

TOWARDS A MORE FINANCIALLY ACCOUNTABLE GOVERNMENT IN SERBIA

Implementation of Recommendations
and Measures of the Serbian State
Audit Institution

Belgrade, 2012.



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Executive Summary

This analysis was produced in the framework of the project “Determining conditions for the improvement of work of the State Audit Institution in Serbia,” jointly implemented by the European Project Center and European Policy Centre, supported by the United States Agency for International Development (USAID) under the Judicial Reform and Government Accountability project (JRGA). This analysis, and the research conducted for its purposes, has the goal to determine how auditees act upon SAI's recommendations, how they perceive external audit system in Serbia and how important it is to insist on the external follow-up on implementation of SAI's recommendations and measures in the future. Engagement of civil society organisations so far in the follow-up work on implementation of SAI's measures is also discussed. In correspondence with existing comparative experience (best practices) and certain international guidelines, it strives to provide recommendations for future role these organisations can have in the establishment of financially accountable government in Serbia. This analysis also places the external audit system into a broader context of reform and integration processes in Serbia, in order to highlight the importance of this area and its correlation with other reform areas.

Draft of the analysis was presented to the participants of the Conference “Towards More Financially Accountable Government in Serbia, held on 4 June 2012, as an integral part of the project “Determining conditions for improvement of work of the State Audit Institution in Serbia.” On the basis of conclusions and comments from the Conference, certain parts of the analysis have been improved, especially its conclusions and recommendations that were commented by the participants who took part in the discussions. Moreover, several new recommendations have been incorporated.

The analysis is structured in eight chapters. Beside introductory chapter, Chapter II gives an overview of the legal and institutional framework of external audit in Serbia, thus creating a basis for understanding the analytical part of the document. This chapter points out the quality of institutional position of the SAI, from the constitutional and legal perspective, as well as the advantages of properly founded independence of the Institution, but also draws attention to potential room for undermining that independence. Chapter III places external audit in the context of Serbia's integration into the European Union, which is extremely important, having in mind that so far external audit in Serbia has not been seen as an essential part of that process. Better understanding of the position of external audit in EU accession negotiations is of great importance, not only because of the greater success in the negotiations once they open, but also as a source of additional motivation for all auditees and other institutions that enforce SAI's measures, to work on enforcement of these measures with more dedication and to establish a stronger system of financial accountability in Serbia. Chapter IV summarises the most important international recommendations and experiences regarding the relation between the SAI and the Parliamentary Committee on finance and provides overview of how that relation is regulated in

Serbia. This chapter aims at presenting the possibilities for improvement of follow-up on implementation SAI's measures and recommendations, through cooperation between SAI and the Parliamentary Committee in charge of finance. Chapter V gives an overview of the results of audit undertaken so far, on the basis of analyses of audit reports and follow-up reports by auditees. These reports have the most complete information on first-hand activities done by auditees in responding to findings of SAI in the audit process. Chapter VI provides an insight into answers from semi-structured interviews and connects the audit system with other related reform processes, for the purpose of giving recommendations for more effective actions of auditees on SAI's findings, as well as for more effective engagement of the parliamentary committee in charge, in tracking audit results by the SAI. Chapter VII offers an overview of international recommendations and good practices regarding relations between civil society organisations and SAIs. It reflects on the existing role and recommends a desired future role of civil society organisations in follow-up on implementation of SAI's recommendations, as well as more generally in cooperation with SAI in the process of establishing a financially accountable government.

Chapter VIII, finally, summarises the conclusions and main recommendations stemming from the separate chapters of the analysis and intersects topics elaborated in individual chapters in order to draw additional conclusions of importance for the improvement of external audit system and work of the SAI. Furthermore, conclusions are accompanied by key recommendations the implementation of which would positively influence the effectiveness of the external audit system as well as follow-up actions upon SAI's recommendations and measures. These recommendations were discussed and have been improved on the basis of discussions which were held as part of the Conference "Towards a More Financially Accountable Government in Serbia," held on 4 June 2012. The total of 21 recommendations are divided in: 1) recommendations regarding legal and institutional framework of external audit; 2) recommendations regarding stronger linking of external audit with other reform processes; 3) recommendations regarding improvement of the follow-up system for ensuring implementation of SAI's recommendations and measures, and 4) recommendations regarding the role of civil society organisations in the external audit system.

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Table of Abbreviations

CSOs	Civil society organisations
EU	European Union
INTOSAI	International Organisation of Supreme Audit Institutions
IPA	Instrument for Pre-accession Assistance
ISSAI	International Standards of Supreme Audit Institutions
JRGA	Judicial Reform and Government Accountability Project
OECD	Organisation for Economic Cooperation and Development
SAI	Supreme Audit Institution
SECO	Sectoral Civil Society Organisations
SEIO	Serbian European Integration Office
SIGMA	Support to Improvement in Governance and Management

I. Introduction

This assessment was done in the framework of the project “Determining conditions for the improvement of work of the State Audit Institution in Serbia,” jointly implemented by the European Project Center and European Policy Centre, supported by the United States Agency for International Development (USAID) under the Judicial Reform and Government Accountability project (JRGA).

The overall goal of the project is to contribute to the accountability and effective management of public resources through strengthening capacities of the State Audit Institution (SAI) to ensure implementation of its measures. More precisely, the project should lead to improved implementation of the range of measures at disposal to State Audit Institution in performing its legal mandate, as well as to enhance capability of SAI to ensure lasting and reliable tracking of its recommendations and measures. In addition, the project strives to enhance participation of civil society in tracking implementation of SAI's recommendations and measures.

This analysis and research conducted for its purposes seeks to determine how auditees act upon SAI's recommendations, how they perceive external audit system in Serbia and how important it is to insist on the external follow-up on implementation of SAI's recommendations and measures in the future. Engagement of civil society hitherto in follow-up on implementation of SAI's measures is also discussed and attempts to, in correspondence with existing comparative experience (best practices) and certain international guidelines, provide recommendations for future role these organizations can have in the establishment of financially accountable government in Serbia. The analysis also places the external audit system into the wider context of reform and integration processes in Serbia, in order to point to the importance of this area and its connection to other reform areas.

SAI in Serbia itself has recognised the need for improved tracking of audit report influence. In its Strategic plan for the period 2011 - 2015, SAI specifies that it will “seek to improve the way of tracking the realisation of its recommendations (follow up)”, as well as to “include in its audit reports, in separate chapter, information on implementation of recommendations and measures undertaken according to the audits from previous years.”¹

Methodology used in the research for the needs of this assessment is dual. Firstly, desk research and analyses was performed, including above all audit reports as well as other relevant secondary sources, especially international recommendations, papers and other relevant documents. In addition to desk research, semi-structured interviews were carried with auditees in Belgrade. Calls for interviews were sent to all mentioned auditees and eleven of them responded.² Calls were sent to the high officials of institutions and organizations and the

¹Strategic Plan of the State Audit Institution for the 2011-2015 Period, “Official Gazette of RS” No. 100/2011.

² Requests for interviews were sent to auditees in which audit has already been performed, both by regular and electronic mail. Additionally, all addressees were also called by phone in order to draw their attention to the request

interviewees were predominantly delegates responsible for finances and in some cases internal audit. Interviews were also carried out in prosecutor's office and Misdemeanour Courts in order to gather information on implementation of those SAI measures to be enforced by these institutions. One interview was conducted with member of Committee for finance of the National assembly of the Republic of Serbia.

Draft Assessment is presented to the participants of the Conference “Towards More Financially Accountable Government in Serbia, held on 4 June 2012, as an integral part of the project “Determining conditions for improvement of work of the State Audit Institution in Serbia.” On the basis of the conclusions from conference, certain parts of the assessment are being improved, especially conclusions and recommendations that were commented by the participants who gave their opinions.

The assessment is structured in eight chapters. Beside Introduction (I) and Conclusions (VIII), chapter II gives overview of the legal and institutional framework of the external audit in Serbia, by creating basis for understanding of analytical part of the document. Chapter III places external audit in the context of the integration of Serbia in the European Union, which is extremely important, having in mind that so far external audit in Serbia has not been seen as essential part of that process. Better understanding of the position of external audit in EU accession negotiations is of great importance, not just because of the greater success in the negotiations when they start, but as a source of additional motivation for all auditees and other institutions that enforce SAI's measures to work on the enforcement of these measures with more dedication and to establish stronger system of financial accountability in Serbia. Chapter IV summarizes the most important international recommendations and experiences regarding the relation between the SAI and the Parliamentary Committee on finance, with a special emphasis on the follow-up aspect. Chapter V gives an overview of the results of audit undertaken so far, on the basis of analyses of audit reports and response reports. These reports have the most complete information on first-hand activities done by auditees in responding to findings of SAI in audit process. Chapter VI provides insight in answers from semi-structured interviews and connects the audit system with other related reform processes, for the purpose of giving recommendations for more effective actions of auditees on SAI's findings, as well as for more effective engagement of the parliamentary committee in charge, in tracking audit results by the SAI. Chapter VII reflects on the existing role and recommends the future role of civil society organizations in tracking implementation of SAI's measures but also more broadly in cooperation with SAI in the process of establishing financially accountable government. Chapter VIII, finally, gives summary of conclusions and main recommendations stemming from the analysis.

sent. In a number of authorities the request was evidently not forwarded to the most appropriate person for the needed type of interview, which somewhat diminished the usefulness of a few interviews.

II. The legal and Institutional Framework

The foundations of the normative structure of the external audit of public finances in Serbia, in the current legal and institutional setting, are deep and strong, considering that they reach the constitutional level. Key elements of the state audit are regulated by the Constitution of Republic of Serbia (2006), in institutional sense, then in terms of core subject of revision, and that is the control of budget execution at all levels of government in Serbia, an independent position in the system of state entities and the basic aspects of functional and institutional independence, which is exclusion of other forms of supervision over the work of revision institutions other than parliamentary oversight.³

Matter of external audit is regulated by the Law on State Audit Institution⁴, and this regulation, in legislative terms, has raised the function of the state audit to the level of sectoral legislation within the broader legal framework of the budget system. This legislative solution is a significant event in the intensive reform of legal system of public finances in Serbia, implemented in the past decade. Besides this, the applicable regulations for external audit include relevant provisions of the General Administrative Procedure, Civil Administration, Budget System, as well as criminal and misdemeanour law.

The first step in redefining the public finance system, inherited from the 90's of last century, was the adoption of the budget system legislation in 2002,⁵ which has comprehensively regulated planning, preparation, adoption and execution of budgets at all levels of public authority, from the republic level to local governments. Integration of the whole system of public finance has been achieved through a unified budget classification, standardised documentary basis for the preparation of draft plans and budgets, uniform criteria for budget control and audit procedures and reporting methods, and principles which underlie the budget process. The extraordinary significance of this first phase of reforms, has the introduction of the institution of the Treasury, which includes the consolidated account in which public funds are kept of all budget users and whose function is centralised management of public expenditures. Uniform budget system has created the legal and institutional basis for defining systematic solutions in terms of control of public expenditure, given that it provided a unique budgetary nomenclature and accounting procedures, in particular transparency of public expenditures that are kept in the Treasury system.

Already at this stage of development of public finance legislation was first planned revision of public expenditures, consolidated under the control functions of budget inspection of the Ministry of Finance, which included the evaluation of business processes and budget users,

³Provisions of Articles 96 and 9 of the Constitution of the Republic of Serbia (2006).

⁴ Law on State Audit Institution (Official Gazette of RS, No. 101/2005, 54/2007 and 36/2010), adopted in 2005 and in effect since 29 June 2006 (hereafter: SAI Law)

⁵ Law on Budget System (Official Gazette of RS, No. 9/2002), adopted in 2002 and several times amended, until its derogation in 2009.

both direct and indirect, over which the audit is performed, including non-financial operations, in order to assess economy, efficiency and effectiveness of agencies and organisations.

Budget Law of 2002 provides an option for external audit of the state budget, local budgets and financial plans of mandatory social insurance. Since there was no institutional solution to the external audit at the time of enactment of this legislation, its transitional provisions provides that until the High External Audit Institution is established, National Assembly shall decide on the engagement of qualified auditors to conduct an external audit of the state budget and mandatory social insurance, and the same authority had local government in respect of external audit of its budget.

Another step and key progress in the development of legal framework of public finance control system, was made by passing the Law on State Audit Institution. The Act established the State Audit Institution (SAI), regulated its activities, status, authority, organisation, operation, and other issues pertaining to the audit function and the rights and obligations of its entities in the audit process. SAI is defined as the highest state body for auditing public finances in the Republic of Serbia, with independent status among state authorities, that operates only under parliamentary oversight.

II.1 The Legal Framework

The main function of audit is to provide independent reporting on the programs, functions and activities of organisations that receive public funds, to provide reliable insight and evaluation of the functioning of the public sector, to enable the mechanism of control and accountability of public authorities.

The applicable legal framework of the budget system⁶ incorporated fiscal principles, rules and procedures that establish the fiscal framework, in order to ensure long term sustainability of fiscal policy and unified nomenclature of the revenues and earnings, and public expenditures and expenses⁷. In order to ensure adequate control functions of the use of public funds, the law provides for internal and external audit.

Internal audit means an independent and objective activity of giving an expert opinion and recommendations to the management and professional services of the organisation, in terms of risk management and internal controls, to ensure that process are carried out in a prescribed manner and achieving organisational objectives, in accordance with established policies and procedures. The law prescribes obligation of the organisation of internal auditing for all users of public funds, i.e. direct and indirect budget beneficiaries, the beneficiaries of the organisations

⁶Law on Budget System (Official Gazette of RS, No. 54/2009, 73/2010, 101/2010 and 101/2011).

⁷This law has joined the substance of the earlier legislation of the budget system, and the substance covered by the former Law on Public Revenue and Expenditure (Official Gazette of RS, No. 76/91, 41/92 – new law, 18/93, 22 / 93 - corr., 37/93, 67/93 45/94 42/98, 54/99, 22/01, 9/02- dr. law, 87/02 - new law, 33/04 and 135/04 - dr. law), which is revoked by the same.

for mandatory social insurance, public enterprises and entities over which the public authority has a direct or indirect control. The task of internal audit is that, in addition to investigate financial management, compliance with laws and internal policies and contracts, to evaluate and provide technical assistance and advice to managers on the effectiveness of risk management, adequacy and effectiveness of internal control and efficiency of the management, and to be involved in development and implementation of policies, systems and procedures in the organisation.⁸

Under provisions of law cited, external audit is carried out by SAI in accordance with the law regulating its jurisdiction.⁹ Budget Law, however, does not further regulate on external audit, and unless quoted reference, it does not contain detailed provisions, including with regard to definition of the notion of external audit or its essential content elements.

The Law on SAI establishes the supreme audit institution and regulates its work in implementing the external audit of public funds. Starting from the normative contents of this regulation, including its name, the conclusion is that this is mostly organisational legal regulation, or that the field of external audit in the positive law is covered in the institutional discourse. Such a sectoral approach to the problem area of legal regulation that is almost completely covered within the scope of state authority is not illogical, and is an expression of a particular legal policy which aims to highlight the importance of the position of supreme audit institution, as autonomous and independent oversight authority over the public finances, which is subject to parliamentary control only. On the other hand, it is possible to observe a certain vagueness or ambiguity in the field of legal regulation of external audit functions, as well as in terms of the notion of an audit or external audit, which is defined as an audit of financial statements, and left open the question whether that notion is the same or narrower than the category of audit.

In terms of the legal regulation of the state audit function, following classification of groups of activities under the scope of SAI, could be made:

- 1) **the core activity:** planning and conducting audits, reporting on audit;
- 2) **regulatory and related functions:** the authority to make by-laws and other regulations in order to implement the Law, taking stands and giving legal opinions regarding the application of law, participation in the drafting and adoption of regulations on public finance, by providing observations on the working drafts of proposed legislative texts and other regulations, as well as making recommendations for changes to laws on the basis of information obtained in the auditing procedure, the adoption and publication of audit standards; defining education and examination program for acquiring a state auditor and

⁸The conditions for the organisation of internal audit at the close of public funds of Rulebook on common criteria and standards for the organisation of the methodology and guidelines for handling and reporting of internal audit in the public sector (Official Gazette of RS, No. 99/2011).

⁹In addition to SAI jurisdiction, this law provides for the external audit of local governments by the persons eligible to perform audits of financial statements required by law regulating accounting and auditing, based on the decisions of local authorities and with the approval of SAI.

certified state auditor title, as well as establishing criteria for validation of appropriate professional titles obtained abroad;

- 3) **reporting**: reporting on the work (annual and special reports), in under the supervisory functions of the National Assembly;
- 4) **technical assistance activities**: providing technical assistance to the Parliament, Government and other state agencies on specific measures and relevant important projects, in a way that does not undermine the independence of institutions; advising users of public funds;
- 5) **other administrative tasks**: organizing examinations for obtaining the title of state auditor and certified state auditor, administrating the register of persons who have acquired these titles, as well as validation of appropriate professional titles obtained abroad; cooperation with international auditing and accounting organisations in the field of public finance; other duties specified by law.

According to the importance of these activities that make up the jurisdiction of the SAI, audit activities should be singled out, being the core, supervisory function. It That function, in addition to the immediate tasks of the audit of regularity and effectiveness of operations through the expenditure of public funds, includes reporting on the audit conducted, bearing in mind that this is the most important instrument of action to remedy the perceived irregularities in the audited entity.

The scope of audit includes the examination of documents, reports and other information regarding the compliance of the stated income and expenditure in relation to the provisions of the budget system, and compliance of financial statements, transactions, accounts, records and analyses in relation to authoritative financial regulations (*financial control*). The second part of the scope of audit is investigating regularity of operations of the audited entity with regard of imperative regulations governing their jurisdiction or authority (*control of legality of operations*). The third is *control* of appropriateness, for the purpose of evaluation of whether the funds of the audited entity are used in accordance with the principles of economy, efficiency and effectiveness and in accordance with the planned objectives. The fourth part of the scope of audit is evaluation of financial management and control of the audited entity, then its system of internal control, internal audit, accounting and financial procedures, as well as the regularity of the work of management and other responsible persons in charge of planning, execution and supervision of operations of public users resources (*control of financial management systems*). Finally, the *control of effects* is also an integral part of the scope and the audit includes the examination of documents and activities of the audited entity that have or may have effects on the financial income and expenditure of public funds, state property, borrowing and issuing guarantees and the rational use of resources held by entities audited.

As subjects of control, being obliged to put the entire financial management of public funds available to SAI, Law covers all users of public funds, as follows:

- Direct and indirect budget beneficiaries;
- Mandatory social insurance;
- Budgetary funds;
- National Bank of Serbia (in the area related to the use of public funds and the operations of the national budget);
- Public enterprises, companies and other entities established by direct or indirect public funding, for which they have equity participation and/or management, as well as legal entities established by legal entities in which the state participates in the capital and management;
- Legal and natural entities that receive public subsidies and other grants or guarantees;
- Entities engaged in the acceptance, storage, issuance and use of public reserves;
- Political parties (in accordance with the law regulating the funding of political parties);
- Beneficiaries of EU grants and aid from international organisations, foreign governments and nongovernmental organisations;
- Parties in connection with the execution of international treaties, agreements, conventions and other international acts, when prescribed by an international act, or when directed by the authorised body;
- Other entities that use funds and property under the control and disposal of public authorities and mandatory social security organisations.

This list of entities is detailed and has and tends to cover, *numerusclausus*, all users of public funds, regardless of their legal form or status. At the same time, certain imprecision of this legal provision could be noted, concerning the legal personality of some of these entities (the budgetary funds have not the status of legal entities, but are managed by budget users) or resources (very broad determinants of beneficiaries of EU and other foreign funds), as well as the supervisory powers in relation to the National Bank, which is necessary to be closer examined.

In terms of procedural regime, the Law contains special procedural rules regarding the initiation of review proceedings, which include provisions for the initial act and the remedies against such acts, free access to required information and documents, procedure of issuing act on audit (audit report), including discussions on the draft and the proposed act, and the procedure upon the audit findings. On all other matters of a procedural character, that are not particularly defined, shall apply the general rules of administrative procedure.

Immediate conduct of audit of SAI is performed by state auditors. The methodology includes the application of generally accepted auditing principles and auditing rules, in accordance with selected internationally accepted auditing standards. SAI in their practice apply professional standards and guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI), which is a member of. Legal provision regulating the audit methodology contains earlier stated imprecision with regard to functional aspects of external audit, as it does not provide a reliable legal basis for the application of certain standards, whether by prescribing under regulation or determining by the act of the institution, but it retains the general notion of internationally accepted standards.

Following the audit, the procedural provisions of the law stipulate the preparation of the draft audit report, which is submitted to the audit entity and the persons responsible for its operations in the period covered by the audit. Remedy at this stage of the review, the objection to the draft report, may be submit by the audited entity and/or responsible person, within 15 days of receipt of the report. Objection Hearing upon this instrument is held before an official of SAI institution, and the representative of the audited entity may state the reasons to challenge particular findings of the audit, or require further explanation or evidence to support these findings. Evaluation of the merits of the allegations is given by acting member of the Council or Chief State Auditor, and on the basis of this opinion is formed the proposal of audit report.

On the proposal of the audit report, is once again provided the right to object by the same scope of persons, within the same 15 days of receipt of the proposal. Final decision on the justification of the objection is given by the Council, as a body in which a Council member who may have been the rapporteur in this case participates in work. This step in the procedure may be preceded by a decision of the President of the institution to require the opinion of external expert, which will be taken into consideration by the Council, in discussion and decision on the objection to the disputed part of the proposed report. Council decision on the objection is made by a special conclusion, and shall be given to audited entity and the complainant in the form of answers to the objection, and against these acts special legal remedy is not allowed.

Given the legal nature of the act that finalises the audit procedure and report on the audit conducted, given that this individual act does not contain the characteristics of an administrative act, which is an act upon direct application of the regulations that shall decide on rights and obligations of the parties in a particular administrative matter, as well as other important features of the legal situation in which on one side is the state supervisory authority, and on the other is usually supervised public agency or other entity using public funds, it could be concluded that the legal procedure in which the audit is conducted has no features of the administrative procedure (even a special administrative procedure). Therefore, the procedure that is carried out by SAI has characteristics of a special procedure of administrative supervision in which the rules of administrative procedure shall apply accordingly, and not subsidiary. In this procedure

the scope of audit and responsibility of audited entity is examined, and an act is issued with regard to issues of compliance and expediency of its financial operation.¹⁰

Instruments to ensure implementation of measures ordered or objections contained in the audit report are:

- 1) responsive report of audited entity;
- 2) request for measures against the audited entity;
- 3) initiative for the dismissal of the responsible person in the audited entity;
- 4) initiating misdemeanour or criminal proceedings against the responsible persons in the audited entity.

Responsive report is obligation of the audited entity to declare in writing of actions taken to remedy the irregularities. This report is submitted within the period provided in the audit report, which shall be not less than 30 and not more than 90 days. If under the evaluation of responsive report SAI finds that the applied measures are not satisfactory, it has the authority to take other, more stringent measures.

Request for measures is to be submitted to the authority that is deemed to have adequate powers for realisation of the responsibility of the audited entity, in case of determining the specific level of responsibility that is legally defined as a breach of good business.

If it is determined the onset of serious violations of the obligations of good business, SAI has an instrument calling for the dismissal of the responsible person. This call is addressed to the authority that is authorised for the removal of the responsible person, and through public information about this initiative.

Besides the above mentioned instruments, which were graded according to severity, SAI is authorised and obligated to submit a request for initiating misdemeanour or criminal proceedings against the responsible persons in the audited entity, if the audit procedure establishes the existence of acts that indicate elements of the prescribed offense or crime. The Law on SAI contains a specific offense for which the responsible person may be punished for actions that involve violations of the obligations stipulated in this Law, in terms of failure to fulfil obligations of submitting information or documentation required for the audited entity, the delivery of responsive report, declaration regarding the request to take measures, or to respond upon calls for dismissal of responsible person, with prescribed fine of 5,000 to 50,000 dinars.

It is important to note that all forms of acts of offense in question are of passive character, and are directly related to the audit procedure or failure to act upon measures by SAI. Given the

¹⁰Audit procedure is regulated in more detail by procedural provisions of the Rules of the Supreme Audit Institution (Official Gazette of RS, No. 9/2009).

relatively low amount of prescribed fines, as well as the features being described in this offense, it could be concluded that this offense is primarily an instrument of procedural discipline and that it has a subsidiary character, while the primary instrument of penal policy in matters of the violations found during the audit, should be found elsewhere.

Depending on the violation of provisions of substantive legislation that are found in the audit process, it is possible to apply the provisions on sanctions contained in these regulations. In the first place, given the nature of matters that are audited, that is to control the budget execution or other use of public funds, there are questions of possible infractions of the Law on Public Procurement¹¹. This law provides two basic types of offenses, depending on whether the perpetrator had the status of the purchaser or the bidder. The first form is tied to the users of public funds in procurement matters and contains comprehensive list of all violations of individual provisions of laws, punishable by a fine of 100,000 to 1,000,000 dinars for the purchaser, or a fine of 20,000 to 50,000, for the responsible person.

In addition to violations of public procurement rules, within audit procedure is a possibility to detect violations of rules on budget execution and implementation of the provisions of the budget system. Again, there is a general offense which includes all forms of violation of this regulation and the identical amount as prescribed sanction of the aforementioned violation of public procurement.

In considering these regulatory requirements for establishing penal liability of responsible persons in the audited entities, two significant issues are imposed. First, given the moment in which the audit is performed, there is a significant legal barrier in the form of short term of statute of limitation of initiation and conduct of misdemeanour proceedings. The period of statute of limitation of one year from the date the offense was committed, in accordance with the general rules on offenses,¹² in relation to the period that is subject to review and lapse of time of the acts committed in the spending of public funds to the onset of the possibility of launching infringement proceedings on the basis of data obtained in audit, it undermines the possibility to conduct misdemeanour proceedings in these matters. Exception to the statute of limitations is a violation of the provisions of the budget system, which is three years from the date of enforcement actions.

Another significant obstacle, in terms of normative possibilities of misdemeanour responsibility, primarily in terms of their preventive effect, is the lack of protective measures in the prescription of these offenses. The fine appears as the only form of sanction, while we could expect that the effect of protective measures such as banning the responsible person to perform certain tasks may have greater significance.

¹¹Law on Public Procurement (Official Gazette of RS, No. 116/2008).

¹²Law on Misdemeanours (Official Gazette of RS, No. 101/2005, 116/2008 and 111/2009).

In addition to offences, there is a possibility of criminal responsibility, primarily of responsible persons, when the elements to initiate such proceedings are to be found within the audit procedure. In this case, SAI files a criminal complaint to the competent public prosecutor, while possible qualification appears to be crimes against official duty, and in particular a specific criminal offense of misuse of budgetary funds.¹³

II.2 The Institutional Framework

The question of supreme state audit model in Serbia is resolved by adopting the Law on SAI, which has defined SAI as autonomous and independent state authority, acting with the control powers provided by the law in relation to other state agencies, organisations and entities that receive public funds.

The issue of status of the state audit was raised as a key issue in terms of defining an effective system of accountability of public institutions and public officials, from the very beginning of the extensive reforms of the legal and institutional system in Serbia, from 2000 onwards, in which period a number of possible models were examined (including the establishment of the Court of Auditors). At the same time, we should bear in mind that the tradition of state audit in Serbia is rich, that it dates from the first constitutional acts from 1835. and 1838, and that continually appeared in various forms of organisation and status position in the system of state bodies and with different powers¹⁴. The choice of institutional models, in addition to traditional comparative model of court of audit, collegial office and monocratic model was made based on the current state of development of audit institutions in the European and regional environment, and based on the experiences of these countries in the EU integration process.

The adoption of the Law on SAI, and especially the subsequent development of legal framework in terms of raising the issue of state audit to constitutional rank, provided a strong legal basis for this institution. The Constitution provides that SAI is the highest state body for audit of public funds, its independence and exclusivity of parliamentary oversight of its operation, as well as control function of budget execution at all levels of public authorities¹⁵. The importance of the constitutional order of this question is multiple. First, it provided continuity and legal certainty in terms of existing institutional solutions, which, given the current intense legislative activity and constant institutional reform, has its own significance. Second, the definition of the scope of audit in relation to budget execution, from the republic level to the local authorities, disabled any relativisation of this key power of the state audit under possible legislative changes, in a different political situation.

¹³Art. 362a of the Criminal Code (Official Gazette RS, No. 85/2005,88/2005 - corr., 107/2005 - corr., 72/2009 and 111/2009).

¹⁴More on the history of the state audit institutions in Serbia: Aleksandra Rabrenović, *Financial Accountability as a condition for EU Membership*, Comparative Law Institute, 2007.

¹⁵Provisions of Articles 96 and 92 Constitution of the Republic of Serbia.

Key institutional requirements for the state audit, sets the Lima Declaration,¹⁶ which declares that the state audit can fulfil their tasks objectively and effectively only if they are independent of the audited entity and are protected from external influences, that must have the functional and organisational independence. Independence includes, in particular, autonomy in setting the work program, methods of audit, content of audit, and reporting on audit results. In this sense, the positive legal framework in Serbia provides the fulfilment of these conditions, the fact that SAI is defined as an independent state agency with full authority regarding the definition of auditing standards and ways of its implementation, independent work and decision authority under its legal jurisdiction, i.e. the responsibilities to the preparation and adoption of the audit report. The National Assembly is the only body that has authority in respect of supervision of the SAI, which is accomplished by having to produce SAI report on the work, regular (annual) and special reports, then by adopting a financial plan based on which the funds needed to operate the institution in Republican budget are provided, and finally, in terms of powers of selection and dismissal of the highest officials in the institution.

It is important to note that, apart from parliamentary oversight of SAI, no other form of control is recognised, not even legal. The acts passed by the SAI within its jurisdiction, i.e. performing the audit, cannot be brought before other state authorities for legal review, not even before court. Excluding legal control of decisions made by SAI the highest degree of independence and autonomy in the work of this institution has been achieved, in a part of its responsibilities in relation to all other state institutions. As noted above, the acts passed by SAI have the legal nature of administrative act, but separate individual acts that are adopted in the particular procedure of administrative supervision, and their legal effect pertains to the initiative to question legal and/or political responsibilities of the individuals that hold respective powers of the audited entities, which are deemed to be responsible for the irregularities. Thus, legal protection is achieved in legal proceedings conducted pursuant to an act of SAI, which is a misdemeanour or criminal proceedings, and not against the act of the institution itself.

Based on the above, it could be concluded that SAI, within current legal framework, has a high degree of functional and financial independence. If the goal of such institutional solution of strong position of independence and autonomy of the state audit should be achieved, which is competent and impartial audit of the use of public funds, other conditions must be provided as well, notably in terms of organisation and technical capacity of this institution. In the first place, it is necessary to consider issues of personal independence and expertise at the level of governance of the institution.

The bodies of SAI are the Council, the President and Vice-presidents of the institution, who shall be elected by majority vote of all members of parliament, upon proposal of the Parliamentary Committee on finance. The Council is a collegial body, composed of the president and vice-

¹⁶The Lima Declaration of the International Organisation of Supreme Audit Institutions (INTOSAI), adopted in 1977 at the congress held in Lima, Peru.

president of the institution, and three members, which brings normative, policy and planning documents within the scope of the institution, as well as decisions on remedies in the audit process. In addition, the Council shall make annual balance sheet and annual and special reports of the institution.

SAI President has dual status, being the manager of the institution and General State Auditor. Under capacity of the head of this institution, the president presides over the Council, proposes to the Council the annual financial plan, submits an annual report and special reports on the work to the Council, and possess other financial, organisational and labour authorisation as a managers of state authority. On the other hand, in the capacity of General State Auditor, the President directs the work of SAI to the realisation of the state audit function, shall prescribe rules and guidelines and instructions for implementing specific phase of the audit, and has supervisory powers in relation to the work of professional auditing staff.

SAI's audit staff, as a basic personal capacity of the institution, is consisted of state auditors, who have that title and passed the professional examination for state auditor, i.e. comply with legal requirements and conditions stipulated by special regulations issued by the Council. Particular organisational units within the audit staff, are managed by the supreme state auditors, that are appointed and dismissed by the Council upon the proposal of the President, and they are responsible to the President of the institution. Under the current act on internal organisation and systematisation, audit staff is divided into six specialised units that are managed by the supreme state auditors, and a special unit to support the audit of institutions managed by the Secretary.

The employment status of officials of institution and audit staff relate to the legal regime of appointees and employees in public administration, and the application of regulations on civil servants, except for the special provisions contained in the Law on SAI as to the position of supreme state auditor and secretary of the institution or earnings of officials and employees of the institution.

Personal independence of SAI officials is guaranteed by the law with high electoral threshold (an absolute majority in the Assembly), on one hand, and a relatively narrow conditions for dismissal during their five-year term, on the other. Specifically, in addition to reasons that include conviction for certain criminal offenses, the possible reasons for the dismissal are assuming a job or functions that are incompatible with the function, or not acting in accordance with the Constitution and law. Professional capacity of institution should be determined by the above organisational and personal independence, and is reflected in the exclusivity of all powers relating to regulation of the conditions for acquiring a state auditor's certificate, conditions of entrance into the audit staff, or exercising any other labour law powers and responsibilities within the institution, without affecting other public entities or executive branch.

According to these organisational conditions prescribed by law, an evaluation may be given that high level of legal guarantees of independence and autonomy of institution is provided, as well as adequate functional and professional capacity. SAI has a strong functional, organisational and financial independence, although a few possible areas of improvement, i.e. factors potentially diminishing its independence, do exist:

1. the provision that at least 20 MPs can initiate the dismissal of a Council member, which is a very low number, having in mind that any elected party which supersedes the electoral threshold (with the exception of minority parties) can initiate this procedure almost independently.
2. The Law on SAI prescribes that the SAI Council members' mandate lasts for only 5 years, with the possibility of a maximum of two re-elections. Having in mind that the independence of the members of judiciary is, inter alia, ensured by the length of their mandate (life-long mandate or nine-year long mandate for Constitutional court judges), the five year mandate of the SAI Council members seems as quite short.
3. Given that SAI is obliged to submit the proposal of its financial plan to the Ministry of Finance, upon receipt of consent by the responsible committee of the National Assembly, a question can be raised regarding the possibility for the executive to use this in order to exert pressure on SAI.

III. External Audit in the EU Accession Process

For acquiring general picture of importance of additional action on improving external audit system in Serbia, which also includes further work on improving tracking of audit results, it is necessary to grasp importance of external audit in EU accession process, since it is one of the key strategic commitments of all Serbian governments from 2001 to date. This chapter is arranged in three sections. The first part places external audit in EU integration process. The second gives overview of European Commission and SIGMA/OECD opinions on external audit in Serbia the second give explanation, and those opinions provide relevant picture of Serbia's advance in fulfilling conditions in this area for joining EU. The last section reflects on main international and European recommendations for audit system with special focus on process of tracking previous audit results.

III.1 Place of External audit in the Accession Process

External audit itself does not fall within *acquis communautaire*. However, Copenhagen criteria from 1993 proscribe political aspect for candidate countries that requires institutional stability that guarantees democracy and rule of law. It considers, among other things, functional supreme audit institution (SAI). Moreover, Article 287 of the Treaty on the Functioning of the European Union (former Article 248 of the Treaty on the European Community) envisages existence of audit institutions in Member States as well as their capability to cooperate with European Audit Court. Moreover, standards for managing EU funds and funds of the Member States and candidate countries require effective external audit of all public funds.¹⁷ Over the last years, the European Commission, as an institution in charge for enforcing EU budget, has taken a more proactive role in tracking the effectiveness of control measures that Member States apply when using EU funds.¹⁸ Decentralised character of EU budget implementation makes the whole system of financial accountability in the EU strongly dependent of Member States' financial accountability mechanisms, and therefore of countries that are joining EU.¹⁹

Because of all mentioned so far, alignment with EU requirements in the field of budget, financial control and audit is seen as one of the obligations for EU accession. In accession negotiations, external audit is examined under chapter 32 - Financial control. In this chapter, four policy areas are being negotiated:

- internal financial control in public sector (PIFC),
- external audit,
- protection of EU's financial interests,
- protecting the euro from counterfeiting.

¹⁷ Aleksandra Rabrenovic, *Financial Accountability*, p. 167.

¹⁸ Effects of EU Accession – External Audit, p.8.

¹⁹ Aleksandra Rabrenovic, *Financial Accountability*, p. 202.

When it comes to external audit (and internal audit as well) there are no EU acts bound to be transposed in domestic law. Obligations of candidate country in that area are directed toward adopting international standards for both internal and external audit and control. For the external control this specifically means application of norms defined by International Organisation of Supreme Audit Institutions - INTOSAI and especially Lima and Mexico Declaration that require for supreme audit institutions to be independent in functional, institutional and financial terms, as well as to account only to parliament.

European Commission started to insist on solid framework for financial accountability in early mechanisms of cooperation with Serbia, namely European Partnership. Accordingly, European Partnership document from 2008 laid down obligation on Serbia to develop and enforce in the midterm principles of decentralisation of managerial responsibility and functionally independent audit system in accordance with internationally recognised standards and European best practice.²⁰ Stabilisation and Association Agreement, as an instrument of Stabilisation and Association process which represents framework between EU and Serbia's relation until EU accession, stresses external audit as one of the areas of cooperation between contracting parties, in the Article 92 entitled "Cooperation in the areas of internal control and external audit." This article, *inter alia*, stipulates:

Cooperation between parties will be focusing on the priority areas in relation to Community's legal heritage in the areas of public internal financial control and external audit. Parties will especially cooperate through development and application of appropriate acts, with aim to develop transparent, effective, and efficient public internal financial control (including financial management and control and functionally independent internal control) and external audit systems in Serbia, in accordance with internationally recognised standards and methodologies and best practices in the EU. Cooperation will also be focused on the establishment of Supreme Audit Institution in Serbia.²¹

In the EC questionnaire for the preparation of opinion on Serbian candidature for EU accession, supreme audit institutions is asked to provide detailed description of its activities and duties, ways of regulating its independence, its relation with parliament and Ministry of Finances, especially in the light of discussions in the parliament, as well as proceedings according to the SAI's recommendations. Explanation is needed how SAI is been aligned with best EU practices and international external audit standards. Range of SAI's jurisdiction is examined (coverage of all budget aspects, non-budget national funds, lower authority levels etc.) as well as foundation

²⁰Council Decision of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Serbia including Kosovo as defined by United Nations Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2006/56/EC, (2008/213/EC), <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:080:0046:01:EN:HTML>>, p.17.

²¹Article 92, Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Serbia, <http://ec.europa.eu/enlargement/pdf/serbia/key_document/saa_en.pdf> (10 April 2012).

if SAI's independence (constitutional and elsewhere), capacities of SAI for exercising its legal duties are being evaluated. SAI is also expected to have strategy of development and that is also matter in Commission's questionnaire. Finally, last set of questions deals with procedures that arrange cooperation between SAI and organisation/organisations responsible for internal financial control in public sector (PIFC), in order to avoid duplication of audit activities in the same place at the same time, to make institutions mutually inform themselves about observed weaknesses in control/audit of public revenue and expenditures, to ensure mutual informing on audit findings, to execute common training and ensure cooperation for any other issues.²²

III.2 European Commission Opinion on External Audit System in Serbia

In November 2011, European Commission published its Opinion (Avis) on Serbian candidacy for EU accession that consists of detailed analytical reports on the state of different policy areas in Serbia referring to the requirements of the EU membership. In that sense, in the part referring to the ability of taking over the obligations of membership, Commission has classified policy areas in three categories, according to the level of readiness for taking over those obligations:

1. policies that Serbia has short-term capacities to align with the membership obligations if continues current efforts (which include areas such as company law, taxes, statistics, etc.);
2. policies Serbia will have to undertake additional efforts to align with the acquis, as well as to effectively implement them short-term (inter alia those policies include public procurement, free movement of goods, intellectual property law, competition, financial services etc.)

The biggest number of areas fall within this second group that considers weaker state in comparison to group 1. Additional adjustments of legal and institutional framework are needed in the second group, especially regarding administrative and implementation capacities.

3. policies that require significant and persistent work on the alignment with the acquis as well as on its adequate enforcement short-term.

Policy areas of this group require extensive alignment of legal nad institutional framework as well as the significant improvement of administrative and implementation capacities.

Only four policy areas have been given evaluated as such by the European Commission:

- agriculture and rural development;
- judiciary and basic rights;

²² Questionnaire – Information requested by the European Commission to the Government of Serbia for the preparation of the Opinion on the application of Serbia for membership of the European Union. <http://www.seio.gov.rs/upload/documents/upitnik/srb_questionnaire_engl.pdf> (12 May 2012).

- justice, freedom and security;
- **financial control.**²³

Beside the fact that in the Commission's opinion on Serbian candidature for EU accession chapter that comprises external audit has been classified in category of policies that need to be extensively improved in order to fulfil the criteria for membership, external audit area is evaluated as critical even in the more detailed analyses of the analytical report that succeeds opinion. Commission therefore indicates that SAI is still in the phase of the institutional development and still does not have sufficient number of employees to fully cover audit, in accordance with the law.²⁴

III.3 SIGMA/OECD on External Audit System in Serbia

The SIGMA Programme with the Organisation for Economic Cooperation and Development (OECD), primarily financed by the EU, provides support for public administration reform in candidate countries and potential candidate countries for EU membership, as well as to countries of the European Neighbourhood Policy. One of the areas where SIGMA operates is also management of public finances which includes external audit. Since in the majority of areas SIGMA deals with there is no *acquis*, but there are requirements for EU accession, SIGMA has developed a series of baselines for assessing the reforms implemented by beneficiary countries in six areas of public management, including external audit. Each of the baselines reflects EU membership requirements in line with the best EU practice. SIGMA baseline for external audit areas consists of a whole range of questions related to external audit system, starting from the range of audit according to the INTOSAI standards, over issues regarding functional and operational independence of SAI and to issues of whether SAI has adopted internationally and generally recognised audit standards that are aligned with EU requirements, as well as whether SAI itself is aware of the requirements that EU accession process places for external audit system. Also, one of the questions is related to examination of the SAI's work results in the Parliament i.e. respective committee, which also reports on its own findings. Sub-questions refer to the government's obligation to formally and publicly respond to the reports published by the SAI, as well as to whether SAI follows up on its recommendations to the Parliament.²⁵

As a result of the questions from the baselines, SIGMA performs periodic assessments on different aspects of government and management in public sector in its partner countries. For the needs of preparation of opinion, SIGMA performs interviews with numerous stakeholders

²³Communication from the Commission to the European Parliament and the Council, Commission Opinion on Serbia's application for membership of the European Union, European Commission, {SEC(2011) 1208 final}, p.11

²⁴Commission Staff Working Paper, Analytical Report Accompanying the Document, Communication from the Commission to the European Parliament and the Council, Commission Opinion on Serbia's application for membership of the European Union, European Commission, {COM(2011) 668}, <http://ec.europa.eu/enlargement/pdf/key_documents/2011/package/sr_analytical_rapport_2011_en.pdf>, p. 131.

²⁵Control and Management System Baselines for European Union Membership, SIGMA, <<http://www.oecd.org/dataoecd/57/32/35007180.pdf>>, p. 21-22.

during the field mission and analyses acts and other relevant documents. SIGMA's opinions are part of the report that the European Commission annually publishes, although in much less detail.

In the last report for Serbia (2011) SIGMA states that power in Serbia is concentrated in the executive branch, with strong tendency to obstruct “checks and balances”, including judiciary, institutions such as ombudsman and external audit, which undermines government accountability system.²⁶ Constitutionally based institutions that ensure government accountability, such as ombudsman, state audit institution and public prosecutor are still not sufficiently empowered to guarantee acceptable standards and government accountability mechanisms.²⁷ State Audit Institution has only begun to work effectively and still needs additional staff and significant capacity strengthening in order to be capable to fully perform its functions.²⁸ SAI began to perform its role of auditing the final statement of the budget in 2008 and to submit to the parliament annual opinion and audit report on financial management for 2009. Although National assembly has begun to discuss those reports, its capacities to perform role related to oversight of budget execution are still very weak.²⁹ SIGMA believes that SAI's resources are insufficient for appropriate audit level, and that this problem will have to be solved so SAI can become modern and effective institution.³⁰

When it comes to Law on SAI, SIGMA estimates it is generally aligned with international requirements in regard to independence of SAI. However, SIGMA deems it necessary to undergo certain law amendments in order to ensure independence of SAI in practice and effectiveness of law in all aspects. SIGMA also objects requirement for initiating criminal proceedings against state officials, since it occupies too much of SAI's capacities that would be better used for additional audit work.³¹ While Constitution grants SAI sufficient independence generally speaking, certain provisions of the Law on SAI need to be changed in order to ensure removal of potential risks against operational and functional independence of SAI. When it comes to functions and terms of president, vice-president and members of the Council of the SAI, SIGMA believes that they are relatively short (five years) and only 20 MP's is enough for initiating dismissal procedure (although voting in parliament is necessary to actually dismiss). Supreme state auditors and general secretary of SAI are also appointed for limited period of time (six years, one re-election) but these positions should be deemed as professional and therefore not under any kind of possibility of political influence.³²

²⁶SIGMA Assessment, Serbia, 2011 (Consolidated Text), SIGMA/OECD, <<http://www.sigmaxweb.org/dataoecd/40/27/48970654.pdf>> (12.05.2012), p. 3.

²⁷ SIGMA Assessment, p. 29.

²⁸ SIGMA Assessment, p. 5.

²⁹ SIGMA Assessment, p. 29.

³⁰ SIGMA Assessment, p. 113.

³¹ SIGMA Assessment, p. 113.

³² SIGMA Assessment, p. 141.

As additional potential risk against SAI's independence, SIGMA stresses that fact that SAI is obliged to receive approval of Ministry of Finance to its personnel plan, which enables government to postpone or stop hiring of personnel. Finally, Article 59 of the Law on SAI requires that National assembly has to approve SAI's rules of procedure. SIGMA believes that this requirement puts upon unnecessary control of SAI's processes and procedures and it can negatively affect operational independence of SAI.³³

SIGMA points out that SAI takes too much time for preparing evidence for cases in which initiates criminal proceedings in the sense of limited human resources. It is also pointed out that requirement for initiating proceedings is hardly fulfilled in the frame of modern audit methodology, and it is necessary to address this requirement alternatively (although there is no explanation on possible alternative solutions). At the same time, SIGMA recognizes that this requirement is foreseen by the Law and that there are large expectations of media and public for successful legal prosecution of officials in those cases.³⁴

According to generated annual reports on audit for 2008 and 2009, SIGMA believes that SAI has proven its ability to execute its audit responsibilities. Cooperation with the SAI of Norway has contributed to great extent. After only three years of work, SAI is apparently in solid position to continue development of its experience and to further develop in full-fledged and professional institution.³⁵

Sigma also deems it necessary to additionally strengthen positive relations of SAI and Finance committee and highlights the need for raising awareness n SAI's work in the National assembly, since all together oversight function of the parliament is still not so developed and there is a need for extensive improvement.³⁶

SIGMA perceives external audit also in the context of Serbia's accession in the EU and specifies that there SAI is aware of the challenges this process carries, and of the necessities to develop SAI in that process in such way to be capable to align with specific requirements laid down before SAI's of EU Member States. Necessity of future coordination with Audit Authority (for audit of fund management system of the EU) is perceived as an additional challenge.³⁷ This body is established by government Regulation on the establishing of Office for audit of fund management system of the EU and is currently in the process of becoming operational.

³³ SIGMA Assessment, p. 141.

³⁴ SIGMA Assessment, p. 142.

³⁵ SIGMA Assessment, p. 113-4.

³⁶ SIGMA Assessment, p.115.

³⁷ SIGMA Assessment, p. 144.

III.4 International Recommendations on Audit Results Follow-Up

Since EU requirements on external audit mainly correlate with relevant international standards, this section reflects briefly on main international recommendations with special attention given to the tracking of the actions according to the SAI's recommendations and measures. Existence of the effective audit follow-up mechanisms represents extremely important segment of the whole external audit system of public finances. These mechanisms are closely related to overall independence of the SAI's.

Section 11 of Lima Declaration, related to securing implementation of SAI's findings, stipulates that auditees should comment on SAI's findings in legally defined timeframe or that specifically prescribed by SAI itself, as well as to specify what actions has been taken as result of the audit findings. Declaration also stipulates that in cases where SAI's findings do not result in legally binding and enforceable ruling, SAI itself is empowered to address body/organisation responsible for taking necessary measures and to request accepting responsibility from the person in question.

International Organisation of Supreme Audit Institutions (INTOSAU) defines eight pillars of SAI's independence:

1. Legal status

In order to guarantee appropriate and effective legal status of SAI within the state, its independence has to be clearly defined in constitution and law, including provision that ensure de facto application of such independence.

2. Resources

Should have at disposal necessary and reasonable human, material and financial resources and should be able to manage its own budget without any intervention or control performed by the government or its bodies/institutions.

3. Staff

Conditions for appointing SAI high official and members of collegial institutions should be specified by the law. Independence of SAI's high officials and members of collegial institutions can be ensured only if their appointment with satisfactory long and fixed term is ensured, where dismissal is possible only through process independent from the executive. This enables them to perform its mandate without fear of retribution.

4. Activities

In order to exercise its duties in effective way, SAI should be independent in selection of audit issue, in audit planning and methods used for audit, as well as in the implementation of audit and organisation and management of its office. Therefore SAI

should be free of directives and interference from legislature or executive during performance of audit tasks.

5. Access to information

Auditors have right on free, timely and unlimited access to all documents information possibly needed for appropriate performance of their duties.

6. Reporting on audit findings

SAI should report on results of its work at least once per year; however, it is free to do so more often if deems necessary.

7. Content and time of publishing of audit reports

SAI should have freedom to decide on content of its audit reports, as well as to publish and disseminate its reports after they are formally adopted and submitted to respective institutions.

8. Effective mechanisms for tracking audit (follow-up)

SAI should have independent procedures of tracking audit results in order to ensure that auditees act properly upon its objections and recommendations and undertake collective actions.³⁸

These „pillars of independence” are based on the principles of Mexico Declaration of Independence (ISSAI 10) and its seventh principle is about efficient tracking mechanisms (ensuring implementation - *follow-up*) of SAI’s recommendations. This principle stipulates that SAI submits reports to the legislature, one of its committees or board of directors of the auditee to examine and ensure feedback about individual recommendations and corrective actions that have been undertaken.³⁹ SAI should have their internal system for ensuring that auditees appropriately act upon their suggestions and recommendations as well as suggestions and recommendations of the legislative body, respective parliamentary committee or board of directors of the auditee.⁴⁰ They submit reports on realisation of SAI’s recommendations to parliament, respective parliamentary committee or board of the directors of the auditee, for examination and proceeding even in the cases where SAI has its own powers for tracking and sanctioning.⁴¹

International principles envisage independent arrangement of proceedings for ensuring feedback on actions of auditees upon SAI’s recommendations (follow-up), without interference

³⁸ Eight Pillars defining the Independence of Supreme Audit Institutions (SAIs), What does SAI Independence stand for? <<http://www.intosai.org/uploads/02english.pdf>> (10 May 2012).

³⁹ ISSAI 10 – Mexico Declaration on SAI Independence, <[http://www.issai.org/media\(626,1033\)/ISSAI_10_E.pdf](http://www.issai.org/media(626,1033)/ISSAI_10_E.pdf)> (14 May 2012).

⁴⁰ ISSAI 10 – Mexico Declaration on SAI Independence.

⁴¹ ISSAI 10 – Mexico Declaration on SAI Independence.

of legislative or executive branch.⁴² Moreover, INTOSAI lists numerous examples of good practice when it comes to organisation of follow-up function. There are significant variations in systems that in that sense are being mentioned:

- Minister of Finance requires from other ministers to exercise control/oversight of activities that individual bodies and organisation undertake as an answer to SAI's recommendations and also to regularly send relevant information to SAI and parliamentary committee in charge;
- general state auditor initiates under its own discretion audit for ensuring feedback information (follow-up audit), and in some cases initiative comes from parliamentary committee in charge; securing good working relationships with parliamentary committee gives SAI opportunity to inform committee members more detailed on its reports; since these informative meetings are mostly public, SAI has the opportunity to shift the attention of the public towards its own findings ;
- existence of informal mechanisms at SAI's disposal to draw attention of the executive toward its audit reports, including regular meeting of supreme state auditor with central state bodies (including Ministry of Finance);
- supreme state auditor discusses recommendations with ministry, addressed by those recommendations and takes certain actions if ministry is incapable of to follow the recommendations; in some cases unresolved issues are anew examined in the next audit, when more demanding measures are being recommended;
- SAI publishes report on the subsequent (follow-up) audit, wand reports on the status of the issues raised in the previous audit; additionally, cabinet of the prime minister established high-level committee for integrity management where issues of importance for external audit launched by the SAI are being deliberated;
- regular publishing of the auditees' responses on the SAI's webpage and regular update of the data;
- SAI annually submits reports to the parliament but can also submit specific reports; SAI's report is being scrutinised in the subcommittee in charge for budget/finances and all high-level ministry officials are being invited to respond to the questions; budget/finance committee adopts/rejects recommendations from the SAI's report and demand for ministries to implement recommendations in given timeframe as well as to report to the SAI or the committee upon it.⁴³
- periodic reporting to the parliament through "status reports", where estimation of government activities on implementing recommendations from previous reports is being given;

⁴²ISSAI 11 – INTOSAI Guidelines and Good Practices Related to SAI Independence, <[http://www.issai.org/media\(428,1033\)/ISSAI_11_E.pdf](http://www.issai.org/media(428,1033)/ISSAI_11_E.pdf)> (14 May 2012).

⁴³ ISSAI 11 – INTOSAI Guidelines and Good Practices Related to SAI Independence.

- second part of the SAI's annual public report is dedicated solely to the "response to the SAI's observation" and also output indicators for measuring number/percentage of implemented recommendations are published;⁴⁴

Effective mechanisms for ensuring feedback on implementation of recommendations are also examined in the context of demands toward SAI in relation to government accountability and transparency as well as accountability and transparency of the SAI itself. INTOSAI principles on accountability and transparency envisage, among other things, (in the 3. principle) that follow-up mechanisms ensured by SAI make it easier for auditee to give information on corrective measures undertaken or to explain why such measure are lacking.⁴⁵ SAI is also expected to report to the public on the results of its work (seventh principle) which includes information on response measures on recommendations that auditees undertake. Also, it is necessary to inform public on undertaken measures by the SAI itself.⁴⁶ These can be, for example, the initiated misdemeanour or criminal proceedings.

Issue of the response to the audit recommendations is far more complex when it comes to the efficiency audit, so this type of audit is given special importance. Feedback ensuring process about influence of the performed audit is highly valuable in efficiency audit. Above all, this process gives impulse to the effective implementation of the recommendations from the report, and feedback on effectiveness of the audit is gets not only SAI but legislative body as well as the executive.⁴⁷ This way, professional and high quality audit secures additional support from the public and the government broadly speaking, for external audit system and raise awareness of the relevant stakeholders on its benefits. INTOSAI highlights four main reasons for undertaking follow-up procedures upon SAI's recommendations:

1. increase of the effectiveness of the audit reports i.e. increase of the probability for implementing recommendations;
2. support to the government and legislature in the way of guidelines for their future actions;⁴⁸
3. evaluation of the SAI's output since through feedback information SAI itself gets valuable information on the quality of its work;

⁴⁴ISSAI 21 – Principles of Transparency and Accountability – Principles and Good Practices, INTOSAI, <[http://www.issai.org/media\(795,1033\)/ISSAI_21_E_endorsement_version.pdf](http://www.issai.org/media(795,1033)/ISSAI_21_E_endorsement_version.pdf)> (14 May 2012).

⁴⁵ISSAI 20 – Principles of Transparency and Accountability, INTOSAI, <[http://www.issai.org/media\(794,1033\)/ISSAI_20_E_endorsement_version.pdf](http://www.issai.org/media(794,1033)/ISSAI_20_E_endorsement_version.pdf)> (14 May 2012).

⁴⁶ ISSAI 20 – Principles of Transparency and Accountability, INTOSAI.

⁴⁷ISSAI 3000-3100 – Performance Audit Guidelines, INTOSAI, <[http://www.issai.org/media\(890,1033\)/Performance_Audit_Guidelines_E.pdf](http://www.issai.org/media(890,1033)/Performance_Audit_Guidelines_E.pdf)> (14 May 2012), p.75

⁴⁸ This is especially important element having in mind the fact that when performing value-for-money audit the auditor is permitted to comment the objectives laid down by the law as well as other provisions of the policy direction. If the auditor's opinion prompts that certain policy is inadequately laid down by the law so it does not ensure efficiency or effectiveness in the system, two-way communication with both the legislature and the executive is very important in order to increase the probability of change occurring in the future and improvement of legal framework of a certain policy and therefore ensure better efficiency and effectiveness in implementation of such policy.

4. making incentives for learning and development i.e. contribution to the knowledge increase and practice improvement (this last reason is closely related with the former one).⁴⁹

III.5 SIGMA/OECD Recommendations on Audit Results Follow-Up

SIGMA specifies two main reasons for audit follow-up:

- guarantee of the appropriate reaction of the auditee and other bodies in charge of audit findings;
- building foundations for subsequent audit work.⁵⁰

In the first reason, SIGMA notes that SAI should recognize and value that auditee responded properly on audit findings and solved the problems highlighted during actual audit process. At the same time, if auditee did not take any actions to address audit findings, SAI should stress that problems still exists and that they are not resolved.

The second reason is connected with the good planning of future audit work on the basis of the previous audit results. If feedback on previous findings is positive i.e. identified problem are solved, future work in that area will presumably require only minimal review as a reassurance that it is not present anymore. At the same time, if problem/s are not solved, additional work will presumably be necessary in order to affirm that importance and the nature of the problem and generate better response of the auditee.

Activities needed to effectively track the audit results depend on the situation. In some cases, a query for senior official of organisations audited is enough, but in other cases essential inquiry is needed. Also, different SAI accede tracking results of its work in different ways. It can represent separate phase in the audit process or part of the next audit in the same organisation. First approach is more suitable if the same organisation will not be audited in the near future, while second is more suitable for organisation being audited relatively often.⁵¹

SIGMA also signifies that total effectiveness of the single SAI in realisation of greater accountability, efficiency and effectiveness of the government depends critically on the relations established and nurtured with others⁵² SAIs with very good audit work are investing much time and attention in strengthening those relations. In that sense, one of the most important institutions is the Parliament.

⁴⁹ Performance Audit Guidelines: ISSAI 3000-3100, INTOSAI, p.75

⁵⁰ SIGMA Paper No. 34, "Achieving High Quality in the Work of State Audit Institutions", SIGMA/OECD, <http://www.oecd-ilibrary.org/governance/achieving-high-quality-in-the-work-of-supreme-audit-institutions_5kml60v9gsd6-en> (16 May 2012), p. 34.

⁵¹ SIGMA Paper No. 34, p. 34.

⁵² SIGMA paper No 34. p. 44.

Relations with other organisations and institutions are also very important and require continuous high-level attention from SAI officials:

- Above all, relationships of mutual support with Ministry of Finance should be sustained. This kind of relationship is extremely important for improvement in accounting and internal control.
- Besides, relationships of mutual respect with other ministries state agencies are needed not only to make possible for auditors to fulfil their work efficiently, without unwanted interference and boundaries, but to increase the chances that those institution, as auditees, properly address issues arisen from the audit process.
- Good relations with media are necessary in order for public to be aware of the important results of the SAI's work as well as activities and measures undertaken (or not) as a response to the SAI's recommendations.
- Good relations with private sector auditors and relevant professional associations could be good for sharing experience and consequently improve quality in both sectors.
- Good relations with academic community can be beneficial by using sources of specialised expertise when needed as well as for recruitment of quality graduates for SAI;
- Good relations with other SAIs can contribute experience exchange through bilateral and multilateral meetings, auditor exchange and/or common audits.⁵³

Surprising is that SIGMA in its published works do not examine relations with civil society organisations although they have great interest in government accountability, especially in countries in transition, as a main beneficiaries of SIGMA programme. Since, generally speaking, there is lack of trust in countries in transition in integrity of the public officials and whole system of government among the citizens as well as civil society organisations as their agents in relations with the government, role of the civil society organisations should have greater place in SIGMA's activities in the area of public finances and external audit. This important topic is discussed in the separate chapter of this assessment (Chapter VII).

⁵³ SIGMA paper No. 34, p. 44.

IV. Role of the Parliamentary Committee on Finance in the External Audit System

This chapter discusses the relation between the Legislature i.e. a respective committee specialised in public finance and the Supreme Audit Institution. In the first part of the chapter this issue is discussed from normative perspective together with the overview of comparative experiences in that area. The second part focuses on the way of organisation of the SAI - National Assembly relations in the system of the Republic of Serbia. This chapter provides the context for approaching the interaction between these two institutions and lays down the foundations for understanding the discussion and recommendations in Chapters VI and VIII.

IV.1 SAI – Parliamentary Committee Relations from International Standpoint

Significance of cooperation between SAIs and parliaments can be seen primarily in the fact that these institutions jointly constitute a balanced system of government accountability. The Parliament plays a crucial role in budget spending control while the SAI contributes to the role of the Parliament by submitting audit reports. SAIs and parliaments supplement each other's efforts in increasing efficiency of public administration and strengthening of government responsibility and public trust. Attention that Parliament pays to audit reports helps in exercising additional pressure on the Government and therefore creates favourable conditions for activities of tracking and ensuring implementation of SAIs recommendations and measures.

On the basis of SAIs experience in several countries, some of which have become EU member states, others of which are candidate or potential candidate countries, SIGMA/OECD laid down certain recommendations in its paper entitled "Relations Between Supreme Audit Institutions and Parliamentary Committees"⁵⁴ and stated good practices in strengthening the cooperation between these two actors that jointly participate in control of budget execution. In those countries the relations between parliamentary committees and SAIs are set up in different ways. A common ground is primarily found in the role of the Committee which analyses SAI's reports with special attention to findings and recommendations with the possibility of giving own comments and recommendations.

Regardless of SAI's general status (part of the executive, independent institution, a court-like institution or part of the legislature) in most countries there is a close relation with the Parliament, in terms of participation in the appointment of SAI's officials, reports evaluation, analysis of draft laws submitted by SAI, requests for specific audits, adoption of SAI's budget, etc. These relations are realised either through the Parliament as a whole or via the respective working body/parliamentary committee. When it comes to regular contacts between audit institutions with parliamentary committees, the main focus is on the analysis of SAI's reports and activities

⁵⁴ SIGMA Paper No. 33: "Relations Between Supreme Audit Institutions and Parliamentary Committees", OECD, December 2002, <<http://unpan1.un.org/intradoc/groups/public/documents/nispacee/unpan020450.pdf>> (16 May 2012).

as well as on follow-up of audit findings. The same committee could be in charge of different areas of administration, economy or finance, or it could be specialised specifically in audit related matters.

There are two types of audit performed by SAI. Financial audit checks whether or not public resources are being spent in accordance with the rules and the budget. Performance (value-for-money) audit determines whether public resources are being spent in an economic, effective and efficient manner.⁵⁵ Given the comparative experience, parliamentary committees do not examine all reports submitted to the Parliament but those that are obligatory or that been specifically recommended or ordered by the Parliament. After report analysis it is usual for the Committee to prepare a report presenting its opinions, comments and recommendations to the Parliament. An important part of this process lies in ensuring the implementation of findings and recommendations from audit reports (follow-up). In most of the analysed countries these activities constitute an integral part of the cooperation and their implementation varies – in some cases SAI implements them, in others it is the Committee, or implementation is performed jointly.

Forms of follow-up activities in practice can be reduced to the following:

- auditors are obliged to monitor whether or not audited institutions are making progress according to report findings;
- if highlighted issues are not resolved it will be recorded in the annual report;
- the Committee may request from state institutions to address audit findings and recommendations or lay down certain requests before the Government, ministries or other administrative bodies - requests for correcting deficiencies or requests for reporting to the Committee on measures taken to eliminate irregularities and on results achieved;
- the Committee's report to Parliament may contain suggestions regarding follow-up activities recommended by the SAI;
- in some countries, public funds beneficiaries with determined irregularities have to submit a report to SAI on procedures and measures for removing irregularities.⁵⁶

The influence that the Parliament and its committees may have on SAI's working programme ranges from possibility of analysis or approval of annual audit plan to possibility of demanding additional audits. In analysed countries, committees do not have the option to request additional audit, but parliaments or one of their chambers do have that authority, with the possibility for the Committee to address the Parliament for altering the annual audit programme or with a request for incorporating a new item. However, it is not unusual for committees to informally suggest auditees for a certain year. Although non-binding, practice showed that SAI take into

⁵⁵Hironiri Yamamoto, "Tools for Parliamentary Oversight, A comparative study of 88 parliaments", Inter-Parliamentary Union, 2007, str. 74, <<http://www.ipu.org/PDF/publications/oversight08-e.pdf>>(16 May 2012), p. 74.

⁵⁶ SIGMA Paper No. 33, p. 21-22.

account similar suggestions in a serious way and respond in a timely manner. SAIs practically do not reject these suggestions if there is basis for their acceptance and if suggested auditees fall within their jurisdiction. It is, therefore, necessary to bear in mind that SAIs and parliamentary committees have most common contacts through audit reports. Conclusions of the reports and other findings can inspire committees to act further upon issues arisen from the report. However, SAI can have a role in the Committee's work in a different way, by giving opinions on laws sent to the SAI for that purpose, by discussing certain topics, by preparing analyses or submitting other information on Committee's request. Actual audit work and methodology, as exclusive competences of the SAI, stay out of influence of the committees.⁵⁷

An additional role of parliamentary committees can be seen in activities related to the approval of SAI's budget. One of the models suggests that the analysis of SAI's draft budget is performed by the committee in charge of budgetary matters as part of the regular process of budget adoption. Another one suggests that an analysis of the draft budget is performed by a committee established specifically for that purpose. Practice shows that the budget related role of the Parliamentary Committee can be significant, since committees can recommend an increase or, rarely, a decrease of budget items, often under pressure from the executive that lacks such powers when it comes to influencing SAI's budget.⁵⁸

Discussion on SAI's annual report in the committees is not practiced in all analysed countries, but such possibility exists when it serves as a preparation for a plenary discussion. Comparative experiences show that committees from certain countries have the possibility to appoint or suggest external auditor to perform annual audit of SAI's work. In other cases, selection of external auditor is performed by SAI itself.⁵⁹

Good Practices and Recommendations

Recommendations for improving cooperation between parliamentary committees and SAIs can be divided into those addressed to SAI's and those addressed to committees. As far as SAI's are concerned, they should be able demonstrate to the Parliament and to the Committee their professionalism and expertise.⁶⁰ Confidence in SAI's objectivity and professionalism is, among other things, earned by adoption of ethical working standards, training for employees on importance of the principles, evaluation of internal procedures and activities in order to ensure compliance with standards, etc.

SAIs can also take into consideration parliamentary suggestions in defining their list of priorities. Although SAIs are independent institutions that operate autonomously, taking into account the position of the Parliament in defining priorities can be useful. The important point is that, in such

⁵⁷ SIGMA Paper No. 33.

⁵⁸ SIGMA Paper No. 33.

⁵⁹ SIGMA Paper No. 33.

⁶⁰ SIGMA Paper No. 33, p. 29.

cases, SAIs retain their right to accept or reject suggestions so as to preserve their position of independence.⁶¹

SAI should make a selection of reports it plans to submit. It is better to submit to the Parliament and the Committee a report for which it can be assumed that it will attract the MPs' attention, given the sheer number of other documents they review, while administrative reports should be sent directly to the ministries. Submitted reports should be compiled with a clear explanation of reasons for necessity of Committee's attention and content of the report should be clear and precise.

Many SAIs believe it is very useful to establish a separate unit responsible for communication with the Parliament. Duties of such a unit would comprise in keeping daily contacts and communication with relevant committees. It is a signal that SAI is familiar with the Parliament's opinions and concerns and MP's are thus informed on SAI's activities. Those contacts have to be clearly defined in order to establish a sustainable and firm working relationship between the two institutions. By establishing a Committee for public finances and external audit issues, the Parliament is more capable not only of tracking audit reports but also of following-up on SAI's work in general. Such activities would also include analyses and approval of SAI's draft budget, engagement of external experts for audit within SAI as well as activity evaluation.⁶²

Parliamentary committees would perform their work much better if they were able to invite any individual to testify and ask for additional information from the persons relevant for the audit issue in question. Engagement of independent experts or SAI member to assist in activities of the Committee has proven to be very useful and important for preparing follow-up reports on SAI's findings and recommendations.

A certain number of parliamentary committees practice composing reports on audit reports previously analysed, where recommendations intended for government are cited on the basis of the SAI's findings. Such report can be subject to parliamentary approval on the plenary session. It is the way of putting additional pressure on findings and recommendations that the Committee agrees upon. Committee's and SAI's reports would presumably be better accepted if they were based on lessons learned from former experiences. Although the Committee's recommendations are not binding, in many countries governments are expected to respond in due time. As mentioned, follow-up activities on the basis of recommendations are in some cases implemented by SAI itself, in other directly by committees. However, it is essential to establish a formal follow-up procedure. In order to ensure government

⁶¹Lima Declaration, as the highest international standard for SAI, proscribes that independence of these institutions, deriving from the Constitution and the Law, guarantees their working autonomy when acting upon request of the parliament. Lima Declaration, Chapter 3, Section 8 "Relations with parliament".

⁶² SIGMA Paper No. 33.

reaction on issues initiated by SAI or the Committee, certain parliaments request from governments periodic progress reports.⁶³

Formulation of relations between SAIs, parliaments and their committees should be approached carefully. **Too close a relation can jeopardise SAI's independence which constitutes the foundation of this institution's credibility.** However, if the connection is too weak, there is a possibility for absence of Parliament's attention to some important audit findings. Having in mind a specific position and context, every SAI should be able to find a balance between the two extremes.

There is no single way of establishing effective cooperation between SAIs and parliamentary committees. It is also important to highlight the political nature of the committees, which can result in giving less priority to audit activities and reports. **Setting up a separate Committee for external audit would be a potentially useful solution.** It would be able to highlight importance of the audit issue and additionally highlight its significance. **It would be useful if committee members do not perceive its work as purely political. That requires separating to some extent party-related activities and committee work and the latter should be based on a larger consensus or even unanimity.** In all this, SAI has a very responsible role to report on issues that are worth the Committee's attention in clear, concise, argumentative way and SAI's should be also ready to help committees in understanding the nature and importance of audit reports and in inventing appropriate corrective mechanisms of the committees, without sacrificing their own independent position. In the end, SAIs can develop clear procedures to make governments more sensitive to their reports and recommendations of the Parliament.

SAI and parliaments should nurture close relations because the results of these relations could be greater government transparency and accountability. It is, also, a way to positively influence public confidence in government. Both the Parliament, including its committees, and SAIs can use knowledge from the civil sector in order to more effectively track budget related government activities. In this regard, Parliament is not only a stakeholder but also a beneficiary from the cooperation.

Considering the abovementioned analysed practice, it is possible to sum up lessons learned deriving from good practices of cooperation:

Lessons for SAI

- writing reports in a clear, concise, factual way, avoiding political statements;
- give the Parliament appropriate, but not dominant, role in defining audit priorities;
- submit to the Parliament, for discussion, only those reports which warrant its attention;

⁶³ SIGMA Paper No. 33.

- taking into consideration the establishment of a separate unit or appointment of a person responsible for coordination of activities with the Parliament;
- active participation in tracking and ensuring implementation of previous audit findings and informing the Parliament on absence of actions by responsible organisations upon findings;
- It is recommended to avoid direct commenting of government policies.⁶⁴

Lessons for parliamentary committees

- it should be clarified what reports should be submitted to the Parliament;
- Informing SAI on activities and interests of the Parliament as well as of priority auditees. SAI's makes the final decision;
- Request from SAI that all audit reports should be made public in a reasonable time frame;
- Development of internal rules and equipment with adequate human resources. For committees in charge of audit, the chairman should come from an opposition party, although this alone does not guarantee better effectiveness of the Committee's work;
- Media should be allowed to attend Committee meetings, with participation of SAI representatives and auditees as well;
- Committee should undertake initiatives on the basis of recommendations from audit reports. Unanimity in this regard would have a positive influence;
- Governments should be requested to respond to both SAI's and the Committee's reports.⁶⁵

Since parliamentary committees are primarily political bodies, unlike SAI's which are independent institutions with expertise, it is important to stress the need for capacity building of committees and MPs through better access to research and information, strengthening of political parties and parliamentary oversight activities, committee system, strengthening capacities of parliamentary staff as well as availability of well-equipped libraries and research centres. A potential way to start the process of strengthening capacity of the committees is to limit fluctuations of president and Committee members, improve research capacities as well as force representatives of the executive to attend Committee meetings.

⁶⁴Working with Supreme Audit Institutions, Department for International Development DFID, Policy Division Info 079, July 2005, <http://www.train4dev.net/fileadmin/Resources/General_Documents/DfID_Working%20with%20SAIs.pdf> (17 May 2012),p.7.

⁶⁵Working with Supreme Audit Institutions, p.7.

IV.2 Role of the Finance Committee of the Serbian National Assembly

Parliamentary oversight of government auditing is the only legally permitted form of supervision of SAI Serbia, and the parliamentary Finance Committee has a key function in the exercise of this authority.

The internal organisation and the scope of parliamentary committees, working as permanent bodies, are set by the Rules of Procedure of the National Assembly. The Committee consisted of the prescribed number of members of parliament, and their composition is determined at the beginning of each convening of the National Assembly, in proportion with the size of the caucuses. During the previous session of the National Assembly the Finance Committee had 15 members, and the scope of responsibilities regarding: review of proposals of acts in the field of government finance system functions, taxes, fees and other charges, the state budget and final accounts, loans, guarantees, gambling, insurance, property rights and commercial relations, expropriation or other financial areas.⁶⁶ The new Rules of Procedure, issued during the same convention, have changed the name and scope of the Committee and complied with legislative acts in the field of public finance control, so the Finance Committee, in addition to reviewing proposed legislation in the financial field, now has an authority to consider reports of the State Audit Institution, which will report the views and recommendations to the National Assembly and the authority to control the application of the state budget and associated financial plans in terms of legality, expediency and efficiency of public spending, or to submit a report about it, and to propose measures.⁶⁷

In the previous term, the Finance Committee was chaired by the parliament member from the caucus which did not support the Government's majority, trying to build a practice modelled on the European parliamentary convention (as has been pointed out in the previous part of this chapter) that the Head of the Parliament's most important body for the monitoring of public finances is in fact a representative of the largest opposition party.

The Law on SAI provides for three basic control functions of parliamentary supervision of state audit, which are specified in the work of the Committee responsible for finance:

- Personal accountability of office-holders in the state audit;
- Transparency of the institution, through the consideration of reports;
- Financial accountability of the SAI.

⁶⁶ Rules of Procedure of the National Assembly of the Republic of Serbia (Official Gazette of RS, No. 14/2009 - consolidated text and 52/2010 - other Rules).

⁶⁷ Rules of Procedure of the National Assembly (Official Gazette of RS, No. 20/2012 - consolidated text), the provisions of the Rules relating to the organisation and scope of the parliamentary committees, will be applicable from the moment the constitution of the new National Assembly.

In the first place, the Finance Committee is the body which conducts the candidacy process for the President and members of the Council of SAI. In this process, it receives and considers nominations, and shall determine whether the legislative conditions for appointment to those positions are met, and after discussion the committee determines list of candidates, upon which the Assembly votes. It is a debate about the candidates and reviewing compliance with the requirements, especially regarding questions of existence of possible reasons of incompatibility of functions, a key element of transparency of the parliamentary election procedure of these functions. In this respect, perhaps even of greater importance is the procedure for dismissal of office-holders in the SAI, which also takes place before the Committee on Finance. Authorisation for initiating dismissal of SAI officials belongs exclusively to the group of at least 20 parliament members. On the one hand, the independent position of the Institution is thus once again reaffirmed, given that no other body or holder of public authority, other than the Parliament, has such authority. On the other hand, the number of 20 MPs may be assessed as quite low, especially in comparison to the number needed for submitting an interpellation about the work of the Government or a Government member (50) or for initiating a vote of distrust to the Government (60).

The obligation to hear the SAI official whose dismissal is in question is prescribed, that is in oral or in writing to participate in the discussion upon this request. Following the discussion, which is obligatory in the light of these legislative conditions, the Committee brings a decision upon the submitted initiative. If accepted, the proposal is submitted to the Assembly, for the decision on dismissal. In addition to dismissal proceedings, the Committee has exclusive authority to determine the occurrence of other legal grounds for termination of the official position within SAI before the expiration of the term for which one was elected, in the event of resignation or conditions for retirement.

Transparency of the SAI is primarily provided on the basis of the legal commitment to submit the annual and special reports on the work of the institution. Annual report on the work of the institution is adopted by the Council, on the motion of the President of SAI, and submitted to the National Assembly not later than March 31st of the year for the previous year. In addition to this regular report, there is a possibility for the submission of special reports, upon self-initiative by the Council in respect of important issues that need to be reported to the Assembly without delay. On the other hand, there is an obligation to submit a special report upon request of the Assembly, with data and information that are a subject to the request. However, the legal provision that provides for such authority is not sufficiently precise and opens the necessary interpretation in terms of how the Assembly determines such a request, by voting in the plenary or by a decision of the competent committee. Rules of the National Assembly also contain specific provisions on the monitoring of government bodies and agencies, including proceedings on the basis of reports submitted by these institutions in accordance with their legal obligations, but would not give a reliable answer to this question.

The third important aspect of the role of the Finance Committee in parliamentary control of the SAI are the powers in respect of considering and approving the Institution's financial plan for the coming year. This power should be considered in connection with these the abovementioned reporting obligations. Information on the work of the SAI, its capacity and conducted audits contained in the report should be coordinated with the planned costs for identical activities in the upcoming budget period. Only in this manner the parliamentary committee could provide a reliable assessment of the justification of projected costs, so as to ensure both the smooth functioning of the Institution and its financial accountability.

After considering the financial plan of SAI, the Committee votes on its consent and in the case of a positive statement, such a plan is submitted to the Finance Ministry, to be included in the draft budget for the following year. Funding for SAI is provided under a separate budget class.

In addition to control functions, the Finance Committee and SAI cooperate in the audit of the final accounts of budget and final accounts of the financial plans of mandatory social insurance and of the consolidated financial statements. Report on the audit of these annual financial statements conducted by SAI are submitted to Assembly and the same are discussed in the Finance Committee. After considering the report cited, the Committee may adopt its comments or make recommendations that are forwarded to the Assembly, joined with the audit report, and the Assembly may request from the SAI additional clarifications on the basis of these documents.

In light of these control functions that should be organised and implemented in the Finance Committee, one of the topics that are considered for long time regarding the issue of parliamentary practice in Serbia is especially important and that is professional and organisational capacity to carry out such functions. In the past, the work of parliamentary committees was primarily related to the procedure provided for further consideration of draft laws and regulations passed by the Assembly, as well as nomination proceedings, considering the nomination of candidates and elections for office, under the competence of the Assembly. Committee discussions that were held on specific issues within the purview of the Committee outside the process of adopting legislation were extremely rare. A particular challenge is the possibility of a competent review of reports submitted by the independent supervisory bodies, within the parliamentary oversight over their work and noticing defects, breaches of profession or the rules of procedure prescribed in the work of these bodies. In the Strategic Plan of the State Audit Institution for 2011-2015, SAI has recognised the need for strengthening the capacities of Finance Committee, by expanding cooperation of this committee with relevant committees of other countries and has stressed the need for continuing cooperation with Finance Committee Members.⁶⁸

⁶⁸Strategic Plan of the State Audit Institution for 2011-2015 (Official Gazette of RS, No. 100/2011).

V. Overview of the External Audit Process in Serbia

During 2008 SAI has performed its legal duties according to the Initial working plan⁶⁹ that closely regulated important questions for ensuring basic working conditions i.e. financial resources, necessary working space and professional and administrative capacity.

SAI did not form audit services and therefore Audit programme for 2008 that define auditees, subject, scope and type of audit as well as beginning time and duration of audit was not created.

V.1 External Audit for 2007

Considering that up until 2008 only Council of the SAI has been elected as a collegial managerial body whose jurisdiction does not comprise actual audit performance, that basic working conditions (working space, equipment et.) haven't been provided and audit services haven't been established as well as that SAI's Rules of Procedure (that define rights and obligations of SAI and auditees), as a basis for the audit performance, hasn't been discussed in the National Assembly, SAI didn't manage to provide opinion on the Draft law on final account of the budget of the Republic of Serbia for 2007.

For purpose of gathering data and information for planning and performing audit of financial reports for 2008, SAI analysed in the second part of the 2008 functioning of the internal control system and internal audit in certain number of auditees.

V.2 External Audit for 2008

In accordance with the Audit programme for 2009⁷⁰, Report on the financial audit of the Final account of the budget of the Republic of Serbia for 2008 was published in November 2009.

Audit comprised functioning of the accounting system, functioning of the internal control system and internal audit of beneficiaries of budget resources, non-financial property and capital, current revenues and expenditures and determining results of transaction results, capital expenditures and incomes, money proceedings and budget execution.

Due to impossibility to gather enough proper audit evidence to serve as the basis for giving opinion, General state auditor did not express opinion on the Draft law on final account of the budget of the Republic of Serbia for 2008. Reports on the audit of the constituent part of financial reports for 2008 with expressed opinion are compiled for 15 ministries, 3 offices and 2 directions.

⁶⁹Adopted at the meeting of the Council of the SAI, held on 28 December 2007.

⁷⁰Adopted at the meeting of the Council of the SAI, held on 30 December 2008.

In audit proceeding irregularities have been detected in functioning of accounting system, non-financial property and capital and current revenues and expenditures. Main conclusions for 2008 are:

- between 2002 and 2007 there has been no audit activities nor submission of audit reports during that period;
- out of total 27 ministries and 1 agency, internal control system was established in 4 ministries and 1 agency, in 3 ministries establishing was in progress and in 17 ministries no steps for establishing have been made;
- out of total 17 ministries and 1 agency with obligation to establish internal control, 7 ministries established internal audit, in 3 ministries process was in progress, and 10 ministries and 1 agency made no steps to establish internal audit;
- evidence from the receipts in the final account are not complete and do not consist revenues and expenditures from other sources of indirect beneficiaries of budget resources, since there is no record of all account changes in the main book of the treasury;
- accounting record and final account for 2008 do not reflect actual state of the non-financial property, since changes in non-financial property from 2008 are not recorded in business books;
- financial results are wrongly determined since direct budget beneficiaries did not present amortisation for their own revenues;
- complete and updated track record of the state property was not established by the State Property Directorate;
- in certain cases budget expenditures were not based on accounting documentation i.e. payments were made according to the documentation that do not represent written proof of the appeared change;
- budget beneficiaries performed procurement of services during the year without public procurement or by violating provisions of Public procurement law;
- service contracts were being signed for activities that fall within jurisdiction of ministries and there are no reports on realization of the contracted duties.

On the basis of the report findings and conclusions, 31 recommendations have been given related to establishment of the internal control system and internal audit.

On 28th of May 2012, SAI determined that all recommendations given are in the process of implementation.⁷¹

⁷¹ Situation dated 28 May 2012, according to data of SAI Serbia.

Following audit findings and irregularities determined in the report, SAI filed 19 requests for initiating proceedings against 19 persons responsible for not acting in accordance with the Law on budget system, Decree on budget accounting and Public procurement law.

Table 1: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalized proceedings</i>	<i>Proceedings finalized in the first instance</i>	<i>Proceedings in progress</i>
19	4 convictions 1 verdict of release*	5 convictions 1 verdict of release 1 proceeding adjourned	7

*SAI filed request for protection of legality that Prosecution accepted

V.3 External Audit for 2009

In accordance with Audit programme of the SAI for 2010⁷², audit included 11 auditees and in the end of the 2011 and at the beginning of the 2012 following reports have been published:

- 1) Report on financial audit of the Draft law on final account of the budget of the Republic of Serbia for 2009;
- 2) Audit report of the annual financial report of the Ministry of finance for 2009;
- 3) Audit report of the annual financial report of the Ministry of finance - Treasury Administration for 2009;
- 4) Audit report of the annual financial report of the Ministry of youth and sport for 2009;
- 5) Audit report of the annual financial report of the Ministry of education for 2009;
- 6) Audit report of the annual financial report of the Ministry of agriculture, forestry and water management for 2009;
- 7) Audit report of the annual financial report of Ministry of labour and social policy for 2009;
- 8) Audit report of the annual financial report of the Ministry for infrastructure for 2009;
- 9) Audit report of the annual financial report of the Ministry of science and technological development for 2009;
- 10) Audit report on financial reports and regularity of transactions of Public enterprise "Elektromreža Srbije" Belgrade for 2009;
- 11) Audit report on financial reports and regularity of transactions of Public enterprise for shelters, Belgrade for 2009;

⁷²Adopted at the meeting of the Council of the SAI, held on 29 December 2009.

- 12) Audit report on financial reports and regularity of transactions of Public enterprise “Transnafta”, Pančevo for 2009;
- 13) Audit report on financial reports and regularity of transactions of the National Bank of Serbia for 2009 in the part related to state budget transactions.

Audit of the Budget and Budget Funds of the Republic of Serbia

In December 2010, SAI published reports on financial audit of the Final account of the budget for 2009, audit of the financial reports of 7 ministries and 1 administration and one part of the report of the National Bank of Serbia related to use of budget resources.

Final account of the budget was controlled to the greater extent by this audit, complete financial reports of 7 ministries and 1 administration within the ministry as well as audit of the financial reports and regularity of transactions of the National Bank of Serbia related to state budget transactions.

Audit of the financial reports of ministries included accounting system, internal control, inventory of property and obligations, balance sheets of the state and report of the budget execution. Unlike in 2008, when audit included only particular segments of ministries, audit in 2009 included 70,13% of total expenditures and expenses of the Serbian budget and around 18% of budget revenues from selling goods and services.

Enough reliable and relevant evidence was gathered from all audited beneficiaries upon which 11 opinions with caution was expressed, given that financial reports were correctly presented, except for some irregularities and or limitations.

Main recommendations of audit for 2009 are as follows:

- internal audit was not organized in proper and reliable way - 10 direct beneficiaries of budget resources organized internal audit, in 6 of them organization is still ongoing, and 3 didn't undertake measures for establishing internal audit;
- internal control was not established;
- Treasury's main book is incomplete and does not consist all the data - there is no far-reaching track record on financial transactions that include state and changes in property, financial claims, obligations, source of financing, expenditures, expenses, revenues and incomes, as well as data on revenues and expenditures of indirect beneficiaries of budget resources from other sources;
- data in balance sheets do not reflect actual state;
- own revenues were not completely transferred to the account of budget execution;
- there is no complete and updated track record of state property;

- service contracts for activities from jurisdiction of ministries have been signed;
- obligations were assumed without signing contracts and contracts have been signed on procurement of goods, providing services and performance of construction works opposite to the acts that regulate public procurement area;
- obligations were assumed and contracts signed for procurement of immaterial property in amount larger from approved appropriation in fiscal 2009;
- during the audit of regularity of transactions, irregularities have been observed in service contracts, payments of compensations for committee and working group members, procurement of goods, providing services and performance of construction works.

On the basis of the findings and recommendations presented in audit reports, total 74 recommendations have been given.

Auditees whose activities showed irregularities that are not being removed during the audit performance have been given deadlines for submission of response reports.

SAI verified validity of allegation in response reports that measures for tackling irregularities have been taken and determined that totally 67 out of 74 given recommendation have been implemented and implementation of 7 more is in progress.⁷³

Given that audit process identified materially significant acts that indicate existence of elements of different violations from the Law on budget system, Law on budget of the Republic of Serbia, Labour law and Public procurement law, 13 requests for initiating misdemeanour proceedings against 14 responsible persons in 5 ministries and 3 administrations within ministries have been filed. Requests for initiating proceedings have been filed against 4 ministers, 2 state secretaries, 2 secretary general of ministries, 2 assistant ministers and 4 directors of administrations.

Table 2: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalized proceedings</i>	<i>Proceedings finalized in the first instance</i>	<i>Proceedings in progress</i>
13	0	1 conviction 1 verdict of release	11

Audit of the Public Enterprises

At the beginning of the 2011, SAI published reports on audit of financial reports and regularity of transactions for three public enterprises for 2009.

⁷³ Situation dated 28 May 2012, according to data of SAI Serbia.

Audit comprised balance sheets, balance of success, report on changes on capital, report on cash flow and notifications to financial reports.

From all audited beneficiaries enough reliable and relevant evidence have been collected upon which 1 positive and 2 opinions with caution have been expressed, given that financial reports were correctly presented, except for some irregularities and limitations.

Main findings of financial audit and regularity of transactions in these public enterprises are as follows:

- there are irregularities and deficiencies in functioning of the system of financial management and control;
- inventory of immovable estate (real estate, facilities and equipment) is incomplete and account of state of property is unadjusted;
- value estimation of immovable estate questions reality of declared market value and accuracy of financial reports;
- immovable estate has been procured and leased without approval of the bodies in charge;
- contracts have been signed, subsequently arranged additional and unforeseen works opposite to the provisions of the Public procurement law.

On the basis of findings and conclusions presented in audit reports 14 recommendations have been given. Auditees whose activities showed irregularities that are not being removed during the audit performance have been given deadlines for submission of response reports.

SAI verified validity of allegation in response reports that measures for tackling irregularities have been taken and determined that all 14 recommendations have been implemented.⁷⁴

Following the audit findings, 3 proceedings have been filed against 4 persons (2 requests for initiating misdemeanour proceeding and 1 for economic offence).

Table 3: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalized proceedings</i>	<i>Proceedings finalized in the first instance</i>	<i>Proceedings in progress</i>
3	1 conviction	0	2

⁷⁴ Situation dated 28 May 2012, according to data of SAI Serbia.

V.4 External Audit for 2010

In accordance with Audit programme of the SAI for 2011⁷⁵, audit was performed and in December 2011 following audit reports have been published:

- 1) Audit report of the Draft law on final account of the budget of the Republic of Serbia for 2010;
- 2) Audit report of the Annual financial report of the Ministry of economy and regional development for 2010;
- 3) Audit report of the annual financial report of the Ministry of finance for 2010;
- 4) Audit report of the annual financial report of the Ministry of finance – Tax administration for 2010;
- 5) Audit report of the annual financial report of the Ministry of finance – Custom administration for 2010;
- 6) Audit report of the annual financial report of the Ministry for Kosovo and Metohija for 2010;
- 7) Audit report of the annual financial report of the Ministry of defence for 2010;
- 8) Audit report of the annual financial report of the Ministry of interior for 2010;
- 9) Audit report of the annual financial report of the Ministry of health for 2010;
- 10) Audit report of the annual financial report of the Ministry for environment and spatial planning for 2010;
- 11) Audit report of the financial reports and regularity of transactions of the Development fund of the Republic of Serbia for 2010;
- 12) Audit report of the final account of the National employment service for 2010;
- 13) Audit report of the financial reports and regularity of transactions of the National Bank of Serbia for 2010 in the part related to use of public resources and state budget transactions;
- 14) Audit report of the financial reports of final account of the budget of the Vojvodina autonomous province for 2010;
- 15) Audit report of the financial reports of final account of the budget of the Bečej municipality for 2010;
- 16) Audit report of the financial reports of final account of the budget of the city of Belgrade for 2010;
- 17) Audit report of the financial reports of final account of the budget of the city of Jagodina for 2010;

⁷⁵Adopted at the meeting of the Council of the SAI, held on 30 December 2010.

- 18) Audit report of the financial reports of final account of the budget of the Kikinda municipality for 2010;
- 19) Audit report of the financial reports of final account of the budget of the city of Kragujevac for 2010;
- 20) Audit report of the financial reports of final account of the budget of the city of Kraljevo for 2010;
- 21) Audit report of the financial reports of final account of the budget of the city of Kruševac for 2010;
- 22) Audit report of the financial reports of final account of the budget of the city of Leskovac for 2010;
- 23) Audit report of the financial reports of final account of the budget of the city of Niš for 2010;
- 24) Audit report of the financial reports of final account of the budget of the city of Novi Sad for 2010;
- 25) Audit report of the financial reports of final account of the budget of the city of Šabac for 2010;
- 26) Audit report of the financial reports of final account of the budget of the city of Smederevo for 2010;
- 27) Audit report of the financial reports of final account of the budget of the city of Zaječar for 2010;
- 28) Audit report of financial reports and regularity of transactions of stock corporation for air traffic “JAT Airways” A.D. Belgrade for 2010;
- 29) Audit report of financial reports and regularity of transactions of public communal enterprise “Gradskatoplana”, Niš for 2010;
- 30) Audit report of financial reports and regularity of transactions of public communal enterprise Regional waste location “Duboko”, Užice for 2010;
- 31) Audit report of financial reports and regularity of transactions of public communal enterprise “Gradskatoplana”, Kruševac for 2010;
- 32) Audit report of financial reports and regularity of transactions of public communal enterprise “Gradskozelenilo”, Novi Sad for 2010;
- 33) Audit report of financial reports and regularity of transactions of public enterprise for communal economy “Lazarevac”, Lazarevac for 2010;
- 34) Audit report of financial reports and regularity of transactions of public communal enterprise “Mediana”, Niš for 2010;

- 35) Audit report on financial reports and regularity of transactions of public communal enterprise “Naissus”, Niš for 2010;
- 36) Audit report of financial reports and regularity of transactions of public communal enterprise “Put”, Novi Sad for 2010;
- 37) Audit report of financial reports and regularity of transactions of public enterprise “PuteviSrbije”, Beograd for 2010;
- 38) Audit report of financial reports and regularity of transactions of public enterprise for underground exploitation of coal Resavica u restructuring for 2010;
- 39) Audit report of financial reports and regularity of transactions of public enterprise Sportskiiposlovnica Vojvodina, Novi Sad for 2010;
- 40) Audit report of financial reports and regularity of transactions of public communal enterprise “Stan”, Novi Sad for 2010;
- 41) Audit report of financial reports and regularity of transactions of public enterprise for water management “VodeVojvodine”, Novi Sad for 2010;
- 42) Audit report on financial reports and regularity of transactions of public communal enterprise Vodovodikanalizacija Novi Sad for 2010;
- 43) Audit report on financial reports and regularity of transactions of public enterprise “ŽelezniceSrbije”, Beograd for 2010.

Audit of Budget, Budget Funds and Social Security Organisations

In December 2011, SAI published reports on financial audit of Final account of the budget for 2010. Audit included 7 ministries and 2 administrations within the Ministry of Finance and audit of financial reports and regularity of transactions of the National Bank of Serbia in the part related to state budget transactions, of financial reports and regularity of transactions of the Development fund of the Republic of Serbia and of the National Employment Service was also performed.

Audit for 2010 controlled revenues, incomes, expenditures and expenses, state property, borrowing, giving guarantees, use of the resources given to the auditees. Annual financial report audit of ministries comprised accounting system, inventory of property and obligations, internal control, internal audit, balance sheets of revenues and expenditures, reports on capital expenditures and incomes, reports on cash flow, reports on execution of the budget and public procurement.

Enough reliable and relevant data was gathered from all auditees and respective opinion was expressed:

- positive opinion was expressed for the Ministry of finance - Tax administration and National Bank of Serbia;
- opinions with caution were expressed for 7 ministries and 1 administration within ministry, National Employment Service as well as for Draft law on final account of the budget of the Republic of Serbia, since financial reports were correctly presented, except for certain irregularities and limitations;
- refraining opinion on financial reports and regularity of transactions was expressed for Development fund of the Republic of Serbia;

Main findings of the financial audit for 2010 are as follows:

- internal control system is not organized in a way to ensure application of legal acts in 5 ministries and in one ministry transactions are not being performed in accordance with determined procedures;
- internal audit is not organized in proper and reliable way in most auditees;
- in case of all auditees, in accounting track record there is no complete inventory of non-financial, financial property and obligations - inventory of property, obligations and claims has not been performed;
- in case of 10 auditees there has been payments of salaries and fees in amount larger then prescribed by legal acts;
- beneficiaries have during the year performed procurement of goods, services and works without public procurement procedure or by violating provisions of the Public procurement law;
- in cases of 5 auditees (4 public enterprises and one local authority), payment of all taxes and contributions has not been executed, and in cases of 2 auditees (public enterprises) value added tax has not been calculated and paid in;
- presented state of the account of the National Bank of Serbia was lower then state determined by inventory;
- the most significant irregularities found in Development fund of the Republic of Serbia were not performed inventory of property (over 60%), not performed harmonization of claims for placement of resources from approved loans (over 70% of placement), non-compliance with the Government programme in approving loans, non-compliance and lack of internal procedures in approving loans and lack of measures for repayment of due loans;
- the most significant irregularities found in National Employment Service were: ceding equipment for temporary use to legal persons and individuals without decision of the Board of directors, signing contracts with subvention beneficiaries for employment opposite to the provisions of Rules on criteria and way of carrying out measures of active

employment policy, taking over obligations larger than approved appropriations, signing contracts opposite to the Public procurement law, incorrect application of calculation of minimal wages for unemployment which resulted in execution of expenditures in larger amount, making decision on granting resources to the project applicant who did not fulfil conditions stated in public call, coefficient increase for calculating and payment of employees' salaries above the allowed amount, payment of employees' salaries who were temporary sent to other employer, signing contracts on temporary and periodical engagement for carrying out tasks defined in systematization of jobs, etc.

On the basis of the findings and conclusions in audit reports, total 127 recommendations have been given.

Overview of the most important recommendations is following:

- 1) to regulate content, procedures and way of operating tax accounting according to the Law on tax procedure and tax administration;
- 2) to legally prescribe and ensure tracking and reporting on received and realised donations (in financial, commodity form and services);
- 3) to harmonize acts related to payments of salaries with legal acts;
- 4) to regulate procedure of granting resources without public competition for co-financing preventive and intervening measures in extraordinary circumstances of environment pollution and empowerment for response in case of accident;
- 5) to harmonize financial plan with the Law on changes and amendments to the Law on budget of the Republic of Serbia, and to specify individual programmes, projects and purpose of expenditures and expenses in the Execution plan;
- 6) to closely regulate procedure of procurement by resources for special purposes (method and conditions for making list of tenderers, evaluation of tenders);
- 7) to regulate procedure for granting resources for projects and method of recording expenditures and expenses in project realization;
- 8) to prepare legal acts and contracts in Serbian language;
- 9) to create Main book of tax accounting following the dual accounting system
- 10) to ensure protection of employees' rights;
- 11) to regulate procedure for payment of labour fees in commissions as well as procedure for establishing commissions;
- 12) to ensure that grant of resources is carried out in accordance with criteria and measures for evaluation of requests for granting resources;
- 13) to adopt necessary by-laws;

- 14) to regulate procedure of hiring project staff and measures and criteria for determining labour fees;
- 15) to proscribe conditions, criteria and method of granting, using and justifying of resources that are being granted as assignment loans of special importance and for stimulating production and export, and to import mechanisms for tracking activity realization;
- 16) for public procurement contracts signed for period longer than 12 months, and in case obligations are due in following years, contracted amounts to harmonize with acts that regulate budget execution and public financing for each year;
- 17) for public procurement, to make tender documentation in accordance with the Rules on compulsory elements of tender documentation;
- 18) to prepare integrated Public procurement plan and to update it in accordance with changes, and to prepare, update and execute financial plan pursuant to changed needs.

Recommendations related to final account of the budget of the Republic of Serbia:

- 1) to regulate accounting system in accordance with legal acts and international standards with the aim to ensure integral and far-reaching track record on financial transactions of public resources beneficiaries, especially in terms of state and changes on property, claims, obligations and sources of financing;
- 2) to establish internal control systems and internal audits with the aim to ensure realistic and complete financial and business reporting;
- 3) to undertake property and obligation inventory and to harmonize accounting and actual state;
- 4) to ensure that accounting certificates contain all elements needed and that all entries are being performed in accordance with the Rules on standard classification framework and account plan for budget system;
- 5) to make annual reports in accordance with the Rules on method of preparing, composing and submitting financial reports of budget resources beneficiaries and compulsory social security organizations resources beneficiaries, and to submit documentation to Treasury Administration in accordance with the legal acts;
- 6) to ensure recording of acts through the registry in accordance with the Decree on office operations of public administration and Instructions on office operations of public administration.

SAI has recommended to the Board of directors of Development fund of the Republic of Serbia to decide upon allocating of retained asset from previous years.

Auditees whose activities showed irregularities that are not being removed during the audit performance have been given deadlines for removing irregularities and submission of response reports.

SAI verified validity of allegation in response reports that measures for tackling irregularities have been taken and determined that from total 127 recommendations, 116 have been implemented, implementation of 7 is in progress and 4 recommendations have not been implemented.⁷⁶

For irregularities that could not have been removed since they were related to violation of provisions on labour and public procurement, SAI filed 34 proceedings against 35 persons - 33 requests for initiating misdemeanour proceedings and 1 for economic offence. Proceedings have been filed against responsible persons in ministries (ministers, state secretaries, assistant ministers, secretary general of ministries, directors and assistant directors of the administrations, heads of units), National Employment Service (2 directors and 1 deputy director) and Development fund (2 directors).

Table 4: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalized proceedings</i>	<i>Proceedings finalized in the first instance</i>	<i>Proceedings in progress</i>
34	0	0	34

Audit of Public Enterprises

Audit comprised 15 public enterprises and 1 stock corporation and financial reports and regularity of transactions audit was performed.

Enough reliable and relevant information was gathered from all auditees, upon which respective opinion was expressed:

- positive opinion was not expressed for single public enterprise;
- opinions with caution were expressed for 11 public enterprises, since financial reports were correctly presented, except for certain irregularities and limitations;
- refraining opinions on financial reports and regularity of transactions was given for 5 public enterprises.

Main findings of the audit for 2010 are as follows:

- appropriate financial management and control system as well as internal audit have not been established,

⁷⁶ Situation dated 28 May 2012, according to data of SAI Serbia.

- partial execution of property and obligations inventory and lack of submission of data on property to authority in charge,
- inadequate application of adopted accounting policies,
- value of property is underestimated,
- state capital is not registered,
- illegality in the implementation of public procurement procedure.

On the basis of findings and conclusions presented in the audit report, total 208 recommendations was sent to auditees, and key recommendations are as follows:

- 1) establishment of appropriate financial management and control system;
- 2) establishment of internal audit;
- 3) registration of state capital;
- 4) performance of realistic estimation of property;
- 5) to ensure application of adopted accounting policies;
- 6) correction of wrong book entries of business changes

Auditees whose activities showed irregularities that are not being removed during the audit performance have been given deadlines for removing irregularities and submission of response reports.

SAI verified validity of allegation in response reports that measures for tackling irregularities have been taken and determined that from total 208 recommendations, 143 have been implemented, implementation of 45 is in progress and 20 recommendations have not been implemented.⁷⁷

For irregularities that could not have been removed since they were related to violation of provisions on labour and public procurement, SAI filed 31 proceedings against 62 persons - 16 requests for initiating misdemeanour proceedings, 12 for economic offence and 3 criminal proceedings. Proceedings have been filed against directors, assistant directors, heads of financial units and commissions.

Table 5: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalised proceedings</i>	<i>Proceedings finalised in the first instance</i>	<i>Proceedings in progress</i>
31	1 conviction	0	30

⁷⁷ Situation dated 28 May 2012, according to data of SAI Serbia.

Audit of Provincial and Local Authorities

Audit comprised final accounts of the budget of the Autonomous province Vojvodina for 2010 and final accounts of the budget and regularity of transactions for 13 local self-government units (11 cities and 2 municipalities) for 2010. Audit also comprised revenues and expenditures, financial transactions, calculations, analyses and regularity of transactions and disposition of public resources.

Enough reliable and relevant information was gathered from all auditees, upon which respective opinion was expressed:

- positive opinion was not expressed for single auditee;
- opinions with caution were expressed for all 14 auditees (when financial reports were correctly presented, except for certain irregularities and limitations);
- there was no refraining opinions on financial reports and regularity of transactions for single auditee;

Main findings of the audit for 2010 are as follows:

- appropriate internal control system was not established or is not functioning - procedures have not been determined or they are not applied;
- internal audit has not been established;
- part of the revenues of local authority budget was not paid to appropriate payment accounts;
- in calculation and payment of salaries, determined coefficients and baselines have not been applied;
- recording of business events and payments on that basis were not executed based on valid documentation and in compliance with account plan;
- carrying out public procurement procedures has not been done in compliance with legislation;
- preparing of procedure and property inventory has not been performed in accordance with existing legal acts (it has not been performed for certain parts of the property or it is incomplete, auxiliary and main book are not aligned, harmonization of obligations and claims has not been performed);
- track records of non-financial property in business books are incomplete and not harmonised with immobility registry; participation of public enterprises in capital established by local authorities has not been registered.

On the basis of findings and conclusions presented in the audit report, total 213 recommendations was sent to auditees, and key recommendations are as follows:

- 1) establishment of adequate internal control system and organization of internal audit;
- 2) deployment of workers in accordance with the Rulebook on internal regulation and systematisation of posts and harmonization of number of persons hired for certain period of time with the limitation proscribed by the Law on determining maximal number of employees in local administration;
- 3) by deciding upon source revenues, proscription of accountability for determining, control and repayment of source revenues;
- 4) adoption of legal act on budget accounting, treasury activities and procedure for restoring unspent budget resources that were being transferred to beneficiaries but were not spent during the budget year;
- 5) adoption of internal act on types and methods of granting presents, use of public vehicles, limitation of expenditures for mobile phones and representations;
- 6) to plan and arrange own revenues and earnings in the Decision on budget;
- 7) to apply unique budget classification, by planning and executing budget;
- 8) public procurements to be planned and realized in accordance with financial plans;
- 9) administering auxiliary books and track records and recording and registering business changes in accordance with legal acts;
- 10) recognition, recording and paying of expenditures and expenses to perform in accordance with reliable accounting documentation;
- 11) to ensure that resources for stimulating programme or missing part of resources for financing of the programme realized by associations and organization are granted pursuant to the law - signing contracts on realization of approved programmes on the basis of public competition results, defining acceptable costs and determining reporting method on programme realization;
- 12) to perform property inventory in accordance with existing legal acts and to record property;
- 13) to determine and record capital value of public enterprises, companies and facilities established by local authorities;
- 14) to harmonise value of non-financial property;
- 15) to follow status and process of lawsuits owing to timely planning of resources.

Auditees whose activities showed irregularities that are not being removed during the audit performance have been given deadlines for removing irregularities and submission of response reports.

SAI verified validity of allegation in response reports that measures for tackling irregularities have been taken and determined that 105 recommendations have been implemented, implementation of 97 is in progress and 11 recommendations have not been implemented.⁷⁸

For irregularities that could not have been removed since they were related to violation of provisions on labour and public procurement, SAI filed 93 proceedings against 110 persons - 78 requests for initiating misdemeanour proceedings and 15 proceedings for economic offence. Proceedings have been filed against city mayors, heads of administration offices and heads of secretariats and directors of kindergartens.

Table 6: Overview of the outcomes of the proceedings on the day 28th of May 2012

<i>Number of filed proceedings</i>	<i>Finalized proceedings</i>	<i>Proceedings finalized in the first instance</i>	<i>Proceedings in progress</i>
93	0	1 conviction 2 verdict of release	90

From all of the above mentioned, it is evident that SAI Serbia has continuously expanded the scope of audit and increased the number of auditees since the inception of its work. At the same time, the recommendations which SAI issues to auditees have, in time, become ever more numerous, thorough and serious. In the first years of its work it is quite reasonable that SAI needs to focus on smaller-scale, more formal issues as well, given that such focus by SAI induces among the auditees a stronger sense of responsibility for respecting the rules of conducting business, which have, in the absence of external control, frequently been neglected. With further development of the external audit system and further assertion of SAI's role, it is expected that there will be a stronger focus on compliance audit, followed by performance audit, which SAI has already envisaged for the coming period.⁷⁹

⁷⁸ Situation dated 28 May 2012, according to data of SAI Serbia.

⁷⁹ From the speech by Ljubica Nedeljkovic, Conference "Towards and More Financially Accountable Government in Serbia", Belgrade, 4 June 2012.

VI. Discussion on Results of the Research on Implementation of SAI Recommendations and Measures

By contrast to the previous chapter which was based on desk (documentation) analysis of the audit reports and follow-up reports at SAI's disposal, the analysis and observations made in this chapter are based on the semi-structured interviews which have been conducted for the purposes of this research. As was announced in the introductory chapter, the interviews have been conducted in a number of auditees (mainly ministries, due to lack of response from other auditees to the invitations which were sent to them), as well as in the prosecutor's office, the judiciary and the Finance Committee of the National Assembly. The semi-structured interview structure means that a group of widely formulated questions was prepared ahead of the interviews, but that the interviewees were left sufficient space to initiate topics and issues which they considered as relevant and important. This interview structure also enabled the researcher to ask relevant and adequate sub-questions depending on the responses, in order to find out more about the statements made by the interviewees.

This chapter is structured so as to discuss firstly the general observations about the external audit system of relevance for the topic of audit follow-up. Secondly, the opinions of the interviewees regarding SAI's recommendations and follow-up on those recommendations are analysed. Finally, an overview is offered regarding the observations by the interviewees regarding the measures SAI can initiate according to the Law on SAI (misdemeanour proceedings, criminal proceedings and informing the National Assembly).

VI.1. General Observations on External Audit System of Relevance to Audit Follow-Up

Public Administration Reform in Serbia – links with the external audit system

A significant number of interviewees expressed more or less directly an opinion that the system of external audit (and a similar statement can be made for the internal audit) is not properly connected to other reform processes in Serbia, especially the public administration reform process. This deficiency can be explained through three different aspects:

1. The issue of lack of training/education of managers
2. The issue of regulating managerial accountability and vertical delegation of powers in Serbian public administration
3. The issue of disciplinary accountability of civil servants and linkages to the civil servants performance appraisal system

Each of these three aspects will be elaborated and argued for below. Before that, a short introduction/overview of the public administration reform process in Serbia is offered, in order to allow the readers to place external audit in the context of this wider reform process.

Work on state administration reform began immediately following the creation of the first government in the aftermath of the democratic changes of 2000. However, a strategic approach to this reform area was taken only in late 2004, with the adoption of the Strategy of Public (State) Administration Reform of the Republic of Serbia by the Government. This strategic document defined the main course of reform of Serbian administration and gave the contours of the main laws to regulate the state administration and the civil service system in Serbia. In the Strategy implementation a series of new laws and bylaws were enacted, starting with the Law on State Administration, Civil Service Law, Law on Salaries of Civil Servants and General Employees, Law on Public Agencies, to the laws which founded some of the independent government accountability institutions in Serbia (Law on Ombudsman and Law on Freedom of Information), to the procedural laws (General Administrative Procedure Act and the Law on Administrative Disputes). The Law on State Audit Institution, although it was passed in the same period when most of the mentioned laws were also enacted, did not find a place in the Strategy of State Administration Reform, which can be linked to the “narrow” approach to defining this reform area, which resulted in narrowing down the scope of reform almost exclusively to the state administration system (with the exception of two instances of government accountability mechanism regulated by the Law on the Ombudsman and the Law on Freedom of Information). Currently, a new strategy of public administration is under preparation, which is set to include a far wider range of institutions, i.e. to encompass also the public and other agencies, as well as local self-government.

The management of reform at a strategic level was entrusted with the Public Administration Reform Council, presided by the Prime Minister, while at the operational level the Ministry in charge of administration matters was charged with implementing the reform. The Strategy did not envisage any inter-ministerial body to coordinate the reform process, although in 2008, in the process of revising the Strategy and preparing the new Action Plan, the Minister of public administration and local self-government established an inter-ministerial Working Group with a rather narrow scope of tasks related to the Action Plan preparation. The Working Group has continued its work in the process of preparing the mentioned Strategy of Public Administration Reform.

One of the key laws enacted in the reform process – The Law on State Administration (2005), although including a number of modern principles as a basis for the work of the administration (mainly corresponding to the principles governing the European Administrative Space),⁸⁰ did not regulate conditions and principles for delegating managerial and decision-making powers to lower managerial levels. At the same time, the Law on Civil Servants (2006) established the highest ranks of civil service – appointed civil servants – which in effect represent the highest professional managerial positions in state administration (and wider, in all public authorities whose employees are captured by the definition of the civil servant). That law also prescribes in detail the disciplinary responsibility of civil servants, as well as the system for their performance appraisal, linked with their promotion. The following pages will provide a discussion on the links of the provisions of laws in the area of public administration and civil service on the one hand, and government financial accountability on the other.

1. The Law on Civil Servants (Articles 10 and 96) regulates the right and the duty of civil servants (including appointed civil servants) to undergo professional training according to

⁸⁰ See: Milena Lazarević, *Administrative Reform and the European Integration Process in Serbia*, Law Faculty of the Belgrade University, Belgrade 2010 (Master Thesis).

the needs of the public authority. The provisions regulating professional training are, however, rather general and deal mainly with the way programmes of general and specialised professional training are passed. The Law does not introduce any specific duty of managerial ranks of civil service to undergo management related training. Moreover, the administrative culture in Serbia almost dictates that an Assistant Minister or even a Director of a Special Organisation or Government Service (a similar statement can be made for public and other agencies) who is appointed professionally should be an expert in the area that his/her sector or organisation deals with. In order to be an appointed civil servant, there is a requirement to possess a minimum of nine years of working experience upon graduation, but managerial experience as such is not a precondition for performing this type of duties in the state administration.

An additional problem is posed by the fact that no training in financial management is organised for the categories of civil servants that are substantively responsible for financial management in various sectors and departments.⁸¹ But even if such training were organised, appointed civil servants would have no particular motivation (except perhaps their personal wish to improve themselves) to take part in such courses. In fact, practice has shown that response of appointed civil servants to training addressed to them is very poor.

2. One of the key problems emphasised in the Serbian public administration system is that of almost complete absence of managerial accountability, given that decision-making has been limited to political decisions taken by ministers and other political officials.⁸² SIGMA also emphasises that there is no vertical delegation of decision-making power to lower managerial levels. One of the results of such concentration of power in the hands of politicians which is cited is an enormous difficulty in implementing laws and policies, though SIGMA acknowledges an existence of individual (and exceptional) cases of good managers and good technical capacities.⁸³ The Law on State Administration stipulates only the possibility that the state secretary be authorised to take decisions (with the exception of passing regulations and voting in Government sessions). However, the law neither defines more precisely the delegation of powers to the state secretary nor allows such delegation to lower managerial levels. Furthermore, Article 25, which deals with Assistant Ministers, does not contain any provisions regarding their decision making powers. Article 26 stipulates that a Secretary of the Ministry “assists the minister” in managing personnel related, financial and certain other issues which are specified, but similarly to the previous provisions of the law, it does not contain any details regarding delegation of powers. No other piece of legislation in the area of public administration and civil service contains such provisions, including the Law on Civil Servants, which *de iure* establishes the highest (and supposedly

⁸¹ The only management related training course currently offered by the Human Resources Management Service is that on human resource management.

⁸² SIGMA Assessment, Serbia, 2011, (consolidated text), SIGMA/OECD, <<http://www.sigmaweb.org/dataoecd/40/27/48970654.pdf>> (12.05.2012), p. 11.

⁸³ SIGMA Assessment, p.11

managerial) level of civil servants, which in accordance with Article 33 of that law have “powers and responsibilities for management and coordination of work in a state authority”. In the absence of formal rules which regulate delegation of powers to decide, Ministers opt for enacting practically illegal decisions by means of which they delegate certain decision-making powers, e.g. to Assistant Ministers, using as a legal basis usually Articles 23 paragraph 2, and Article 24, paragraphs 2 and 3 of the Law on State Administration, which effectively relate only to the ministers and state secretaries and their powers.⁸⁴

Such poor regulation of the accountability system inside the public administration results in great difficulties to delineate objective responsibility from substantive responsibility, which is of particular importance in the SAI audit process and in the follow-up actions of the auditees. For the external audit system, this situation causes three major problems. Firstly, if in such a system decisions were to be made only *lege artis*, the only responsible individual for any type of misdemeanour would and could be only the minister or other individual managing the whole organisation, or, in some cases, the State Secretary. It is not realistic to imagine that one person can be responsible for every type of misdemeanour, even the one made by the actions of a head of the smallest organisational unit of a ministry with several thousand employees.

The second key problem results from the already mentioned illegal actions by the ministers (their recourse to an irrelevant legal basis in order to delegate authority to lower managerial levels than the state secretary) and it boils down to the fact that in the audit procedure identifies as responsible individuals who *de iure* could not be taken as responsible, which can be termed as “vertical dislocation of responsibility”. An additional problem is found in the fact that misdemeanour judges do not enter into in-depth analysis of the legal basis of such authorisations, due to which even illegally authorised persons can be declared as responsibility, e.g. in the sense of the Law on Public Procurement or Law on Budgetary System. Articles 71 and 72 of the Law on the Budgetary System are frequently used as well, as they allow for transferring certain powers to other persons in the budget beneficiaries, i.e. to the persons categorised as “those responsible for the payments and accounting” (*računopolagači*). However, the fact is that even these articles effectively leave the responsibility in the hands of the Minister or Director.

Finally, the third key problem posed by such a system for the external audit system relates to what could be termed as “horizontal dislocation of responsibility”. Namely, a number of interviewees explained that in the current system the “victims” are usually the managers of financial departments, although the substantive responsibility for a certain problem in a policy sector (e.g. in the public procurement procedure) lies with the sector manager (e.g. the Assistant Minister). This problem is particularly emphasised in those ministries which have already implemented programme based budgeting, which, *inter alia*, results in the fact that each organisational units disposes of its part of the budget with great autonomy as part

⁸⁴Based on the text of a Decision which the author was granted access to.

of their programmes and projects. In light of the fact that the Government of Serbia has set as its goal to enact programme based budgets in all state authorities in the coming years, this last problem gains considerably in importance.

3. The Law on Civil Servants contains a number of provisions regulating the disciplinary responsibility of civil servants. Accordingly, the Law differentiates between light and heavy breaches of work related duties and regulates disciplinary sanctions for each type of breaches. Article 108 of the Law enumerates light breaches, which include (as a matter directly relevant to the external audit area) the non-diligent keeping of official documents and data (point 2). The heavy breaches of work related duties are defined in Article 109. Those which are most directly related to the remit of the SAI work are:
 - a. point 1 – lack of completion or non-diligent, untimely or careless completion of duties and instructions of the superior;
 - b. point 2 – illegal action or failure to take action for which the civil servant has been authorised in order to prevent irregularities or damage;
 - c. point 12 – illegal handling of funds.

Article 110 regulates sanctions for both types of breaches of work related duties, whereas heavy breaches can result in pecuniary sanctions (20-30% reduction of the salary, for a period of up to six months), prohibition of promotion between two and four years, as well as termination of the work contract. However, the interviewees have explained (with the exception of one auditee) that no disciplinary procedures have been initiated as a result of audit so far. At the same time, several among them were of opinion that the first round of audit should be regarded as an exercise, due to which they were convinced that future audit processes would link disciplinary responsibility much more strongly with audit results.

The latest amendments to the Law on Civil Servants, made in 2009, introduced the concept of “early performance appraisal”, in addition to the regular and extraordinary appraisal. Early performance appraisal is conducted for civil servants whose work results in one quarter of the year have been evaluated with the lowest grade. Such employees are automatically given the grade “does not satisfy”, after which they are sent to extraordinary appraisal. This provision would allow for an additional element of responsibility in the civil service system for possible irregularities and/or other problems identified in the audit procedure, especially when it comes to more serious cases, cases of repeating omissions or problems, etc. However, in the interviewed auditees cases of application of this legal provision as a result of audit reports have not been reported. Moreover, none of the interviewees was familiar with a case of a civil servant being downgraded or appraised with a lower grade in the regular appraisal procedure (conducted annually) as a result of audit reports.

It should certainly be emphasised that strengthening of the link between disciplinary responsibility, performance appraisal of civil servants and the financial control system makes sense (an achieves the desired goal) only if it is done in parallel with the development of the

managerial accountability system and vertical delegation of authority to decide in public administration.

The Question of Internal SAI Organisation

One of the interviewees raised the question of the organisation of sectors inside the State Audit Institution, given that a separate sector is dedicated to the audit of the National Bank. At the same time, the National Bank is an auditee which already has three functioning levels of audit and a well-functioning internal follow-up mechanism. Each report to the Council of the National Bank of Serbia contains a follow-up section on the recommendations from the previous year's audit. Non-compliance with the adopted recommendations is treated as a heavy disciplinary breach.

As seen in Chapter III, the issue of proper allocation of resources is also stressed by SIGMA, which explains in the context of benefits from good follow-up that allocation of audit resources should be made in such a way that an auditee which has proven to comply with the audit recommendations is not thoroughly audited the next year, too. This principle should apply for auditees in which no (or only minor) irregularities have been identified in one audit procedure: the following round of audit should focus on new auditees and/or those in which more serious irregularities have been found.

However, this observation of the interviewee can only partially be accepted as correct. Namely, the same sector of SAI which covers the National Bank of Serbia covers also “other subjects of audit”, i.e. all auditees which are not specifically enumerated in the scope of responsibility of the other sectors. Given the vast range of organisations which fall under the remit of SAI's work, there is a long list of potential auditees which should be covered by the same sector. This observation was made by the Auditor General in the interview. Possible other auditees under this sector include: political parties, all recipients of donor funding (including CSOs), etc.

The opinion stated by the mentioned interviewee, however, is at the moment partially grounded, as a result of insufficient capacities of the SAI to initiate audit of such a wide range of auditees. With the increase of SAI's capacities, this sector will have to address a very large number of organisations in its work, which will ensure a better balance in the allocation of resources in the Institution.

VI.2 SAI Recommendations and Measures and Implementation

Most interviewees have emphasised that the audit procedure was conducted professionally and in accordance with the law, as well as that they were given sufficiently long deadlines to respond to recommendations in the SAI report. Furthermore, in most cases SAI has offered maximum deadlines available by Law for addressing the irregularities identified in the report. They were of opinion that they have learnt a lot in the audit procedure, as well as that as a result of that process they now approach formal requirements in various procedures (e.g. public procurement) much more rigorously. Some interviewees explained that SAI pays excessive

attention to formalities (such as recipient stamps on documents, office management rules, etc.), while some substantive issues are currently not dealt with sufficient attention.

According to some interviewees, there is a need for a kind of “harmonised practice” which would be recommended by SAI for different aspects of financial management in the auditees. This would mean that SAI would define its opinion regarding specific practical issues which were or could have been problematic in the audit procedure. The basis for these recommendations would be experiences from previous audit procedures. Publishing of such recommendations by SAI would greatly help the auditees to ensure full compliance and avoid recommendations on irregularities in the following audit procedures. This SAI activity could be approached from the perspective of its advisory role, which the SAI can legally exercise according to the Law (Article 5, point 6).

In accordance with its current capabilities in terms of capacity, SAI assists auditees with oral advice as well, even after the ending of the audit cycle. It has also been emphasised that SAI still does not have sufficient capacity to commit to this advisory function in the period following audit, as the auditors are forced to commit fully to the new auditees in the new cycle.

Moreover, the interviewee from one of the auditees pointed out that one of the results of the audit conducted in their organisation enabled them to positively to legal and proper financial management by managers in that organisation, as the recommendations were now coming, not only from lower ranking civil servants in the organisation (mainly from finance departments), but also from an institution with great authority, such as the SAI. Therefore, SAI is seen as a true ally to its potential auditees in the process of building a culture of responsible and lawful financial management.

Certain internal auditors, however, pointed out their dissatisfaction due to the fact that SAI, in their opinion, does not recognise them as allies and does not provide them with support and assistance in their work. This issue should be given careful consideration in the upcoming period, especially having in mind that cooperation between SAI and organisations in charge of public internal financial control is given special consideration as part of Chapter 32 of EU membership negotiations. Namely, the European Commission questionnaire contains a separate question pertaining to this cooperation, especially having in mind the need to avoid duplicating audit work at the same place at the same time, but also in order to ensure mutual information in the detected deficiencies in control and audit of the government revenue and expenditure, as well as to establish other forms of cooperation (reporting on audit findings, training, etc.).

Misdemeanour Proceedings

In several interviewed auditees a remark was made that SAI sees itself as a budget inspection rather than as an audit institution, as well as that the approach in their work is similar to that of the inspection. A related opinion was expressed that SAI focuses too much on finding reasons to initiate misdemeanour proceedings. This approach could be related with the origin of a

number of auditors in the budgetary inspection. Although SIGMA points out certain criticism towards this kind of role by the SAI (see Chapter III), the work of SAI should be observed from the perspective of a transitional country, in which government accountability, and especially financial accountability, is still a novel concept. For the office holders pressing charges against them the first, wake-up encounter with this concept, due to which it does have its value and its place in this phase of Serbia's development into a well regulated democratic state.

A number of interviewees have pointed out that a problem regarding individualisation of responsibility lies in the fact that at the end of the process, once a responsible individual has been identified (with all the above-mentioned problems regarding insufficient delegation of responsibility), the end result are several misdemeanour charges. After that the misdemeanour judge leads a very complex and time and effort consuming misdemeanour procedure, which possibly ends in a pecuniary sanction in the amount of a few dozen thousand dinars. The statement that the misdemeanour procedure is very time- and effort- consuming results from the fact that specialisation is not possible in the misdemeanour courts due to the ambition to apply the principle of "natural judge" to its fullest. The result of this attempt is that each misdemeanour judge in Serbia must possess detailed knowledge regarding several thousand misdemeanours prescribed by different laws in areas ranging from traffic, to trade, consumer protection, market surveillance, food safety, customs, to budget, public procurement, etc. Although the present analysis does not pledge to respond to the question of whether legislation needs to be changed in order to allow for specialisation of misdemeanour judges (especially in Belgrade and other larger cities where the sheer number of judges would allow that), it certainly does intend to intensify the discussion regarding the balance of "costs" of reducing the right to a natural judge and "benefits" from better specialisation of misdemeanour court judges, which would allow them to commit more thoroughly to financial control and public finance topics.

National Assembly – Finance Committee

The interview held in the Finance Committee of the National Assembly has pointed out that MPs do not have sufficient capacity to deal in detail with SAI's reports. Materials submitted to them by all relevant institutions are frequently very voluminous and the time allowed for their analysis is often extremely short, which makes a thorough analysis of these documents impossible. In relation to this problem, an idea was put forward to establish an expert service which would work on following SAI's work results. Another possible change proposed by one of the interviewees, which also features in comparative practice (see good practice examples in Chapter III), would be the establishment of a special subcommittee to deal with external audit issues exclusively.

With the increase of the National Assembly's capacities, it was pointed out that discussions regarding implementation of recommendations and measures by the SAI in the Finance Committee should be organised periodically, as well as that annual discussions are not sufficient in that regard.

As a particularly positive practice, it has been pointed out that in already two parliamentary mandates a representative of the opposition has been presiding over the work of the Finance Committee. Having in mind that this represents the international best practice too, the relevant interviewees pointed out that it should be furthered and more firmly established.

VII. Role of Civil Society Organisations in External Audit System Strengthening

This chapter examines possible solutions for cooperation between supreme audit institutions and civil society organisations, focusing on international recommendations and good practice examples in Serbia and worldwide. This part of the assessment presumes that there is a need for close cooperation between SAI and civil society organisations, since civil society can be powerful ally in making government accountable. The Committee of Ministers of the Council of Europe recognised valuable contribution civil society organisations in accomplishing democracy and human rights, especially by promoting public awareness, participation in public life and ensuring transparency and accountability of public authorities.⁸⁵ SAI itself also recognised importance of cooperation with civil society, and in Strategic plan for 2011-2015 it states:

During the period covered by the strategic plan SAI will, as before, [...] organize round tables with media and civil society organisations, coordination meetings with donors and partners on implementation. [...] and will conduct training of relevant staff for communication with external stakeholders.

Aim of this chapter is to present possible patterns of cooperation between civil and public sector, highlighting context of the external audit, to clarify possible benefits of such cooperation as well as to provide foundations for recommendations that can be used by SAI and CSO's in Serbia in the future for establishing well-structured cooperation that would be totally focused on achieving the SAI's role in organised financial control system.

VII.1. Models of Cooperation between Civil Society and Public Sector

Participation of citizens in creating and implementing public policies is related to the idea of participatory governance, that until recently gains special affirmation in international theory and practice. During the last decades ever growing attention has been raised for greater involvement of citizens in decision-making processes, not only in formulating policies but also in budgetary issues, public funds management and audit. This approach of involving citizens derives from perception of citizens as accountability holders, i.e. tax payers who finance authorities and services they provide, so it is them authorities are accountable to. Although in democratic systems citizens participate in political processes through right to vote and therefore achieve their role of accountability holders in rudimentary sense, it is believed that in representative democracy additional levels and types of citizen's cooperation needed for achieving that role. It can be achieved either directly or through civil society organisations that have the aim to work for the benefit of all citizens and society as a whole.

⁸⁵ Code of Good Practice for Civil Society Participation in the Decision-making Process, Conference of INGO's of the Council of Europe, 2009, <http://www.coe.int/t/ngo/Source/Code_English_final.pdf> (20.04.2012), p. 3.

According to the recommendations of the Expert Committee for Public Administration of the Economic and Social Council of the UN, three conditions need to be fulfilled for effective citizen's participation in political processes: 1) normative (participation is endorsed by existing laws); 2) regulatory (by-laws and procedure that direct participation); 3) generative (need for capacity building of both state institutions and civil society organisations).⁸⁶ Political support and leadership is, of course, necessary factor for inciting participatory governance.

Involvement of citizens in decision-making processes means identification of stakeholders, establishing of system that will enable their engagement as well as development of wide range of participation mechanisms.⁸⁷ European practice provides diversity of types of institutional cooperation when speaking about the institutionalizing cooperation between civil and public sector. State institutions very often adopt documents that stress the importance and contribution of CSOs to the society in general, as well as to the success of a specific policy. Patterns of cooperation differ according to the content and aims sought to be achieved. Formal dimension of these relationships is commonly created through adoption of 1) bilateral documents between state authorities and CSOs that define aims and duties of both sides respectively or b) unilateral documents adopted by the state institution (parliament, government, ministries, local authorities etc.) with partial contribution of civil sector. Cooperation can range from supporting the whole civil sector, stressing wide spectrum of issue, supporting them in particular field or support in providing certain services.⁸⁸

Implementation of agreements concluded this way is a matter of great significance and main issue as well. It is dependent on the nature of the document, division of roles and responsibilities as well as accompanying implementation acts which give effect to the proclaimed aims. It is important that those documents reflect real needs of the sector and create a sense of belonging and equality. Political will for application of such cooperation in practice is unavoidable. Participation of all CSO stakeholders with interest is helpful for far-reaching cooperation, which is not limited to only one part of the civil sector

Comparatively, institutions (offices) for cooperation with civil society created by the government take different forms. Broadly speaking, there are very often five types of offices: 1) those established by the government as independent bodies 2) advisory bodies 3) government offices in cooperation with advisory bodies 4) established by the civil sector or 5) those that are part of the broader scheme of institutions.⁸⁹ Success of such offices depends on mutual understanding,

⁸⁶ Participatory governance and citizens' engagement in policy development, service delivery and budgeting, Committee of Experts on Public Administration, United Nations Economic and Social Council, 29.01.2007, <<http://unpan1.un.org/intradoc/groups/public/documents/un/unpan025375.pdf>> (11.05.2012), p.14.

⁸⁷ Participatory governance and citizens' engagement in policy development, service delivery and budgeting, p.14.

⁸⁸ European Practices on Implementation of Policy Documents and Liaison Offices that Support Civil Society Development, European Center for Not-for-Profit Law and the International Center for Not-for-Profit Law, 2009, <<http://www.icnl.org/research/resources/ngogovcoop/paperpol.pdf>>, (21.04.2012), p. 3-5.

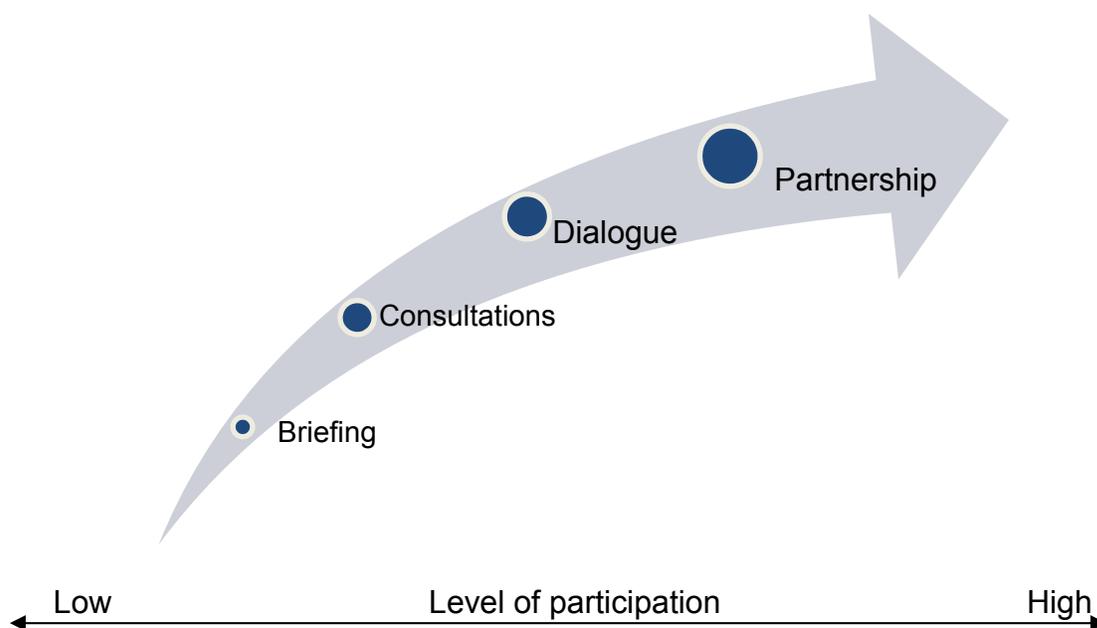
⁸⁹ European Practices on Implementation of Policy Documents and Liaison Offices that Support Civil Society Development, p. 11.

decentralisation of cooperation, commitment and willingness to take over the appropriate responsibilities by all parties.

The differences in models of cooperation derive from specific contexts and needs. The crucial issue is implementation and application of measures aimed at realisation of aims and effective and efficient cooperation. If the whole system of cooperation is based on the grounds of openness and inclusiveness, the probability for unhampered implementations and expected results is greater.

There are several levels of CSOs participation, more or less participative. Four-level model comprises: briefing, consultations, dialogue and partnership.

In the *briefing* model, participation is quite low since information flow has one way direction, from authorities toward civil society. *Consultation* means that public authorities ask for certain contributions from civil society regarding suggestions, comments on different topics or policies. *Dialogue* is more inclusive and can be launched from both actors and its aim is to formulate common recommendations, strategies or acts. Partnership, as the highest level of cooperation, means shared responsibilities of actors in all phases of decision-making process, from setting up priorities, drafting documents to decision making and implementation of policy.⁹⁰



Source: Code of Good Practice for Civil Society Participation in the Decision-Making Process

According to the international experiences, potential challenges for civil society organisations participation in political and development processes could be: Potential challenges:

⁹⁰ Code of Good Practice, p. 7-8.

inappropriate or restrictive legal framework for participation of CSOs; political influence in the work of organisations; lack of government partner relations in activities at all levels; insufficient access to government information on policies, budget and other initiatives.⁹¹

VII.2. International Recommendations and Experiences of Civil Society Organisations in Public Finance Management

Initiatives for engagement of civil society organisations in public finances management (and government accountability) are specially highlighted and innovative in developing countries and countries in transition, since they are characterised with low level of citizen's confidence in government and public administration. Low level of confidence actually condition greater interest of civil society for accountability matters, especially financial accountability. Although level of civil society involvement steadily and gradually increases, small (but growing) community of civil society organisations in developing countries worldwide is apparent, and it has pioneering role in development of innovative methodologies for participation in functions of public finances audit and tracking and evaluation of effectiveness publicly financed projects and services.⁹² Initiatives of those organisations show significant possibilities for cooperation between SAIs and CSOs which can strengthen the oversight function needed for ensuring accountability in providing public goods and resources.⁹³

UN/INTOSAI Symposium on government audit, entitled “Effective practices of cooperation between SAIs and citizens to enhance public accountability”, was held in July 2011, gathering representatives of SAIs from many countries. The goal was to exchange experiences and good practices in cooperation between SAIs and citizens, who are the main beneficiaries and stakeholders in auditing of spending of the public funds, stressing the application of innovative approaches in strengthening this process.⁹⁴ Existing experience gives certain guidelines and directions:

1. Citizens are mainly informed about auditing activities through publications and books but there are also other forms of raising awareness on how important this process is, namely conferences and social networks. In some cases, there is a communication system that provides mechanisms for filing complaints, telephone lines, focus groups, interviews or consultations with advisory or professional groups in order to encourage participation and gain relevant information.

⁹¹ A Draft International Framework for CSO Development Effectiveness, Open Forum for CSO Development Effectiveness, November 2010, p. 16, <http://www.cso-effectiveness.org/IMG/pdf/version_2_november_framework_for_cso_dev_eff_final.pdf > (21.04.2012).

⁹² Participatory governance and citizens' engagement in policy development, service delivery and budgeting“, p.14.

⁹³ Participatory governance and citizens' engagement in policy development, service delivery and budgeting“, p.14.

⁹⁴ “Effective practices of cooperation between SAIs and citizens to enhance public accountability”, Report on the 21st UN/INTOSAI Symposium on Government Audit, Vienna, 13-15 July 2011, <http://www.intosai.org/fileadmin/downloads/downloads/5_events/symposia/2011/_E__21_UN_INT_SympReport.pdf > (23.04.2012).

2. In setting up two-way communication it is necessary for information and audit reports to be easily accessible and comprehensible so that the role of SAIs in strengthening public accountability of authorities is understood and citizens' insight in budget processes ensured. Raising awareness among citizens is a process that is also beneficial for the SAIs through timely handling and identifying maladministration of public funds. Social audit dimension proved to be important in some cases in raising accountability of public officials and politicians, by engaging citizens in mapping evidences on irregularities and/or corruption.
3. Inclusion of citizens can be done directly or indirectly by communicating with CSOs. The role of these organisations is mainly useful in providing information and expertise needed by parliaments and SAIs for more effective monitoring of budget processes. Also, they can suggest specific audits based on information gathered through their work. Partnership between civil sector and SAIs puts additional pressure on state institutions to apply recommendations of SAIs.⁹⁵

According to the UN/INTOSAI recommendations and conclusions, establishing cooperation and improving public accountability in public funds management requires:

- stressing the cooperation of SAIs and citizens in joint effort of strengthening public accountability and transparency;
- need for development of effective communication mechanisms;
- understanding the importance of SAIs in promotion of good governance;
- recognition of the importance of respective roles of CSOs and their contribution;
- maintaining reputation of SAIs through inclusive and sincere approaches to cooperation and partnership with those CSOs that have legitimacy to represent citizens.⁹⁶

Benefits from cooperation between civil sector and SAIs are visible in:

- responsiveness to ever bigger interest of citizens for public accountability and transparency
- awareness that citizens are natural partners in realisation of SAIs goals
- comprehending that development of cooperation does not compromise traditional role of SAIs and their independence
- benefits from better system of providing services and fight against corruption
- finding that civil sector is rich source of knowledge and information on government activities

⁹⁵Effective practices of cooperation between SAIs and citizens to enhance public accountability, p. 6-8.

⁹⁶Effective practices of cooperation between SAIs and citizens to enhance public accountability, p. 17-19.

- awareness that continual dialogue improves the understanding of how important supreme auditees and strengthens confidence in public administration
- awareness that information provided by the civil society can improve efficiency and effectiveness of auditing processes.⁹⁷

Experience from the cooperation in external audit processes has emerged several principles of conduct for engagement of CSOs in monitoring budget and implementers of public policies:

1. **Commitment.** Team has to be persistent and dedicated with clear goals and strategies in order to actively participate in budget process.
2. **Rights.** CSOs can participate in a right way only if they have appropriate access to information, possibility to send feedback and actively and freely participate in budgetary decision-making in accordance with the law. At the same time, government is obliged to respond to all requests sent by citizens in exercising their rights, in a timely manner.
3. **Clarity.** CSOs should have ability to clearly set their aims and to limit their participation in budget process. Roles and responsibilities of both citizens and government should be clearly defined.
4. **Time.** CSOs should be familiar with the budget cycle in order to effectively participate. Having that in mind, they should start their engagement as early as possible, in the early stages, so they can have more options available. Effective participation requires adequate time frame.
5. **Objectivity.** Information given by government has to be objective, complete and accessible. All citizens should have equal treatment when it comes to exercising rights on information availability and participation.
6. **Resources.** CSOs need appropriate human, financial and technical resources for achieving successful role. Advocacy skills and sharing experience with other organisations is of great importance.
7. **Coordination.** Coordination between CSOs is valuable for channelling knowledge, ensures coherence of policies, and avoids duplication of work and potential risks.
8. **Accountability.** Government should be obliged to responsibly handle inputs of CSOs emerged as the result of participation in budget processes and public consultations. Measures that enable openness, transparency and susceptibility to external control and budget audit are essential for increased government responsibility and effective participation of civil sector.

⁹⁷Effective practices of cooperation between SAIs and citizens to enhance public accountability, p. 17-19.

9. **Evaluation.** CSOs need instruments, information and capacities for evaluation of budget performance.⁹⁸

According to the recommendations of World Bank Institute, strengthening the external audit system through cooperation with CSOs is achievable through improvement of information system on external audit. In that sense, there are several activities/measures SAI can undertake:

1. SAIs should ensure accessibility of audit reports

- Technical character of SAIs reports makes them often incomprehensible and therefore makes relevant information hardly accessible. In other words, less formal nature of reports is suitable for broader use,
- Initiate a proactive strategy for connecting with CSOs and other actors so the institutional channels of communication could be established.

2. Accessibility of information related to the external audit system and openness for participation

- Transparency in structure and activities of SAIs, without violating private data, as well as complete, timely and correct information help in establishing cooperation.

3. Trainings about external audit system

- If there is no training on external audit system, information sent by SAIs would be useful only to the small number of professional associations and organisations.

Following the same recommendations of the World Bank Institute, beside improvement in informing, it is necessary to make room for participation of citizens in external audit of public administration, which can be achieved in several ways:

1. Possibility of filing complaints to the SAIs

- It is the way of involving CSOs in audit process as a supervisor who indicates irregularities and maladministration.

2. Participation in selection of institutions subject to audit

- When selecting auditees suggestions and considerations of CSOs should be taken into account as a way of using findings and information they have.

3. Coordination through joint body

- Setting up joint body/committee where civil society actors, who are relevant for audit system, together with auditors participate in audit procedure.

⁹⁸“Module 3: Best practices in civil society involvement in budget monitoring and policy accountability”, The Training Workshop aimed at strengthening the capacity of the Civil Societies in Budget Monitoring for Improved Policy Performance, Economic Social and Research Foundation (ESRF), Tanzania, 16-17 October 2006, <www.tanzaniagateway.org> (24 April 2012).

4. Monitoring the application of SAIs recommendations

- Effectiveness of mechanisms for monitoring implementation of SAIs recommendations can be improved if CSOs take over one part of the activities and monitor implementation of recommendations by themselves.⁹⁹

Although it is clear that functions of SAIs and CSOs differ in their nature, monitoring activities they both undertake provide enough room for cooperation. Since SAIs are responsible by the law to exercise audit whereas CSOs perform this voluntarily. In that sense, SAI's have better access to information, human and financial resources and they are better technically equipped. On the other hand, CSOs are closer to the citizens, more sensitive to implementation of government policies in practice; they are less bureaucratized and less sensitive to time and procedural constraints.¹⁰⁰ In differences between SAIs and CSOs is the room for their cooperation.

SAIs can launch their own initiatives to achieve greater influence of CSOs. One of the possible steps is *timely reporting*. By reporting on time, it is slightly possible that responsible will not be processed for their wrongdoings. It is also important for preventing loss of the attention for cases in question. Also, additional activity that makes reporting clearer is explanation of technical aspects of reports e.g. explanation of technical terms, non-technical report summaries that consist key findings, limitation the length of report, putting technical details in annexes and stressing priority findings. Further strategies could include telephone lines for reporting of misdemeanour, as well as carrying out follow up activities on tracking implementation of recommendations and measures after performed audit in shape of progress report on given recommendations.¹⁰¹

Question of legal nature of cooperation can raise certain issues. As already mentioned, SAIs are primarily accountable before the parliament by submitting reports. Those reports are for some reasons, either objective or technical ones, inaccessible to the public which decreases possibility of contribution from the public. On the other hand, might be unwilling to cooperate since it can compromise their position and status of neutral and objective actor, especially if it is known that certain SAIs do not have mechanisms for selecting civil society partners which raises question of credibility of those selected. CSOs for their part can be suspicious about the selection procedure too.

⁹⁹Nino Ezequiel, "Access to Public Information and Citizen Participation in Supreme Audit Institutions (SAI) - Guide to Good Practices", Governance Working Paper Series, *World Bank Institute*, 2010, <http://siteresources.worldbank.org/WBI/Resources/213798-1259011531325/6598384-1268250334206/Citizen_Participation_SAI.pdf>, p. 7-12.

¹⁰⁰"Access to Public Information and Citizen Participation in Supreme Audit Institutions (SAI) - Guide to Good Practices", p. 5

¹⁰¹ Albert naZyl, VivekRamkumar, Paolo de Renzio, "Responding to challenges of Supreme Audit Institutions: Can legislatures and civil society help?", CMI Chr. Michelsen Institute, U4 Issue, 2009, <<http://www.cmi.no/publications/file/3287-responding-to-the-challenges-of-supreme-audit.pdf>> (24 April 2012), p. 21-23.

Potential measures for overcoming obstacles in establishing cooperation are:

- combination of different forms of cooperation;
- timely and accessible reporting (auditors' report and minutes from the meetings);
- openness for suggestions and contributions from every citizen regardless of personal and political affiliations so the ownership of the cooperation process by one part of the civil society can be avoided;
- transparent procedure for selection of CSOs with possibility for co-option from the government.

It is necessary to reflect in SAI's relationship with civil society organisations as auditors and auditees, since civil society organisations are beneficiaries of public funds (either national or donor's). IN that sense, responsible use of recourses at disposal is extremely important for establishing relations of trust and partnership with SAI in the frame of their relationship as allies on development of government financial accountability.

International Examples of Good Practice

The experience hitherto acquired in participation of CSOs in audit processes has been mainly focused on examination of budgetary part of legislation and monitoring of subsequent implementation process. Despite of that, examples exist worldwide that show more extensive role of CSOs and citizens as a whole. Successful examples are proving that better cooperation is possible and also show the way for overcoming impediments in establishing stronger and lasting links between SAIs and civil society.

Interest and engagement of civil society for public accountability, as mentioned earlier, is especially highlighted in developing and countries in transition, has increased in the last years. The reason for that is probably low level of trust in authorities and state machinery.

1. Indian organisation MKSS¹⁰² organised public hearings at the local level as a part of the social audit of public spending. The goal of this audit is review of financial records of public projects at those levels and identification of documentation forgery.¹⁰³
2. In the Republic of South Africa PSAM¹⁰⁴ has done tracking of government responses on the allegations of mismanagement of financial resources and corruption that was part of the audit reports.¹⁰⁵

¹⁰²MazdoorKisan Shakti Sangathan (MKSS).

¹⁰³VivekRamkumar, "Expanding Collaboration between SAIs and Civil Society", International Journal of Auditing, International Budget Project, Center on Budget and Policy Priorities, Washington, DC, April 2007, <<http://www.intosaijournal.org/technicalarticles/technicalapr2007a.html>> (25 April 2012), p.4.

¹⁰⁴ Public Service Accountability Monitor (PSAM).

¹⁰⁵"Expanding Collaboration between SAIs and Civil Society", p.4.

3. CCAGC¹⁰⁶ from Philippines focused on monitoring of infrastructural projects in local communities by hiring local auditors who voluntarily took the duty of determining whether projects are being executed in correspondence to the contracts.¹⁰⁷
4. Fundar organisation from Mexico took the opportunity given by law that regulate free access to the information to collect large amount of documents in order to identify whether in granting contracts large scale corruption was involved, which resulted in investigations performed by the government.¹⁰⁸
5. Civil society in South Korea has the opportunity to control and examine public projects through Citizen's Audit Request System.¹⁰⁹
6. ACIJ¹¹⁰ from Argentina successfully ended process before the court and came into possession of minutes of the congressional committees that were responsible for review of audit reports and launching initiatives accordingly.¹¹¹

At the same time, governments or SAIs also launch initiatives for cooperation or increased involvement of civil society.

1. Supreme Audit Institution from South Korea - BAI (Board of Audit and Inspection) introduced Citizen's Audit Request System that enables citizens to request specific audits of those agencies under suspicion of misuse of position.
2. Audit Commission from Philippines initiated partnership with CSOs by including them in certain aspects of audit and teams that perform audit are composed from both SAI and CSO representatives.
3. Inspired by abovementioned MKSS campaign, Indian authorities have led together with CSOs campaign for social audit.

On the basis of summary of examples of cooperation, general tendencies can be drawn that do not exhaust the list of potential modes of cooperation entirely.

1. Firstly, CSOs sometimes start up processes of independent audit by their own initiative. Well performed activity can raise question of responsibility and force institutions to react or complement findings of the SAIs.
2. Secondly, CSOs are using audit reports, recommendations and conclusions given by the SAIs to question responsibility of government institutions and request actions upon those

¹⁰⁶Concerned Citizens of Abra for Good Government (CCAGG).

¹⁰⁷"Expanding Collaboration between SAIs and Civil Society", p.4.

¹⁰⁸"Expanding Collaboration between SAIs and Civil Society", p.5.

¹⁰⁹"Expanding Collaboration between SAIs and Civil Society", p.5.

¹¹⁰Civil Association for Equality and Justice (ACIJ).

¹¹¹"Expanding Collaboration between SAIs and Civil Society", p.5.

recommendations and conclusions. By doing that, CSOs perform one of their essential functions of control and oversight (*watchdog*).

3. Thirdly, CSOs and SAIs can closely cooperate in more or less institutionalised fashion of cooperation as mentioned earlier in text (for briefing, consultations and dialogue, to partnership).
4. Finally, some SAIs encourage inclusive approaches to citizen involvement and make room for their contributions.

VII.3. Experience of cooperation of public and civil sector in Serbia

Models of cooperation between the public sector and the civil society

When it comes to institutionalisation of cooperation between the executive and civil society, there are some experiences that can be categorised as examples of good practice. Government of the Republic of Serbia established Office for cooperation with civil society as an institutional mechanism for support and development of dialogue between two sectors. Importance of the Office should be reflected in strengthening the role of CSOs in defining, applying and monitoring of the application of laws and public policies, i.e. positioning of these organisations as actors with influence on the state institutions. Additionally, the Office has the duty of laying down clear criteria for transparent funding of national and local CSOs from the state budget.

Pursuant to the Article 2 of the Bylaw on the Office for Cooperation with Civil Society, the Office performs technical duties for the Government and initiates dialogues of common interest, participates in activities related to strategic documents concerned with development of CSOs, initiates enactments of laws and by-laws that regulate position of civil society actors, participates in organisation of activities for civil society capacity building, administers processes of experience exchange with similar institutions in the region, EU and worldwide, cooperates with state bodies in the management of public funds that concern civil society development etc.

Another example of good practice in area of cooperation between public and civil sector in Serbia is Programme of Cooperation of the Serbian European Integration Office (SEIO) with sector civil society organisations (SECO).¹¹² As one of the aims of this programme SEIO determined inclusion of civil society organisation in processes of programming, planning and tracking resources for development assistance, above all IPA funds of the European Union. Their participation is seen through the development of appropriate consultation mechanisms. Establishment of cooperation process through consultation should improve activities of the

¹¹²Programme of cooperation with civil society organisations in the area of development assistance planning, in particular programming and monitoring of the Instrument of pre-accession assistance, <<http://www.evropa.gov.rs/Documents/Home/DACU/12/107/113/Program%20saradnje%20SECO%20eng%20final.doc>> (28 April 2012).

SEIO Department for planning, programming, tracking and reporting in EU funds and development assistance (DACU), i.e. to contribute better effectiveness and efficiency of development assistance.

In the processes of pre-accession assistance EU, civil society organisations have been so far direct beneficiaries. In order to determine priorities of the CSO's, SEIO launched consultative process in 2009 and provided support in making project proposals for further development of civil society. For that support existing channels and mechanisms have been used, due to lack of genuine consultation mechanisms within SEIO structure.

CSO's so far participated in defining priorities for civil society development and gaining direct benefit from projects. Absence of institutionalised forms of cooperation with SEIO resulted in less formal and occasional consultation process. In creating more formal and structured cooperation form, SEIO and its Department, used good regional practices in order to propose new form of cooperation as a permanent consultations with civil society. With new approach towards CSO's they would overcome exclusive role of beneficiaries and become one of the stakeholders in defining priorities in development fund management.

Structure of the programme envisages grouping of civil society organisations in sectors - sector civil society organisation (SECO), and each organisation represents one sector. Selected SECO are working on common communication strategies in order to establish permanent cooperation with SEIO, especially in programming and monitoring IPA resources in different sectors.

Aim of this programme is to develop cooperation and communication mechanisms between SEIO and civil sector to ensure better information exchange related to the development assistance processes, especially IPA funds, as well as to develop cooperation and communication mechanisms between SECO and network of organisations related to the development assistance processes, especially IPA funds.

Cooperation should result in participation of civil society in government activities related to the development assistance processes, especially IPA funds, as well as in taking into consideration opinions and recommendations of the wider civil society as a result of the consultation process. Main responsibilities of SECO are to maintain and spread network of organisations around SECO, to ensure two-way communication process from and to organisations within its network and to participate in consultations on programming of IPA and other development assistance programmes.¹¹³

Other policy areas are, also, more or less incorporated in institutionalised forms of cooperation with civil sector. The Serbian Social and Economic Council gathers partners from public sector with the representative associations of employers and trade unions, and it can be regarded as

¹¹³ Programme of cooperation with civil society organisations.

such an example. It is important to stress that these organisations are highlighted as part of the civil society in European context, especially in the sense of application of the partnership principle, which represents an essential element of many EU policies.¹¹⁴ Such example is regional development policy where the responsible Ministry in Serbia has started to implement the partnership principle by including civil society representatives in working groups established to manage this policy.

Civil society participation in tracking of work of the independent bodies in Serbia

Independent bodies and institutions, SAI of Serbia included, are relatively new political actors in political system of Serbia, so the role of the CSOs has to be analysed accordingly. These independent bodies (often with strong control and regulatory functions) represent a new form of control of state institutions. Independence means that these bodies are autonomous in their work and financially independent from the executive. Those two dimensions of independence should ensure that the employees of those bodies perform their duties free from external political pressure. In addition to parliamentary control, independent bodies are seen as an additional “external” way of controlling the executive.

Since they are relatively new, those institutions still have to essentially introduce themselves to citizens, with their roles and functions and added value of their activities. Being independent from the executive and being able to control, these bodies exceptionally protect the rights of citizens and strengthen accountability of public officials. From that perspective, they are a natural partner of the civil sector in control and correction of public authorities because civil society can have a significant role in controlling the spending of budget resources.

In the context of SAI’s work in Serbia and future cooperation with civil society, the role of this institution in seeking for public accountability needs to be pointed out. As well as in other transitional countries, the role of SAI is primarily seen as determining individual responsibility for breaching the principle of good governance and misuse of public funds. Given the low level of trust in political institutions and elites, the focus of CSOs in their relations with the SAI is primarily on identifying the persons responsible for misuse of funds and on the implementation of adequate measures that would result in the establishing of individual responsibility (*naming and blaming*). Although this falls within the SAI’s activities and potential measures, it is not the sole, or the main focus of external audit. Of course, this kind of activity of CSOs is not the sole possibility for engaging the civil society in monitoring of public finances.

Networks of CSOs insisted that in some cases initiating misdemeanour proceedings is too soft answer for the damage done to the public finances and they suggest initiating criminal proceedings. This kind of pressure towards SAI in the early stages of its development related to initiating criminal proceedings points toward certain level of misunderstanding of SAI’s role as a

¹¹⁴From the speech of Ms Ivana Čirković, Conference “Towards a More Financially Accountable Government in Serbia”, Belgrade, 4 June 2012.

new institution that still have to affirm its position in the system while causing disturbances among high officials by the nature of its work. That kind of civil society organisations approach towards SAI brings risks of decreasing potential for cooperation, especially having in mind that those pressures potentially jeopardize functional independence of SAI itself. One of the CSO's suggestions is better response of SAI, i.e. filing proceeding in the moment of identifying irregularity without waiting for final report in order to avoid mentioned deficiencies.

This kind of role of CSO represent relatively low level of cooperation since it is primarily focused on determining whether or not responsible acted upon the request of SAI and whether they are legally sanctioned. It is important to stress that primary goal of SAI is to determine conformity of actions of institutions and public officials with procedures and processes that guarantee appropriate implementation of budgetary projects i.e. to determine whether or not budgetary resources were spent purposefully. In that context, the role of SAI is to contribute to the establishment better regulated system of public finances and to help auditees to conform to standards of good financial management. Therefore, SAI should not be seen only as institution with functions of investigation and sanctioning.

More proactive and innovative role of civil society in auditing is therefore needed in order to shift focus from individuals to the whole system. CSOs can have important role in informing wider society on activities and importance of SAI, in monitoring implementation of specific projects at local and state level as well, in reporting on individual cases of misuse and in general strengthening of position and leverage of SAI. Willingness to engage in work and results of audit is desirable in all phases of audit because it solidifies mutual trust and protection of citizens' interest reaches higher level. Both SAI and CSOs are working together on the same mission, which is, above all, control of the executive.

Likewise, speaking about the role of CSOs in underpinning cooperation, it is useful to take into account general attitude towards civil society, legal framework that regulate civil society as well as the perception of the importance of public accountability, in this case especially financial accountability.

One way to build capacities and increase role of CSOs in this process is creating networks at the various levels together with concentration of knowledge, using innovative approaches and cooperation with regional networks. Similar networks have been already active in Serbia (Annex I).

VIII. Conclusions and Recommendations

This last Chapter offers a summary of main conclusions stemming from individual chapters of the analysis and cross-examines the topics dealt with in individual chapters with the aim of drawing additional conclusions of relevance to the improvement of the external audit system and State Audit Institution's work. Moreover, individual conclusions are followed by key recommendations, the implementation of which would positively affect effectiveness of the external audit system, as well as the follow-up of SAI's recommendations and measures.

VIII.1 Conclusions and recommendations pertaining to legal and institutional framework of external audit in Serbia

Having in mind the moment in which audit is conducted, the limitation period for initiating and conducting the misdemeanour procedure seems to be exceedingly short. Given the timeframe of audit and the passage of time between the actions performed in the expenditure of public resources and the moment when conditions are met to initiate a misdemeanour procedure based on data obtained through audit, the limitation period of one year since the day when the misdemeanour was committed, in line with the general misdemeanour rules, significantly diminishes the possibility to conduct the misdemeanour procedure in these matters. In addition, the amounts of possible pecuniary sanctions for committed misdemeanours are very low, which results in the fact that they do not have a sufficient deterrence effect, due to which the purpose of the sanction is not achieved. They are also not proportional to the level of seriousness of the offence in question. Additionally, for certain very serious breaches of public procurement rules the mere existence of the misdemeanour and the threat of a void contract as a sanction certainly constitutes an excessively mild reaction by the State.

Recommendations:

- 1. Legal amendments are needed (of the Law on Public Procurement above all) pertaining to the extension of the limitation period.**
- 2. It is recommended that higher amounts of pecuniary sanctions are prescribed for misdemeanours committed.**
- 3. It is recommended that the most serious breaches of rules on public procurement are in the future prescribed as criminal offences.¹¹⁵**

From the aspect of normative possibilities of misdemeanour responsibility, especially regarding their preventive effect, a lack of legal framework can be observed in the failure to prescribe protective measures in the relevant misdemeanours. Pecuniary action appears to be the only form of sanction, whereas it can be argued that the effect of a protective measure, such as the prohibition to the responsible person to perform certain duties, could be more effective. This

¹¹⁵Recommendation introduced based on the discussion at the Conference „Towards a More Financially Accountable Government in Serbia“, Belgrade, 4 June 2012.

protective measure cannot be pronounced unless it is prescribed in the same regulation which introduces the misdemeanour.¹¹⁶

Recommendation:

4. To consider the prescription of the protective measure of prohibition to the responsible person to perform certain duties.

Having in mind the wide range of legislative acts which prescribe misdemeanours, the misdemeanour court judges have an extremely difficult task in terms of the need to know the details and use on a daily basis a large number of laws and regulations in very different areas. A certain degree of specialisation of misdemeanour court judges into a few widely defined professional areas could significantly improve and facilitate their work, without significantly jeopardising the right to a natural (random) judge.

Recommendation:

5. It is recommended that the discussion is furthered pertaining to the possibilities and the necessity of specialisation, especially for judges of misdemeanour courts.

SAI's independence is prescribed by the Law at a considerably high level, given that the Institution is responsible for its work only to the National Assembly, as well as that a rather high level of financial independence has been guaranteed. However, in the functional sense, SAI's independence could be diminished by at least three provisions of the Law:

1. the provision that at least 20 MPs can imitate the procedure for dismissal of a SAI Council member, which a very low number, especially considering the fact that every elected political party which passes the electoral threshold (except for the minority ones) can initiate this procedure almost independently. For comparison, according to the Constitution of Serbia, for initiating the interpellation regarding the work of the Government or an individual member of the Government at least 50 MPs are needed,¹¹⁷ while a voting on distrust to the Government or its individual member can be requested by at least 60 MPs.¹¹⁸

Recommendation:

6. To consider amending the Law on SAI in order to increase the minimum number of MPs needed for initiating the procedure for dismissal of a SAI Council member.

2. The Law on SAI stipulates that the mandate of a SAI Council member lasts for only 5 years, with the possibility of a maximum of two re-elections. Considering the fact that the independence of judges is, inter alia, ensured by the length of their mandate (life-long

¹¹⁶Article 46 of the Law on Misdemeanours.

¹¹⁷Article 129 of the Constitution of the Republic of Serbia.

¹¹⁸Article 130 of the Constitution of the Republic of Serbia.

mandate or mandate of Constitutional Court judges of nine years), the SAI Council member's mandate of only five years seems to be rather short.

Recommendation:

7. To consider amending the Law on SAI in order to extend the mandate of SAI Council members.

3. Given that SAI is obliged to send a proposal of its financial plan to the Ministry of Finance, after receiving the consent of the responsible Committee of the National Assembly, the question is raised if this constitutes space for exerting influence/pressure on the SAI by the executive.

VIII.2 Conclusions and recommendations regarding stronger linkages between external audit and other reform processes

The area of external audit has been assessed by the European Commission as one of the policies in which significant and persistent work is needed in order to ensure compliance with the *acquis communautaire* as well as its adequate implementation in the medium-term. The Commission also emphasises the need to significantly increase the administrative and implementation capacities in this area. As external audit will constitute a topic of negotiations for EU membership as part of the negotiation chapter 32 – Financial Control, in the previous period insufficient support has been given to the strengthening of SAI and assertion of its role, with the objective of fulfilling the EU membership requirements.

Recommendation:

8. **Through SAI's public appearances, as well as through the activities of other relevant actors in the EU accession process (as well as SAI's external partners, such as CSOs), awareness should be raised regarding the position of external audit in the EU accession process, thus inducing support to further assertion of the Institution and improving Serbia's performance in fulfilling the relevant conditions for EU membership at the same time. An indicator of success of such activities would be a movement of the financial control policy from the third into the second group of policies in the next European Commission report (see Chapter III).**

An effective financial control system necessitates the existence and functioning of the concept of managerial responsibility in public administration, which is not currently the case in the existing rules and regulations in Serbia's public administration. The laws which regulate the public administration matter do not contain provisions on delegation of decision-making powers and accountability/responsibility of managerial categories of civil servants (appointed civil servants, in the first place), which causes numerous problems in the functioning of the system and its alignment with the responsibility for breaches of law identified through SAI's work. The lack of a developed system of managerial responsibility/accountability creates particular

problems in relation to the introduction of a programme-based budget throughout the executive branch, which is the goal of the Government of Serbia, as well as with the introduction of the decentralised management of EU funds (DIS).

Civil servants hold disciplinary responsibility for breaches of work related duties, a number of which are tightly connected to the subject of audit by SAI, as it has been analysed in Chapter VI. This measure, however, is currently not applied, which is, inter alia, related to the underdevelopment of the concept of managerial accountability/responsibility inside the public administration.

Recommendation:

- 9. To consider possibilities to better define (with the aim of ensuring the preconditions for proper functioning) of the concepts of managerial accountability/responsibility and vertical delegation of decision making powers in public administration. In that regard, it is recommended that appropriate amendments are made to the Law on Public Administration (especially articles 24-26), the Civil Service Law, Law on Public Agencies and the regulations on the work of public enterprises.**
- 10. In order to create a functioning system of managerial accountability/responsibility in public administration, a duty of managerial categories of civil servants to be trained in various aspects of management, especially financial management, should be introduced. It is also necessary to design and deliver appropriate training programmes (in addition to human resource management, which is already offered).**
- 11. In parallel with the development of the managerial accountability system, it should be insisted that the provisions of the Law on civil servants regarding the Disciplinary procedure be applied fervently, especially considering the principle that criminal or misdemeanour responsibility does not exclude the possibility of disciplinary responsibility.**
- 12. Responsibility for irregularities and incompliances identified in the audit process should be better integrated into civil servants' performance appraisal system**

VIII.3 Conclusions and recommendations regarding the improvement of the follow-up system on SAI recommendations and measures

The relationship between the SAI and the Finance Committee of the National Assembly is regulated on a good basis and in line with international best practice and recommendations. However, the capacities of the Finance Committee for dealing with SAI's reports are not sufficiently developed.

Recommendation:

13. It is necessary to further improve the capacities of the Finance Committee for competent consideration of the reports submitted by the SAI. In that sense, there could be two possible solutions: i) creating a specialised subcommittee on external audit; ii) establishing a special working group or an organisational unit (as part of the expert service of the National Assembly) to provide expert support to MPs in addressing financial control relevant issues.
14. It is recommended that SAI regularly informs the Finance Committee on results of feedback reports by auditees.¹¹⁹
15. To consider introducing a practice of holding discussions dedicated exclusively to external audit issues in the Finance Committee, or the specialised subcommittee for external audit, on quarterly basis. Government executives and high level officials in auditees should be invited to such discussions, in order to respond to MPs questions regarding the findings of the submitted reports by SAI.
16. Given that in practice a custom has already been formed of having a representative of opposition preside over the Finance Committee, it is recommended that this practice be additionally asserted, as it is in line with international recommendations and best practice. In that regard, it is recommended that the president of the Committee comes from the leading opposition political party.

SAI Serbia has developed mechanisms for follow-up on implementation of audit results, which need to be additionally strengthened in future audit procedures and applied separately in future reporting. In that regard, the SAI has in its Strategic Plan already envisaged further work on strengthening this system, especially by including information on implementation of recommendations and measures in separate sections of its reports.

Recommendation:

In accordance with good practice examples mentioned in Chapter III, it is recommended that:

17. SAI initiates a practice of publishing the feedback (response) reports on its Internet websites, as well as that it creates a kind of scoreboard, i.e. a table for tracking the performance of auditees regarding the recommendations SAI has issued in its report. A good example of such a scoreboard is the one kept by the European Commission for

¹¹⁹ Recommendation introduced based on the discussion at the Conference “Towards a More Financially Accountable Government in Serbia”, Belgrade, 4 June 2012.

benchmarking the performance of EU member states in implementation of the Union directives in the area of single market;¹²⁰

18. as part of its legally prescribed advisory function, SAI initiates a practice of publishing general recommendations to auditees (especially those common for a large number of auditees) and answers to common questions by auditees on its website.¹²¹

19. the Government of Serbia establishes an ad-hoc Council for integrity management in public administration, which would be presided by the Prime Minister and which would include, *inter alia*, the ministers in charge of finance, public administration and local self-government, as well as the Director of SEIO. This working body would be in charge of discussing the performance of public administration authorities pertaining to SAI's recommendations.¹²²

VIII.4 Conclusions and recommendations regarding the role of civil society organisations in the external audit system

The role of CSOs should not boil down to (or even predominantly focus on) monitoring the cases where SAI has initiated a misdemeanour or criminal proceedings against a responsible person. The role of civil society should above all else be to open an informed and substantive debate on the reform of government accountability system reform and to act as SAI's ally on the road towards the creation of a financially more responsible government. For such a role to materialise, in addition to the commitment of SAI itself to cooperation with civil society, the CSOs need to be sufficiently knowledgeable and understanding about the role of SAI. They also need to be capable of participating in a dialogue about the creation of the system on an equal footing with the Institution and public authorities and organisations subject to audit according to the law.

For the time being SAI is operating in an open and transparent manner, it cooperates with civil society organisations and provides them with the necessary information about its work.

Recommendation:

20. In line with good international (as well as domestic) practice of cooperation between the public sector and civil society, it is recommended that SAI's relationship with CSOs be further developed – from enhanced information towards partnership in the future. In that regard, it is recommended to formalise SAI's cooperation with CSOs on

¹²⁰ See:

<http://ec.europa.eu/internal_market/score/docs/relateddocs/single_market_governance_report_2011_en.pdf>.

¹²¹ Recommendation introduced based on the discussion at the Conference "Towards a More Financially Accountable Government in Serbia", Belgrade, 4 June 2012.

¹²² Recommendation amended based on the discussion at the Conference "Towards a More Financially Accountable Government in Serbia", Belgrade, 4 June 2012.

inclusive basis, e.g. through the signing of a memorandum of understanding (or cooperation), with the possibility of accession by all credible organisations active in the areas of public finance, government accountability, etc.¹²³

- 21. To consider the possibility of inviting CSOs (especially those which accede to the MoU mentioned in Recommendation No. 20) especially active in financial control areas to discussions held in the Finance Committee (or in the future, a specialised subcommittee on external audit).**

¹²³ Recommendation amended based on the discussion at the Conference “Towards a More Financially Accountable Government in Serbia”, Belgrade, 4 June 2012.

ANNEX 1: Civil Society Organisations Active in Public Accountability and Good Governance Areas

1. Coalition for oversight of public finances

Coalition gathers several civil society organisations with aim to improve citizen participation in democratic processes of control, oversight and creation of public policies and in defining fiscal priorities as a part of the process of involving citizens in budgetary process. The need for creation of Coalition of civil society organisations derives from insufficient participation in fiscal processes, insufficient transparency of public finances and, consequently, lack of citizen's initiatives aiming to influence these processes.

Activities of the Coalition, since its inception in 2005, varied from public advocacy campaigns, initiating public hearings, budget analyses to establishing cooperation and partnerships with media and local authorities.

Several project activities have been started do far:

- Project "For more transparent public finances: Citizen oversight of public procurement" aimed to establish dialogue between civil society organisations from Serbia and European Union countries in the areas of fiscal transparency and fight against corruption with special focus on Swedish experience and capacity building of civil society in Serbia.
- Project "Citizen Oversight of Public Procurement" was inaugurated with aim to establish more efficient oversight of civil society over public procurement in local communities, stressing corruption challenges in public procurement system.

Members of Coalition are: Toplica Centre for Human Rights and Democracy, Centre for non-profit Sector Development, Pirog Association, Užice Centre for Human Rights and Democracy, Resource Centre, Fund for an Open Society, The Timok Club, Svetionik Citizen Association, Belgrade Centre for Security Policy, Forum Iuris, Bečej Youth Association.

Toplica Centre for Human Rights and Democracy- as an independent organisation, Centre has realised many projects aiming to strengthen institutions, fight corruption and strengthening efficiency and transparency of budget processes. Such projects comprise those related to citizen oversight of public procurement, sustainable anti-corruption policies, socially accountable and transparent local budgets etc.

Centre for non-profit Sector Development- separate programmatic part of the Centre is dedicated to citizen oversight of public finances and aim is to promote participation in public finance s oversight and policy implementation.

2. Transparency Serbia

Transparency Serbia aims at fight against corruption, increase of transparency of state institutions work and prevention of misuse of powers. Organisation incites reform processes by starting initiatives and giving recommendations through numerous project activities.

Transparency Serbia implemented whole range of projects, studies and events around principles of more accountable and transparent government. Some of them are:

- “On the road towards more reliable public procurement in Serbia“ – more transparency and importing of EU standards in public procurement process at the local level;
- “Anti-corruption Pillars - Serbia and FR Yugoslavia“ dealt with state of the institutions in Serbia in charge for combating corruption;
- „National programme for fight against corruption“ resulted in recommendations that have been used in drafting national anti-corruption strategy delivered to the Serbian Government;
- „Increased public accountability of government bodies“ resulted in draft law on suppressing conflict of interest and in draft code for employee’s behaviour in public administration etc.

Also, this organisation is further engaged in range of activities:

- International Advocacy and Legal Advice Centre - for greater citizen participation in fighting corruption and larger number of finalised corruption cases;
- Benchmarking, monitoring and evaluation system for public procurement performance in Serbia;
- International project Open Budget Index - support to civil society organisations in understanding and applying selected international examples of good practice;
- Public debates on draft laws in Serbia etc.

3. Network for Fiscal Accountability

The Network aims to connect citizens, civil society organisations and institutions in transparent and efficient public finances management in order to increase general level of information, citizen involvement in non-institutionalised processes, general level of transparency, to encourage dialogue in the area of public finances, public procurement monitoring, etc.

The Network is active through a range of activities on the field and is in contact with citizens in order to monitor the flow of public finances at the local level in the framework of the Fiscal caravan, as well as through informing and involving citizens and civil sector in the processes of non-institutionalised control of public finances through Fiscal Monitor Service.

4. Serbian Fiscal Society

Serbian fiscal society was established in coordination with International Fiscal Association - IFA, and deals with examining international and comparative law with special focus on fiscal law and economic and financial aspects of taxation.

5. Other Organisations and Projects

A number of organisations exist that are not exclusively or primarily dedicated to issues of government accountability and public finances, but within their programmatic activities they to certain extent concentrate on these issues. Few of them could be singled out: European movement in Serbia, PALGO Centre, New Policy Centre, European Policy Centre, etc. Also, there are several less known organisations or projects that accentuate political accountability: Network for Political Responsibility, “Skockajtebudžet”, “Istinomer”, “Pištaljka,”etc.

ANNEX 2: List of interviewed organisations/institutions

1. National Assembly of the Republic of Serbia (Finance Committee)
2. State Audit Institution
3. National Bank of Serbia
4. Ministry of Finance
5. Ministry of Interior
6. Ministry of Defence
7. Ministry of Health
8. Ministry of Environment, Mining and Spatial planning
9. Office for European Integration
10. Higher Misdemeanour Court
11. Belgrade Misdemeanour Court
12. Public Prosecutor's Office
13. SIGMA/OECD

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