizens and businesses. Through its audits in the previous period, the SAI found that a number of auditees did not take the necessary measures in the field of IT system security – including the data access rights, data confidentiality and measures to ensure business continuity in extraordinary circumstances; they did not implement the necessary IT risk assessments, nor did they adopt strategies that regulate the development of IT technologies. This inadequate planning of IT development has led to delays in the implementation of projects, including the introduction of new integrated business IT systems, resulting in additional costs. The SAI will help to improve the capability and reliability of IT systems to make all public programs more efficient, while protecting key operations and sensitive information. Reliability of electronic data and information systems implies integrity, completeness, accuracy, consistency and data storage, information system security and business continuity, having in mind the purpose for which these data and systems are used.

### ***Objective 2.6: Improve the management of infrastructure investments and other investments***

In addition to the aforementioned procurement of goods and services (including IT hardware and software), public funds beneficiaries in Serbia spend a significant amount of funds on infrastructure and other investments and programs. These expenditures are realized at the central level, in local self-governments and state-owned companies. Infrastructure programs will be one of the largest investment categories of the Republic of Serbia in the future. But if the construction of roads, dams, hospitals, and other public and local facilities is not managed properly, the state can face unfinished or unused facilities, and additional borrowing. The SAI will help to identify and solve problems related to these investments at all public funds beneficiaries. As a result, the compliance of these investments with the appropriate controls and planned results will be increased.







# Goal 3:

## Strengthening the SAI and its Role

In order for the SAI to deliver results and provide quality services to stakeholders, the SAI itself must be a capable organization. Strategic priorities of the SAI within this goal reflect the areas of its capacity development during this strategic period. As such, they are mainly the responsibility of the SAI. In order to further improve capacity and quality of work, the SAI will focus on the following objectives under Goal 3.

### **Objective 3.1: Improve the SAI Independence**

The SAI plans to continue to further improve the Law on the State Audit Institution in accordance with the requirements of the International Standards of Supreme Audit Institutions (ISSAI standards).

For the purposes of the full implementation of the Lima and the Mexico Declaration and full independence, it is necessary to enable the SAI to have a special allocation in the state budget, which would preserve the independence of the SAI as an independent state body and which would separate the SAI from other public administration and executive authorities. Since the State Audit Institution is obliged to submit the proposal of its financial plan to the Ministry of Finance after receiving the approval of the competent committee of the National Assembly, the possibility of the executive power influencing the independence of the SAI is substantial. The highest level of financial independence would be contained in the right of the SAI to propose the budget directly to the National Assembly.

*The Action Plan for Implementation of the Public Finance Management Strategy for the Period from 2016 to 2020, within Measure 5.3, foresees the following activity: Create, organize public consultations and adopt the Draft Law on Amendments to the Law on the SAI, in order to ensure full financial and operational independence, and to provide mechanisms that will contribute to greater coverage of the auditees.*

The issue of the business premises of the SAI is still not fully resolved. This issue must finally be resolved in a satisfactory and lasting manner, in order for the SAI to obtain the status deserving and prescribed by the Lima Declaration of Guidelines on Auditing Precepts.

*The Action Plan for Implementation of the Public Finance Management Strategy for the Period from 2016 to 2020, within Measure 5.3, foresees the following: "To strengthen the capacities of the Institution and to improve working conditions, through increasing the number of employees and permanently solving problems with work space."*



This objective serves to preserve and increase the independence of the SAI twofold:

- ▶ By increasing the financial independence of the SAI, in order to independently plan, manage and dispose of the resources;
- ▶ By preserving the functional independence of the SAI.

In the realization of this objective, the SAI will act in accordance with United Nations General Assembly Resolution A/66/209: *“Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. Member States are encouraged to apply, in a manner consistent with their national institutional structures, the principles set out in the Lima and the Mexico Declaration.”*

Providing financial, functional and institutional independence of the SAI is also an indicator for closing Chapter 32, when it comes to external auditing.

### **Objective 3.2: Conduct Quality and Timely Audits**

In this strategic period, the SAI will conduct separate financial audit, separate compliance audit and separate performance audit. Combined audits will be carried out on the basis of risk assessment. By directing SAI resources in the area of the greatest importance for the society, the greatest added value for the society will be ensured.

Founders, owners, executives, customers, suppliers, banks and others have the greatest benefit from the financial audit. The results of the compliance audit are beneficial for the National Assembly to obtain accurate and reliable information on how executive bodies apply the regulations adopted by the National Assembly. The performance audit focuses on whether government programs and entities function in accordance with the principles of economy, efficiency and effectiveness, the so-called “3 E”, and whether there is room for improvement. Unlike financial audit that verifies the truthfulness, objectivity and reliability of financial statements, and compliance audits that check compliance of operations, transactions, measures and decisions compliance with regulations, performance auditing checks whether the services of the public sector are effective and whether they have been implemented efficiently and economically. In other words, whether taxpayers, citizens, have received value for the money they give to the state, whether the planned goals have been realized using the money invested, whether the appropriate and quality service has been received.

By increasing the number of performance audits, the capacity to review systemic problems increases. This is an adequate way to contribute to useful changes, to the adoption of new laws, to a higher level of accountability, to the implementation of laws and regulations, and to the monitoring of the effectiveness of their implementation. Systemic changes are needed in order to increase value for money and improve the quality of public services.

In terms of timeliness, our goal is to achieve having a financial audit be a part of the final account of each audited budget user, in line with the budget calendar.



In order to realize the above, we will undertake the following activities:



**Implement the procedure for updating the manual - the audit guidelines, with further development of performance audit and training for other types of audit**

In addition to regular updating of the existing manuals, we will prepare a Manual for Auditing Preparedness for Implementation of the 2030 Agenda – Sustainable Development Goals. In this way, we will provide a tool for using a government-wide approach to planning, implementation and reporting on ISSAI standards based performance audit, and on the topic of national preparedness for the implementation of 2030 Agenda.

Also, the SAI will strengthen capacities and develop guidelines for IT audit, as well as for environmental audits. Information system audits represent an important element in assessing the implementation of the internal control system in organizations, and can also, with a systematic and structured approach, facilitate the assessment and improvement of various aspects of the efficiency, effectiveness and economy of the operation of public funds beneficiaries. We will audit the efficiency of the functioning of the largest information systems, we will examine the effectiveness of their upgrading and introduction of new services.

Through environmental audits we will strive to make a positive contribution to future generations through the promotion of sustainable management of natural resources and the environment, as well as to the health and prosperity of the citizens of the Republic of Serbia.

Taking into account all the above, Audit Programs in this strategic period will contain a significantly higher number of performance audits. Conducting performance audits is also an indicator for closing Chapter 32, when it comes to external auditing.



**Monitor changes to ISSAI standards and develop professional practice**

The purpose of changing ISSAI standards lies in improving the credibility of professional standards of INTOSAI, with the aim of improving the applicable framework for public sector audit and improving technical quality. A series of changes to the current ISSAI and INTOSAI GOV standards framework is planned in the upcoming period.

The implementation of ISSAI standards is also an indicator for closing Chapter 32, when it comes to external auditing.



**Automate the audit process**

One of the activities undertaken in the previous period is to improve the quality of the audit process in the SAI by supporting the development of customized Audit Management System (AMS) software. This system will have full functionality for implementing the entire audit process at all stages and integrating it into the existing information management system.

In preparation for the introduction of the Audit Management System, process mapping was carried out in 2018. Software procurement is planned for 2019, and the first application for 2020.

By implementing this activity, the SAI expects qualitative improvements, such as: a standardized audit approach using uniform forms in accordance with the audit methodology; a clear overview of the audit; real-time tracking of activity completion in accordance with the audit plan; integrity and availability of information provided by AMS; providing audit trail; better use of SAI resources; and eliminating paper documents.



### **Develop a quality control system**

As we have so far, we will continue to strive for excellence. Further development of quality assurance techniques will represent the essence of our efforts in this strategic period. This will be done through regular quality control and quality assurance procedures (hot and cold reviews) in accordance with the adopted Quality Control and Quality Assurance Guidelines for all three types of audit. In this way, we will be able to contribute to the identification and implementation of best practices.

## **Objective 3.3: Improve Organizational Capacities**

The SAI seeks to be an exemplary institution. In order to remain successful and relevant as an organization, it must constantly improve the way it functions, make decisions and coordinate available resources with specific needs and expectations. For this we have envisaged the following activities:



### **Develop capacities for strategic and annual planning**

In order to achieve the goals set out in the strategic plan, it is important to have established and developed annual planning procedures, as well as to monitor the implementation and, if necessary, update the strategic plan. The translation of strategic into annual plans and improved annual planning will guide decision-making towards achieving set goals. This will contribute to better performance of all management functions and enable convincing reporting on the effects achieved. This creates the conditions for continuous presentation of the importance and reputation of the SAI as an example of responsible and transparent management of public funds.

Consolidation of strategic, operational and financial planning and internal control will be taken into account, as a tool in the service of better and more responsible management.



### **Increase the effectiveness of performance measurement and reporting system**

In the SAI, we improve the level of responsibility through the continuous establishment of a measurement and performance reporting system. Since this activity was defined in the previous strategic period, we started to collect data and report on measuring the performance of our audit engagement. The annual report on the work of the SAI provides details on the selected measures that show the achievements of the SAI, our results, and values to public administration and citizens of Serbia. For example, the SAI Annual Report for 2017 includes measurable examples of SAI accomplishments such as the number of irregularities and shortcomings identified and corrected during the audits, the number of recommendations given in the reports, the number and percentage of recommendations that the audit entities carried out, and examples of amendments to laws and regulations resulting from the SAI recommendations. The annual report also presents the number and nature of the filed misdemeanour charges, commercial code violation charges, and criminal charges as a result of the audit work of the SAI. These applications can be a significant deterrent to excessive spending, fraud, abuse and corruption within public sector programs.

Within the Strategic Plan (2019–2023), the system for measuring and reporting of SAI performance will continue to develop and improve further. Within the development process of the new Strategic Plan, several workshops were held in the second half of 2018 in order to assess the current practice and to plan improvement of performance measurement. In addition to improving the existing performance measurement, we are planning to introduce new measures for the financial benefits that will



come out of the SAI's work for the public administration and the citizens of Serbia. For example, the public administration bodies that implement our recommendations will reduce costs, stop wasteful spending, recover costs, and improve revenue generation. In addition to the aforementioned financial benefits, there are other measures of benefits that cannot be quantified and presented in pecuniary format, but they do lead to qualitative improvements in public programs and services provided to citizens. The SAI will continue to develop and test the annual performance targets within the measurement system, and report on it in its annual reports.

In measuring performance and performance reporting, we will also take into account the relevant (international) requirements, such as the INTOSAI Performance Measurement Framework for the SAI, the Peer Review Guideline (ISSAI 5600), the closing benchmark of Chapter 32, the SIGMA Principles of Public Administration (Principles 15 and 16), as well as the Framework for the Assessment of Public Expenditure and Financial Accountability (PEFA) – performance indicator 30 (external audit).



**Ensure that the SAI has a sufficient number of employees, in the right positions, with appropriate knowledge and skills to carry out the workload and meet the set goalsa**

Through this activity, the SAI seeks to organize and implement an integrated and comprehensive human resources management.

As an institution that relies on the knowledge and ability of its employees, the priority is to manage the development of this resource, through the establishment of an educational auditing standard, which will regulate:

- ▶ Professional requirements (knowledge, skills, professional values, ethics and attitudes);
- ▶ Professional titles;
- ▶ Establishment of continuous education and professional development;
- ▶ Assessment of professional competence.

At the same time, by improving management skills, the SAI will strive to provide a suitable work environment that will attract and retain the best audit talent.

In the previous strategic period, in 2017, the SAI adopted the Human Resources Management Strategy. Due to the optimization of the organizational structure, there was a need to assess the implementation of the Action Plan for the implementation of the Strategy and its adaptation. The database of employees has been updated. Compared to the previous situation, from 2016, the database has been upgraded and represents an excellent basis for further work. In the following period, the SAI will continue to apply the approach of transformation from a traditional employee affairs unit to a modern Human Resources Unit.





**Raise the level of availability of required by the necessary resources and the degree of their utilization**

In addition to our human resources, appropriate material conditions for work are still considered to be one of the essential resources. To do the job, our employees will be provided, to the extent possible, with adequate means of work, including appropriate workspace, personal computers and software, internet connection, mobile phones and vehicles. Such equipment enables their work in the headquarters in Belgrade, regional units in Novi Sad, Niš and Kragujevac, as well as on the premises of public funds beneficiaries.

Solving the issue of office space will create conditions for the development and implementation of the Strategic plan for information communication technologies (ICT).

Better use of financial, physical and intangible resources will reflect on internal performance and contribute to meeting the expectations of stakeholders.

The tasks that are to lead to the realization of this activity are:

- ▶ Establish standards for necessary office space and equipment, to prepare and implement a program for their provision;
- ▶ Develop and establish standards (normative) for carrying out audit and support activities and start with their application (gradual reach);
- ▶ Establish systems for measuring resource utilization.

As a first step in the realization of these activities, the SAI will, in 2019, perform mentor-supported IT self-assessment (ITSA), a tool for assessing the quality of current and future business process support through IT. This approach allows the definition of pragmatic solutions. The ITSA score is moderated by the second SAI, and the results of the assessment are then presented to the top management, after which the most important part begins: improvement and implementation of proposed measures.



**Raise the level of awareness about the importance of respecting the integrity standards and the code of ethics**

In order to represent an exemplary organization, we need to continuously demonstrate our commitment to key values and give an example of respecting high standards of integrity and professional ethics in every aspect of our work. We will achieve this by building and developing elements of ethical infrastructure:

- ▶ By raising awareness of the ethical framework (including the implementation of training);
- ▶ By setting up an ethics committee or board;
- ▶ By adopting policies and procedures for timely notification of violations of ethical requirements;
- ▶ By self-assessment through the use of IntoSAINT tools – testing vulnerabilities and resilience to integrity risk (IntoSAINT workshop is planned for 2019);
- ▶ By regular (at least once every five years) review of the Code of Ethics;
- ▶ By establishing a system for corrective measures in case of violation of the Code of Ethics.



### ***Objective 3.4: Preserve Reputation and Strengthen the Impact of the SAI through Partnering with Key Stakeholders***

The SAI effectively cooperates and communicates with external stakeholders to ensure the existence of sufficient impact of audit reports and other audit products. The SAI also needs information from external stakeholders in terms of improving the quality of the process of work and products. The overall effectiveness of the SAI in promoting greater accountability, economy, efficiency and effectiveness in the functioning of public funds beneficiaries depends on the relationship that SAI establishes and maintains with external stakeholders.



#### **Continuously present the values and benefits that the SAI provides to the Republic of Serbia**

The SAI is committed to continuously communicating the results of its work to the National Assembly and parliamentary committees, executive and audit bodies, the media, the public and special interest groups, such as civil society organizations, development partners, academic circles and professional associations. With this commitment in mind, and in an effort to increase the impact of its audit reports, the SAI will continually build relationships with key stakeholders to contribute to beneficial changes, introduce new laws, increase accountability, enforce laws and regulations, and monitor the effectiveness of their implementation. In addition, through participation in two negotiating groups, Financial Control (32) and Public Procurement (5), the Institution continues to contribute, through the area of external audit, to the accession of the Republic of Serbia to the European Union.

Communication of findings to the interested public and the National Assembly is one of the most important steps for achieving the outcome of our audits. In addition to adequately presenting our reports and further strengthening the cooperation with the Parliamentary Committee on Finance, State Budget and Control of Public Spending, as well as the Subcommittee for Reviewing Audit Reports of the SAI, we will strengthen our cooperation with other bodies of the National Assembly. The SAI will continue its cooperation with the National Branch of the Global Organization of Parliamentarians against Corruption (GOPAK), as well as with the Focus Group for the Development of Control Mechanisms for the Process of Implementation of the Sustainable Development Goals in the Republic of Serbia. This joint work is beneficial to the SAI and helps us in planning and presenting the results of our audits.

All SAI reports are public. When presented to public funds beneficiaries, they are also available on the website of the SAI. Our website also shows the ongoing audits, enabling the National Assembly and the public to be informed about the audits that are being implemented at any time. We will maintain this approach in communication in this strategic period as well.

We will continue to strengthen our cooperation with internal audit services of public funds beneficiaries and with other bodies that have a general preventive role.

We have made major changes in contact with the media and improved the layout and structure of our reports and other audit products. We strive to proactively present the conclusions and audit findings. Through various forms of publications on our website, such as an overview of ongoing audit stages, audit report summaries, archives of published audit reports, we want to create the best possible working conditions for media that cover the work of the SAI. In this way we will enable for the public to be well informed. We will be in line with the principles and policies outlined in the INTOSAI Communication Guidelines, emphasizing the promotion of a better understanding of the area of audit and access to information by the public and the media.





At the international level, we will maintain cooperation with the Supreme Audit Institutions of the member states of EUROSAI and INTOSAI, as well as with the European Court of Auditors. Through the international presentation of our audit findings, we will continue our efforts to make our audit work internationally recognized. We will seek external evaluation from foreign partners in order to maintain an internationally comparable level of quality. Through the application of the highest professional standards, we will continue to strengthen the reputation of the SAI and contribute to the development of the audit profession at the international level.



### **Increase visibility of the SAI and its products**

The SAI will strive to communicate objective information in a simple and clear way, using language all stakeholders comprehend. Good communication is essential for the implementation of the SAI's competencies, and in that sense, in the forthcoming strategic period the SAI will develop a Communication Strategy, i.e. the Stakeholders Engagement Strategy.

The SAI organizes professional meetings (conferences, sessions, round tables) with public funds beneficiaries in order to provide them with examples of good practice. Such meetings are considered to be key mechanisms for presenting identified irregularities and inefficiencies and preventing their repetition. We will continue with these methods of work in the next strategic period.

Using the position reached at the international, regional and local level and full membership in INTOSAI, EUROSAI and the SAI\* Network of candidate and potential candidate countries for EU accession and the European Court of Auditors, the SAI will increase participation in thematic professional meetings of international significance in order to exchange experiences and further develop audits, including the implementation of parallel / coordinated audits with SAI\*s of other countries. The SAI will use international platform to promote the achievements of the public sector audit in the Republic of Serbia.



### **Cooperate with the National Assembly in the process after receiving the SAI report to improve the monitoring of the implementation of SAI recommendations**

The ability of the legislator to read and use audit reports and other audit products is essential for the effectiveness of the SAI. Audit reports are not an end in themselves but are a key part of the process in which the executive power is called for transparency and accountability. If the audit report is not read and understood in the correct way, there will be no improvement. The major SAI talent is at the disposal of the National Assembly in order best co-operate in taking measures and launching initiatives based on the recommendations in the audit report.

The attention given by the National Assembly to audit reports can help put executive power under extra pressure, which also creates favourable conditions for monitoring activities and ensuring the implementation of SAI recommendations and measures. In cooperation with the Committee on Finance, State Budget and Control of Public Spending, as well as the Subcommittee for Reviewing Audit Reports of the SAI, the SAI will further develop a formal structured procedure for monitoring the implementation of the recommendations and the decisions of the committee based on audit reports.



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