Report No: AUS0002437

GOV

THE WORLD BANK

SERBIA

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

June 2021

1818 H Street NW, Washington DC 20433

Telephone: 202-473-1000; Internet: www.worldbank.org

Serbia

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

June 2021

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK'**.

PEFA Secretariat
July 8, 2021

Abbreviations and Acronyms

AFCOS	EU Funds Anti-fraud Coordination Service
AV	Average
BCG	Budgetary Central Government
BSL	Budget System Law
BES	Budget Execution System (BCG financial management information system)
CA	Customs Administration
CBA	Cost-benefit Analysis
NBS	National Bank of Serbia
CG	Central Government
CHU/CHS	Central Harmonization Unit/Sector
COFOG	Classifications of Functions of Government
COSO	Committee of the Sponsoring Organizations of the Treadway Commission
CSO	Civil Society Organization
DBB	Direct Budget Beneficiary
DEU	Delegation of the European Union
DMS	Debt Management Strategy
EA	Economic Analysis
EBU	Extra-budgetary Unit
EC	European Commission
ERP	Economic Reform Program
ESA	European System of National and Regional Accounts
EU	European Union
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HRM	Human Resource Management
IAU	Internal Audit Unit
IBB	Indirect Budget Beneficiary
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPPF	International Professional Practices Framework
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LFLSG	Law on Financing of Local Self-Governments
LSP	Law on State Property
M1(WL)	PEFA Weakest Link Scoring Methodology
M2(AV)	PEFA Average of Dimensions Scoring Methodology
MoF	Ministry of Finance
PAR	Public Administration Reform

PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PI	Performance Indicator
PIT	Personal Income Tax
PIFC	Public Internal Financial Control
PPA	Public Procurement Administration
PPL	Public Procurement Law
PPP	Public-private Partnership
SAI	State Audit Institution
SIGMA	Support for Improvement in Government and Management
SSF	Social Security Fund
SNG	Subnational Government
TA	Tax Administration
TSA	Treasury Single Account
VAT	Value Added Tax

Table of Contents

PEFA CHECK, ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

The World Bank assessment team conducted the assessment and prepared the PEFA report, and the team reported to the assessment manager. The assessment followed quality endorsement mechanism in line with the PEFA Check requirements. The Assessment Manager was responsible for following good practices in the process of planning and implementing an assessment, and the oversight team ensured that such practices are followed. The Oversight Team included representatives of the Ministry of Finance of the Republic of Serbia, Swiss Secretariat for Economic Affairs (SECO) and the World Bank.

The government nominated a team which acted as a focal point for the assessment, and it was led by an Assistant Minister of Finance. The Ministry of Finance and other relevant government institutions were the main beneficiary and audience for the assessment, and partnered with the World Bank in the assessment through participation in the training in PEFA methodology, being the primary source of information through interviews with staff and review of government reports. All findings and ratings of the PEFA assessment were discussed with the government in order to confirm joint understanding of the performance of the public financial management (PFM) system.

The quality assurance process, in addition to the regular internal review procedures within the World Bank, included a formal review of the concept note and the final draft through a peer review which involved experts from four PFM institutions. The peer review included the government of Serbia (Ministry of Finance), the PEFA Secretariat, the World Bank, and the International Monetary Fund (IMF).

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organization

- Oversight Team — Verica Ignjatovic (Assistant Minister of Finance, Serbia), Stephen Ndegwa (Country Manager for Serbia, World Bank), Nenad Vlaketic (Director of Central Fiduciary Unit, Ministry of Finance, Serbia), Verena Fritz (Senior Public Sector Specialist, World Bank), Ana Pajkovic (National Program Officer, Swiss Secretariat for Economic Affairs)
- Assessment Manager: Roby Senderowitsch (Practice Manager, Governance Europe and Central Asia, World Bank)
- Assessment Team Leader and Team Members: Aleksandar Crnomarkovic (Senior Financial Management Specialist, Task Team Leader, World Bank), Jonas Fallov (Senior Public Sector Specialist, World Bank), Cigdem Aslan (Lead Debt Specialist, World Bank), Leandro Secunho (Senior Debt Specialist, World Bank), Zoran Skopljak (Public Sector Specialist, World Bank), Sidy Diop (Senior Procurement Specialist, World Bank), Benedicta Oliveros (Procurement Specialist, World Bank), Iwona Warzecha (Senior Financial Management Specialist), Nihad Nakas, Milos Markovic, Emina Djuricic-Cerovac (Consultants), Miroslav Nesic (Program Assistant), Bisera Nurkovic (Program Assistant)

Review of concept note and/or terms of reference

- Date of reviewed draft concept note: July 8, 2020
- Invited reviewers: Verica Ignjatovic (Assistant Minister of Finance, Serbia), PEFA Secretariat, Patrick Umah Tete (Senior Financial Management Specialist, World Bank), Suzanne Flynn (Regional PFM Advisor for South-East Europe, IMF)

- Reviewers who provided comments: Verica Ignjatovic (Assistant Minister of Finance, Serbia), PEFA Secretariat, Patrick Umah Tete (Senior Financial Management Specialist, World Bank), Suzanne Flynn (Regional PFM Advisor for South-East Europe, IMF)
- Date(s) of final concept note: August 27, 2020

Review of the assessment report

- Date(s) of reviewed draft report(s): May 18, 2021
- Invited reviewers: Verica Ignjatovic (Assistant Minister of Finance, Serbia), PEFA Secretariat, Patrick Umah Tete (Senior Financial Management Specialist, World Bank), Suzanne Flynn (Regional PFM Advisor for South-East Europe, IMF)
- Reviewers who provided comments: Verica Ignjatovic (Assistant Minister of Finance, Serbia), PEFA Secretariat, Patrick Umah Tete (Senior Financial Management Specialist, World Bank), Suzanne Flynn (Regional PFM Advisor for South-East Europe, IMF)

Methodology

This section presents the main elements of methodology applied during the PEFA assessment.

Type of assessment. The assessment is the fourth successive national PEFA assessment in Serbia,[1] with the three previous PEFA assessments of the central government conducted in 2007, 2010 and 2015. All the previous assessments were conducted by the World Bank, using the 2005 and 2011 versions of the PEFA Framework as applicable. The current assessment was conducted in line with the PEFA 2016 Framework, applying separate guidance on assessing PFM performance changes using different versions of the PEFA framework. The assessment tracked change from the previous assessment conducted in 2015 which used the PEFA Framework 2011, and for that purpose the PEFA Secretariat's Guidance on tracking change in performance for successive assessments was applied. The assessment team likewise used other methodological guidance and practice tools developed by the PEFA Secretariat, including the PEFA Handbooks,[2] PEFA assessment templates and instructions, PEFA Check requirements, as well as other advice from the PEFA Secretariat. The current assessment was external, conducted by the World Bank. As agreed with the Serbian authorities, the team produced a second deliverable, namely *Recommendations to the Government's PFM Reform Program 2021-2025*, prepared based on the findings of the PEFA Report.

Number of indicators used. All 31 PEFA indicators across seven PFM pillars were applied for the assessment.

Timeline of the assessment: The assessment commenced in July 22-23, 2020 by delivering a training in PEFA methodology to the government staff (35 people trained). The training was followed by the main data collection mission conducted between July 27 and August 14, 2020. The period between mid-August and November 2020 focused on drafting the PEFA report, accompanied by additional data requests to the government and supplementary meetings to fill information gaps. The draft report was shared with the government in November 2020. Based on the findings of the draft PEFA report, the assessment team, in consultation with the MoF, drafted an additional output, namely *Recommendations to the Government's Reform Program*, which the government considered during the preparation of the PFM Reform Program 2021-2025. Further on, the report was reviewed and commented on by the country institutions, revised per the government's comments, and was subject to a peer review process in order to produce the final report in June 2021. The report was subsequently subject to the review for PEFA Check endorsement and translation into Serbian. It was delivered in July 2021, with PEFA Check logo, in English and Serbian in print hard copies and published on the websites of the PEFA Secretariat, the Ministry of Finance and the World Bank.

Years covered: The assessment covered the last three completed fiscal years (equal to calendar years) of 2017, 2018 and 2019. This period applied to all indicators covering "three last completed fiscal years" or "last completed fiscal year" referred to in a number of dimensions. The audit of the government's financial statements (the final account) conducted by the State Audit Institution, is typically available in December of the current year for the previous year, therefore the accounts related to fiscal years 2017 and 2018 were audited prior to the assessment, while the audit report of 2019 accounts was not available within the assessment cut-off date.

---

[1] The assessment is funded by Europe and Central Asia PFM Trust Fund, financed by the Russian government and administered by the World Bank.

[2] Revised Volume 3 (second edition, piloting in 2020) was used for the preparation of the PEFA Report in terms of content and format.

Cut-off date: The assessment cut-off date was June 30, 2020, in line with the implementation timetable and report drafting schedule, and as such was used for the information collected and assessed, and in consideration of circumstances applying “at the time of the assessment”, which is relevant to some dimensions.

Coverage: The assessment covers the central government. Table 1.4 in Section 1 of the report presents the structure of government units. The scope hence included all direct and indirect budget beneficiaries. As per the Budget System Law, direct budget beneficiaries are first-tier budget units included in the central government annual budget laws, i.e., at the central level those are institutions of the Republic of Serbia which include government ministries, departments and agencies. Indirect budget beneficiaries are second-tier budget units, represented by institutions in which the government exercises management and financing through direct budget beneficiaries. Those institutions include, among others, education, health, and judiciary institutions. Direct budget beneficiaries may include multiple indirect budget beneficiaries under their authority.

Other central government entities covered in the assessment included social security funds (Pension and Disability Fund, Health Insurance Fund, National Employment Service, Veteran Fund) and other extra-budgetary units (such as the Development Fund, Innovation Fund, Science Fund, Export Promotion Agency, regulatory agencies etc.). Public Private Partnerships were covered by the assessment in the parts included in the central government programs and projects, and related budget and expenditures financed from the central government budget.

The assessment did not cover the sub-national government level and public corporations (public enterprises and other state-owned enterprises), apart from the elements required under the PEFA 2016 Framework, such as assessing fiscal risks arising from operations of sub-national governments and public enterprises, or transfers to the sub-national level.

Sources of information: The primary sources of data for the assessment were (i) interviews with relevant government officials and (ii) review and analysis of relevant documentation, such as government reports, analytical data and any other documents prepared by the government which are relevant to assessing PEFA indicators. The assessment team likewise consulted through meetings and relevant diagnostic and analytical reports produced by non-government stakeholders, including international organizations and donors. The full list of institutions and people met, as well as documents and reports used, is presented in Annex 3 of the report. The main government counterparts during the assessment included the Ministry of Finance and its various sectors (budget, fiscal risk monitoring, macro-fiscal analysis, central harmonization unit), Treasury Administration, Tax Administration, Customs Administration, Public Procurement Office, State Audit Institution, parliamentary Committee for Budget, Finance and Control of Spending, Public Property Directorate, selected large budget users such as the Ministry of Education, Ministry of Health, and others.

Country fiscal year: January 1 to December 31.

Exchange rate: 1 EUR = 117.5928 RSD; 1 USD = 104.9186 RSD
(median exchange rates of the National Bank of Serbia as of December 31, 2019)

Executive summary

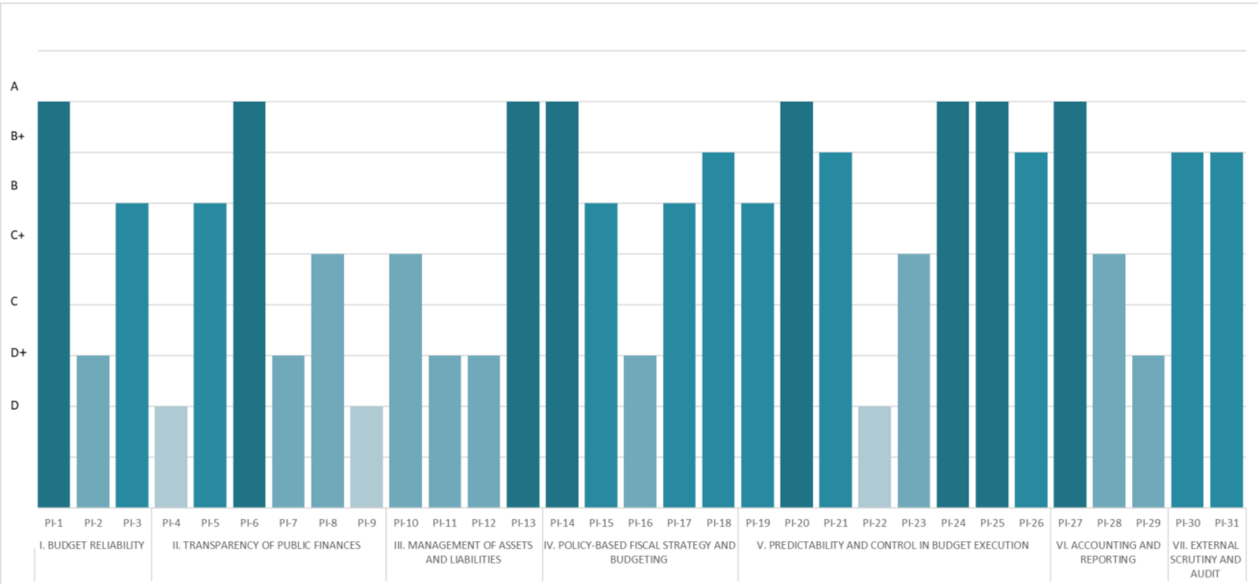
Purpose and management

This PEFA assessment provides a snapshot of the country's PFM system performance. With the latest assessment completed in 2015, both the time period that has elapsed between the two assessments and the significant number and scope of the reforms initiated or implemented in the meantime justify the timing for the assessment. The assessment was conducted by the World Bank, with the Ministry of Finance and other relevant country institutions being the primary beneficiaries of the assessment.

The assessment informs evaluation of the implementation of the current PFM Reform Program 2016-2020, and preparation of a new program for 2021-2025. The Government of Serbia is currently implementing the Public Financial Management Reform Program (PFMRP) 2016-2020 and is in the process of preparation of the new program for the period 2021-2025. PFMRP is the key strategic document in the area of public financial management, prepared and implemented as a subset of the Public Administration Reform Strategy. During the implementation of the program covering 2016-2020, progress has been achieved in a number of areas, but further areas for improvement remain. The findings of the assessment are intended to inform the government about the changes from the previous PEFA assessment conducted in 2015, and thus support the government in assessing implementation results of the current program. At the same time, the findings are expected to inform the preparation of the new program by identifying further areas for continued reforms.

Main strengths and weaknesses of the PFM systems in the Republic of Serbia

Chart 1. Scores for PEFA Performance Indicators 2020



As indicated in Chart 1 above, the assessment has identified the following main strengths of the country's PFM system:

- ✓ **Budget formulation**. Budgets are reliable, with deviations of actual revenue and expenditure outturns compared to those budgeted remaining low to moderate, while only the deviation in the composition of expenditures by functions registered more significant margins. The Budget is presented according to all relevant budget classifications, broadly in line with GFS2014 or comparable to it, however in year budget reports are not prepared in comparable format to the annual budget and annual reports. Budget documentation is fairly comprehensive and includes most of the key elements, and most of the key fiscal documents are transparent and publicly available, despite a lower end score based on the methodology requirements. The Budget preparation calendar is embedded in legislation and complied with in general. The level of central government operations which remain unreported is low.

- ✓ **Budget execution**. Budgets are executed within approved allocations, for which hard controls are embedded in the system for all beneficiaries integrated in the budget execution system (all direct budget beneficiaries and part of indirect budget beneficiaries). The funds during the year available for budget execution are predictable and there are no delays or bottlenecks based on liquidity issues, due also to a solid revenue administration. While there is still some challenges for public internal financial control, internal audit and financial management and control within budget beneficiaries increasingly contribute to a control environment and safeguard of public funds. Revenue administration and public procurement are progressively aligning with good practices.

- ✓ **Debt management**. There is a three-year debt management strategy and monitoring of its implementation. The annual budget law includes an annual borrowing plan for the year. There is a single entity in charge of government borrowing. Records and reports related to public debt are kept up to date and published monthly and quarterly.

- ✓ **External Audit and Scrutiny**. The SAI is independent and conducts its audits in line with the annual audit plan and international standards, while the number of audited entities and the audit coverage beyond statutory audits is dictated by the institution's capacity. In any case, the most material accounts, namely the consolidated BCG accounts and consolidated accounts of all SSFs are audited each year. All audit reports are duly published shortly after completion. Procedures and practices for the parliament's review of the annual budget are appropriately established, and the review of the government's financial statements (final account) has improved.

The following was assessed as areas for continued reforms and further improvements:

- ✓ **Strategic perspective in the use of public funds**. While most public policy documents are costed and at the time of assessment there were 77 strategies (national, sectoral, and some institutional) and 26 Programs, the linkage to the central government's budget is not always obvious. *Ad-hoc* annual priorities seem to be prioritized in budget allocations quite frequently, which shrinks the space for strategic activities, and thus delays or prevents implementation of strategies. Clear and consistent strategies and their implementation contribute in the medium to long term to a more efficient public sector and create the environment for economic growth. Longer time span will likely be needed for the expected benefits of improved planning coordination and budgeting of public policies under the Law on Planning System (adopted in April 2018) to materialize.

- ✓ **Medium-term budgeting**. Medium-term ceilings and estimates are prepared for the budget year and two following years, and included in the Fiscal Strategy and budget documentation. However there is little evidence that those are taken as a starting point or deviations explained during the following year's budget preparation. This hinders efficient management of budget funds in the medium-term. Existing strengths in this area, such as adoption of a comprehensive three year Fiscal Strategy on a rolling basis, preparation of independently-reviewed macro and fiscal forecast, and medium term estimates and ceilings, are not be built upon through their appropriate consideration and integration in budget years that follow. Allocations for transfers to sub-national levels are not determined in practice through an equitable rule-based system, although a regulation which prescribes such a system is in place.

- ✓ **Performance information and management**. This largely relates to underdeveloped program budgeting practices, which lack substance in some key elements. While performance plans are prepared for budget beneficiaries, and the implementation is reported semi-annually and annually, there is limited analysis and follow-up with regard to the reported performance. Objective setting, and proper evaluation of results and indicators, results in sub-optimal allocation of resources as it does not factor in the information on performance into prioritizing budget activities in the following budget cycles.

- ✓ **Management of public investments, public assets and fiscal risks**. These functions are being developed, but registered weak performance in the assessed period. Implementing the recently introduced legislative framework for public investment management in the coming years could lead to improved selection and implementation of capital investments and increase their positive impact on the community and optimize the use of resources. Similarly, the register of non-financial assets is under implementation, and once fully functional it should improve the government's records of assets and enable results-oriented use and management. Continued development of fiscal risks monitoring would enable the government to respond to materialized fiscal risks and external shocks with reduced unfavorable impact on stability of public finances.

- ✓ **Accounting and Reporting**. While there is no material concern about the accuracy of expenditures and revenues, preparation of the government's Balance Sheet without actual accrual standards being prescribed or applied undermines the quality of the reported information of the financial position. For example, the data on non-financial assets and arrears is not reliable. There are also gaps and inconsistencies in the accounting and reporting legislative framework. In-year budget execution reports are not published, while annual financial reports are published with delays.

Impact of PFM performance on budgetary and fiscal outcomes

Aggregate fiscal discipline. Overall efficient revenue administration contributes to improving fiscal discipline, but high levels of tax arrears negatively influence achieving planned levels of revenue. Annual budgets are reliable overall, with low to moderate deviations between the approved budget and its execution. This positively impacts fiscal discipline, as does the low extent of unreported operations of the central government. Budget documentation is also largely comprehensive and transparent. Budget execution is sound and hard controls allow spending by budget beneficiaries only within approved budget allocations, thus contributing to fiscal discipline. Commitments of the users of funding from RFZO (Health Insurance Fund), including all public health care institutions, are controlled against the annual contracts with the RFZO and the corresponding payments against invoice and RFZO advice on available funding to the Treasury Administration. All payments are executed through sub-accounts of the individual institution with the Treasury Administration. At the same time, the absence of centralized ex-ante controls that would effectively prevent budget beneficiaries from entering into legal commitments beyond the budget, generates downside risks for increased expenditure arrears should the currently favorable liquidity outlook reverse. While the Ministry of Finance monitors arrears regularly, there is a notable lack of publicly available information on trends in arrears management.

Unlike the annual budget, the procedures and processes which impact the medium-term horizon, demonstrate some deficiencies and can be detrimental to aggregate fiscal discipline. Macroeconomic and fiscal forecasting, fiscal policies and strategies, and medium-term estimates are duly prepared. Nevertheless there seem to be weak considerations of those when determining annual budget activities and allocations. Operationalization of the strategic priorities to budget programs and activities is not consistent and ad-hoc priorities frequently take precedence which in the long-term could undermine the stability of public finances and the environment for growth.

There was no formal and fully functional mechanism for monitoring of fiscal risks in the assessed period, which may result in additional unplanned budget expenditures which poses a risk to efficient fiscal management. There are shortcomings in asset management which prevent revenue maximization from renting, disposal, and overall management of assets. Public investment management demonstrated weaknesses, which can lead to selecting projects which face implementation delays and result in underspending of the capital budget, or projects which are poorly budgeted and experience cost overruns.

Strategic allocation of resources. There are many strategies, some of which are costed, however the linkage between strategic documents and composition and priorities of the annual budget and medium-term estimates is not always obvious. Annual deviations in functional composition expenditure increased in the period under assessment. Performance management and measurement of results of budget programs and activities are basic, which hinders effective monitoring and revising strategic priorities and their long-term impact based on performance.

Public investment management should be closely linked with strategic perspective of the budget, given that strategic dimension in selection of capital projects is crucial. Therefore weak public investment management does not support strategic allocation of resources. Considering the long-term perspective of strategic objectives, a weak medium-term budgetary framework does not create favorable conditions for proper planning of strategic activities. Similarly, improved monitoring and management of fiscal risks and arrears would ensure that there are no additional unplanned expenditures based on materialized fiscal risks or accumulated arrears, which could shrink the fiscal space for strategic allocations because of the need to address these ad-hoc issues.

A credible annual budget in terms of the level of total expenditures ensures strategic allocations are implemented as budgeted. Comprehensive and transparent budgets facilitate monitoring of budgeted and executed strategic allocations.

Therefore, while the system ensures funding for the annually budgeted activities and their implementation, the strategic objectives are not always operationalized through budget activities and ad-hoc expenditures may be prioritized instead.

Efficient service delivery. An *o*verall reliable budget reduces the risk of reallocation of programs for service delivery to other expenditure categories, however attention should be paid to deviations in the composition of expenditures, in particular by functional classification. Transparent and comprehensive budget and reliable budget execution data facilitate appropriate monitoring of executed expenditures for service delivery. The overall well-performing revenue administration ensures that planned levels of revenue are collected and made available for service delivery without unnecessary delays. Likewise, predictability in resource allocation and cash management practices make the resources available on time and in line with operational plans of the service delivery units. Public procurement favors competitive practices and is not seen as a bottleneck to service delivery. In addition, the sound budget execution system and controls ensure that budget allocations intended for service delivery are executed in an orderly manner. Scrutiny exercised by the external audit, as well as the parliament, through performance auditing provide an additional layer of monitoring the expenditures related to service delivery. The internal audit function has been progressively strengthened in terms of number and training/certification of internal auditors with management response largely timely but still considered partial.

Underdeveloped program budgeting and performance management concepts and practices provide limited insights into the efficiency of service delivery. Appropriate measurement of achieved results, key performance indicators, outputs and outcomes for each budget program would be highly beneficial for more efficient service delivery in the medium to long term. Such performance information and analysis would enable corrective actions for the future budget cycles and provide valuable information for further improvements. While the performance plans are prepared for budgetary units, information on the performance achieved, resources received by service delivery units and performance evaluation are weak. The SAI is the only institution performing independent performance evaluations, but the number of performance audits is limited due to capacity constraints.

Performance changes from previous assessment

PFM performance registered an overall improvement compared to 2015. Thirteen out of 28 performance indicators kept the same rating, 11 indicators registered improved scores due to improved performance, and only 3 indicators showed deteriorated scores. One indicator, related to unreported government operations was unrated in 2015, while it was rated with the highest score in 2020.

The main improvements between PEFA assessments in 2015 and 2020 relate to monitoring of autonomous government agencies and public enterprises; sector strategies are prepared and costed for higher number of sectors; revenue administration saw an overall improvement; budget execution registered improvements in predictability of available of funds for budget users during a year, as well as instituted and applied internal controls; the budget was rated higher for credibility, comprehensiveness of the budget documentation, compliance with the budget calendar, and information on donor funded projects included in the budget; public procurement was improved in the area of public access to procurement information; as well as internal audit, external audit coverage and legislative scrutiny. Transparency and objectivity for transfers to sub-national level of the government was downgraded, as well as monitoring of arrears.

Given the performance changes had an upward tendency, they impacted the fiscal and budgetary outcomes in a positive way. More reliable budgeted expenditures and revenue enhance aggregate fiscal discipline. At the same time, credible budgets also ensure that allocations for strategic purposes are properly planned and executed, without the risk of poor budgeting resulting in reallocation of resources to less strategic, unplanned and ad-hoc activities. More effective internal controls contribute to a sound and reliable budget execution. Strengthened legislative scrutiny creates an accountable environment favorable to aligning budget priorities with strategic objectives. Improved efficiency of revenue administration ensures the availability of resources for undertaking strategic projects. Reliable budgets, sound budget execution, and efficient revenue administration likewise ensure that resources allocated for service delivery are properly planned, made available, and executed without disruptions such as reallocation to other priorities. Quality findings by internal audit also have a positive impact by integrating their recommendations in order to bolster efficiency of service delivery, despite the low overall rate of value for money audits conducted.

Table 1: Overview of the scores of the PEFA indicators

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	A				A
PI-2	Expenditure composition outturn	M1	D	A	A		D+
PI-3	Revenue outturn	M1	B	B			B
II. Transparency of public finances							
PI-4	Budget classification	M1	D				D
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	A	A	A		A
PI-7	Transfers to sub-national governments	M2	D	C			D+
PI-8	Performance information for service delivery	M2	A	D	A	D	C+
PI-9	Public access to fiscal information	M1	D				D
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	B	C	C		C+
PI-11	Public investment management	M2	C	D	D	C	D+
PI-12	Public asset management	M2	C	D	D		D+
PI-13	Debt management	M2	A	A	A		A
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	A	B	A		A
PI-15	Fiscal strategy	M2	B	A	C		B
PI-16	Medium-term perspective in expenditure budgeting	M2	B	D	C	D	D+
PI-17	Budget preparation process	M2	A	C	C		B
PI-18	Legislative scrutiny of budgets	M1	A	B	A	A	B+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	A	C	D	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	A	C	A	B+
PI-22	Expenditure arrears	M1	D*	D*			D
PI-23	Payroll controls	M1	B	B	A	C	C+
PI-24	Procurement management	M2	A	A	A	B	A
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	A	A	B	B	B+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	A	A	A
PI-28	In-year budget reports	M1	B	C	B		C+
PI-29	Annual financial reports	M1	B	C	D		D+
VII. External scrutiny and audit							
PI-30	External audit	M1	A	B	A	A	B+
PI-31	Legislative scrutiny of audit reports	M2	A	C	B	A	B+

1. PFM Context in the country

1.1. Financial Overview

The Budget System Law defines the composition of the public sector. It recognizes the central and general level of the state, whereby the central level includes the entities included in the budget of the Republic, extra-budgetary units and social security funds (funds of mandatory social insurance), while the general government includes the central level and the sub-national government. Further on, the public sector is defined as the general level of the state plus public enterprises[3]. Sub-national levels of government include provincial level and local self-governments (which includes cities and municipalities). Sub-national governments are autonomous in execution of their budgets, and they are financed from their own revenue, portions of central level revenues which are by legislation assigned to the local level, and transfers from the central level.

Judicial power, independent from the executive and legislative, is exercised by the courts. The courts are public authorities, independent and autonomous in their work. The courts of general jurisdiction are the basic, higher, and appellate courts, and the Supreme Court of Cassation. Courts of special jurisdiction are the Commercial Appellate Court, the Misdemeanor Appellate Court, and the Administrative Court. The Supreme Court of Cassation is the highest court in the Republic of Serbia. National Judicial Reform Strategy is aligned with the National Program for the Adoption of EU Acquis.

Table 1.2: Aggregate fiscal data

Budgetary central government actuals (in percent of GDP)			
	FY 2017	**FY 2018**	**FY 2019**
Total revenue	23.51%	23.24%	23.53%
—Own revenue	23.36%	22.99%	23.30%
—Grants	0.15%	0.26%	0.23%
Total expenditure	22.80%	22.61%	23.29%
—Noninterest expenditure	20.31%	20.51%	21.32%
—Interest expenditure	2.48%	2.10%	1.97%
Aggregate deficit (incl. grants)	0.71%	0.63%	0.24%
Primary deficit	3.19%	2.71%	2.21%
Net financing	-0.71%	-0.63%	-0.24%
—External	-0.45%	-1.08%	0.94%
—Domestic	1.16%	1.71%	-0.70%

Table 1.3: Financial structure of central government – actual expenditure 2019 (in RSD million)

Year	Central government			
	Budgetary units	**Extrabudgetary units**	**Social security funds**	**Total aggregated**
Revenue	1,328,359	39,443	686,994*	2,054,796
Expenditure	953,925	71,683	885,260	1,910,868
Transfers to (-) and from (+) other units of general government	-301,367	22,418	193,281	-85,668
Liabilities	n/a	n/a	n/a	n/a
Financial assets	n/a	n/a	n/a	n/a
Nonfinancial assets	n/a	n/a	n/a	n/a

Note: expenditure of EBUs stands at approximately 3.75 percent of total CG expenditure
* Includes revenues other than social security contributions as presented in Table 19.1

[3] Public enterprises are state-owned enterprises which operate in areas of public interest as regulated by the Law on Public Enterprises

Table 1.4. Structure of the public sector (number of entities)

	Public Sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary units	Extrabudgetary units		Nonfinancial public corporations	Financial public corporations
Central	2,850[4]	12	4[5]	170	5
Lower tier(s) of subnational - local level	6,024[6]	n/a	n/a	712	n/a

Note: there are no "deconcentrated units" of the CG as per GFS 2014.

1.2. Institutional arrangements for PFM

The institutional set-up for the management of public finances assigns the central role for public financial management functions to the MoF. The MoF is organized in thirteen sectors, each responsible for key thematic areas. Each sector consists of two or more units and/or sections responsible for specific subject matter within the given area. Outside the sectors, there are additional centralized support functions, such as the Secretariat and Cabinet of the Minister, Public Relations, Internal Audit, and EU Funds Anti-fraud Coordination Service (AFCOS). Beyond core organizational units, there are eight administrations that operate under the MoF: Tax Administration, Customs Administration, Treasury Administration, Public Debt Administration, Tobacco Administration, Anti Money Laundering Administration, Games of Chance Administration, and Free Zone Administration.

The sectoral responsibilities for some of the key PFM functions are described below.

- ***Sector for Macroeconomic and Fiscal Analysis and Projections*** is in charge of the analysis of macroeconomic and fiscal trends and policies; projections of macroeconomic and fiscal aggregates; analytical work underpinning the preparation of Fiscal Strategy and Program of Economic Reforms; preparation of the Bulletin of Public Finances; formation of the macroeconomic and fiscal assumptions for the budget preparations; the projections of public revenue, expenditure and the total fiscal deficit/surplus; preparation of the consolidated budget of general government; analysis of the macroeconomic and fiscal effects of the legal and other normative acts and measures of the economic and fiscal policy.
- ***Budget Sector*** is in charge of the preparation of laws and bylaws that regulate the budget system, budget of the Republic of Serbia (RoS), system of public revenues and expenditure, system of financing of the SSFs and local governments, system of financing of salaries in the public sector, and system of financing of political activities; plans the budget and prepares the revision of the budget in coordination with the budget beneficiaries; suggests the levels of appropriations according to budget beneficiaries and types of expenditure; provides the opinions on the proposed laws and other regulatory acts in its scope.

[4] Includes all budget users – direct and indirect. There are 140 direct budget users while more than two thirds of the remaining ones are educational institutions (i.e. 1,952 out of 2,710).
[5] There are four social security funds. However, the number of users that fall in this category is 352 of which most are healthcare system institutions.
[6] There are 176 subnational budgets in the Republic of Serbia while the number of budgetary units at the local level is 6,027. This number excludes educational institutions, social protection centers and judicial institutions which are shown under 'central budget' category.

- ***Fiscal System Sector*** prepares legislation and other regulatory acts related to tax system and tax policy, revenue administration and revenue policy which includes corporate tax, value added tax, personal income tax, excise, property tax, social security contributions, and other taxes and fees; prepares the international agreement on avoidance of double-taxation.
- ***Customs System and Policy Sector*** is in charge of preparing legislation and other regulatory acts related to the customs system and tariffs, non-customs protections, tax free zones functioning, and analysis and harmonization with international and EU regulations.
- ***Financial System Sector*** is in charge of the creation of an adequate legal and regulatory environment for the financial sector, specifically in the following domains: banking system, domestic and foreign currency treasury operations, insurance, securities and capital market, audit and accounting, privatization of banks, and bank insolvency and liquidations processes.
- ***Central Harmonization Sector*** is responsible for the legislation, public policy and promoting of the Public Internal Financial Control (PIFC) framework. It is also in charge of establishing and development of the methodologies, standards and manuals for public financial management and control, and public internal audit functions. It prepares and delivers training programs (including certification and continuous professional development) for public internal auditors; it carries out quality reviews, coordination and cooperation with professional organizations, and maintains the registry of public internal auditors. In addition, the Sector annually produces a consolidated report on the status of the financial management and control in the public sector.
- ***Sector for EU Funds Management*** is in charge of the financial management, control, and accounting and reporting of the EU pre-accession funds. Within this sector, the national fund for EU pre-accession funds management manages the bank accounts for cash flow of the funds, and accompanying payment requests and documentation as well as reporting to the EU.
- ***Sector for Financing and Contracting of EU Funds Programs*** manages the process of contracting under Instruments for Pre-accession Assistance (IPA) I and IPA II, and plans, prepares and executes the public procurement in line with EU procurement rules and regulations.
- ***Property and Legal Affairs Sector*** carries out regulatory, analytical and supervision work in relation to the property and legal affairs, and a second-level processing in cases of expropriation, nationalization, restitution, etc.
- ***International Cooperation and European Integration Sector*** coordinates the process of EU accession and monitors the implementation of obligations of the MoF in the process of European integration. It also coordinates the bilateral, multilateral and regional cooperation of the Ministry.
- ***Budget Inspection Sector*** is in charge of the inspection and control of material and financial activities, and legality and purposefulness of public funds use in accordance with Budget System Law (BSL); inspection of revenue recordings and collections of all public entities specified in BSL as well as the utilizations of the resources; undertaking measures foreseen under law in cases of illegal proceedings or irregularities in the inspected cases.
- ***Sector for second-level tax and customs proceedings*** is in charge of resolutions of appeals relating to the tax and customs acts of the tax and customs authorities.
- ***Fiscal Risk Monitoring Sector*** reports on fiscal risks, and analyzes fiscal risk resulting from the activities of public enterprises; analyzes the impact of public enterprise activities on macroeconomic stability, economic growth, and public finances; monitors and analyzes financial sector risks; monitors government guarantees liabilities; analyzes natural disaster risks and its budget consequences, and other contingent liabilities risks.

The PFM system in Serbia is organized as a moderately decentralized model. While coordination functions for budget preparation, budget execution, public internal control remain with the MoF, the budget beneficiaries are responsible for delivering their financial plans (including capital budget) to the MoF, executing their budgets within budget allocation levels and organizing their functions of internal audit and controls in line with the MoF guidelines. The Ministry of Finance (with its Administrations for Tax and Customs) preserves the central role for revenue policy and administration.

Key external oversight institutions include the Fiscal Council, State Audit Institution (SAI), and the National Assembly. The Fiscal Council is assigned by the Budget System Law to improve the culture of fiscal responsibility, and in this scope it reviews the Fiscal Strategy and provides an opinion to the National Assembly (parliament) on the draft Fiscal Strategy and analysis of the revised Fiscal Strategy for the given year, proposal of the Law on Budget (and budget rebalance), proposal of the Law on the Final Account of the Budget and consolidated General Government balance, and assessment of the fiscal impact of legislation and parliamentary amendments. The SAI is mandated with the external audit function over the use of public funds by the Constitution and the Law on the SAI. The SAI carries out compliance, financial, and performance audits of entities that are financed from the budget or with other means of state support and manage state assets that were founded or are majority owned by the state. This includes both the central and sub-national government level, as well as state-owned enterprises. Parliamentary oversight of the PFM system principally includes the review and adoption of the Fiscal Strategy, annual budget laws (and budget rebalances) and annual laws on the final account (including the underlying SAI report).

MoF's Central Harmonization Sector (CHS) coordinates the public internal control reform, with implementation role assigned to all public sector entities. While the MoF retains a monitoring and coordinating role in the development of the internal control framework, the heads of public sector entities bear the responsibility to establish and effectively manage the framework in day-to-day operations. An analogous decentralized model was followed in setting up the internal audit function in the public sector. The effectiveness of the overall internal control framework in Serbia, is assessed in Section 3 of this Report.

MoF's Sector for Budget and the Treasury Administration are the principal actors in charge of the budget preparation and execution respectively, while spending units preserve an active role in the process. The Sector for Budget of the MoF provides instructions for the preparation of budget proposals by the budget beneficiaries, which include expenditure limits/ceilings. Budget beneficiaries prepare and deliver budget proposals to the MoF, which based on the submitted proposals, finalizes the preparation of the annual budget law. In terms of budget execution, the budget beneficiaries retain the responsibility for committing the authorized expenditure, verification, and submitting payment requests to the Treasury Administration within their budget allocations.

Revenue policy is managed by the MoF while the Tax Administration and Customs Administration are responsible for revenue administration and collection of all principal tax revenues. This includes the value added tax (VAT), company income tax (CIT), personal income tax (PIT), mandatory social and health insurance contributions, customs, and excises. A limited number of other entities have the mandate to raise most of the non-tax revenues that are collected in the form of charges and fees.

Public Debt Administration is in charge of debt management. The Administration performs borrowing and issuance of guarantees on behalf of the government, for the purpose of maintaining liquidity, financing of budget deficit and large capital investments. It maintains public debt records and issues related reports. The Administration prepares the Debt Management Strategy.

Table 2.9: Assignment of key PFM functions and processes

PFM function/process	*Responsible entities*
Macroeconomic and fiscal forecasting	MoF Sector for Macroeconomic and Fiscal Analyses and Projections
Budget preparation (including medium-term budgetary framework)	MoF Sector for Budget, with inputs from budget beneficiaries
Budget execution	Budget beneficiaries manage individual authorized budgets, Treasury Administration manages Budgetary Central Government (BCG) FMIS (BES) and processes all the payment requests
Fiscal risk monitoring	MoF Sector for Monitoring Fiscal Risks
Public investment management	Individual budget beneficiaries implement capital projects, while the MoF Sector for Monitoring Fiscal Risks through its Public Investment Management Unit ensures compliance with legislation in pre-investment phase and monitors implementation
Public assets management	Budget beneficiaries manage respective assets, Directorate for Public Property maintains the public asset register
Debt management	Public Debt Administration
Revenue administration	Tax Administration and Customs Administration (revenue administration), MoF's Sector for Fiscal System and Sector for Customs System and Policy (revenue policy)
Payroll administration	Payroll calculations and payments by the Treasury Administration for BCG entities covered by the centralized system, payroll calculations by a number of direct budget beneficiaries in defense and security sector Payroll calculations controlled by the RFZO and the payments executed by the Treasury Administration for public health care institutions (primary, secondary and tertiary health care and specialized facilities)
Public procurement	Budget beneficiaries manage individual procurement procedures, Public Procurement Office, Commission for Protection of Rights in Public Procurement Process
Internal audit and Financial Management and Control	Budget beneficiaries ensure day-to-day implementation and continuous improvement, MoF Central Harmonization Unit (policy and methodology for all CG entities)
Accounting and Financial reporting	MoF sets the overall accounting policy, Treasury Administration manages the General Ledger through the BCG FMIS (BES) and prepares governments financial reports, budget beneficiaries maintain auxiliary records and report to the Treasury Administration
External audit	State Audit Institution for all public funds
Oversight and Scrutiny	The Fiscal Council The Parliament, Parliamentary Committee for Finance, Budget and Control of Public Spending

Source: World Bank.

1.3. Legal and regulatory arrangements for PFM

The Constitution of the Republic of Serbia is the highest legal act in the Republic of Serbia. The governing system of the Republic of Serbia is based on the division of powers, including executive, legislative and judiciary branches. The President of the Republic of Serbia represents the Republic and proposes to the National Assembly candidates for the Prime Minister. The President's mandate lasts five years and is constitutionally limited to two terms. The Prime Minister manages and directs the work of government. The National Assembly represents the supreme holder of constitutional and legislative power in the Republic of Serbia. The National Assembly consists of 250 members, directly elected by a secret ballot, in accordance with the law. Members of the parliament serve a four-year term.

The principles contained in the Constitution are elaborated in a comprehensive policy framework including primary (laws) and secondary legislation (decrees, rulebooks). Written law is a prerequisite for the adoption of any principles or rules by public sector entities. As is common in continental European countries, a formal legislation comprising at least one constitution-based law is required, usually together with additional decisions and instructions, to adopt standards or other principles in public-sector entities.

The Budget System Law (BSL) is the organic budget legislation which provides the overall framework for key PFM elements, with additional thematic laws and by-laws further regulating specific areas. The law provides general guidance with regard to (i) budget revenue and expenditures, (ii) fiscal framework, principles, rules and fiscal strategy, (iii) budget preparation, (iv) budget execution, (v) accounting and reporting, (vi) public internal financial control and budget inspection, and (vii) external audit. Specific laws and by-laws[7] provide more detailed guidance in these and other areas of PFM.

Areas regulated by dedicated laws include external audit, revenue administration, public debt, public procurement, and public asset management. The Law on SAI governs the external audit within the public sector. The Constitution includes general provisions regarding the role of the SAI, while the Law on the SAI stipulates further provisions about its mandate and the scope, organization, and nature of audits. The Law on Public Debt defines provisions for new borrowing, and reporting and management of public debt. It also describes the role of the Public Debt Administration as the primary institution for debt management. The Public Procurement Law (PPL) prescribes requirements and procedures related to procurement within the public sector. The Law on State Property governs the use, management, and disposal of assets that belong to the central state and local self-governments. The financing of local self-governments in Serbia is regulated by the Law on Financing of Local Self-Governments.

Secondary legislation reinforces the principal legislative framework in the areas of budget execution, accounting and reporting, and public investment management. Regulation pertaining to budget execution and accounting and reporting includes by-laws such as the Decree on Budget Accounting, Decree on Application of International Public Sector Accounting Standards, Rulebook on Budget Execution System, Rulebook on Standard Classification and Chart of Accounts, and Rulebook on Preparation and Delivery of Financial Reports. The primary act which regulates public investment management is the Decree of Managing Capital Projects. A by-law which will regulate monitoring of fiscal risks is planned to be issued in early 2021.

The Annual Law on Budget includes budget allocations for direct budget beneficiaries and indirect beneficiaries under their authority, per all relevant budget classifications. The annual budget law for the following year is adopted by the parliament by the end of the current year. The law includes the general part with the revenue, expenditures and deficit/surplus. This part also presents the new borrowing envisaged for the budget year, breakdown of state guarantees, and main projects financed by loans from international financial institutions and EU support to reforms through the Instrument for Pre-accession Assistance (IPA) funding. Specific parts of the law present individual budgets of each

[7] A Decree is a higher-level by-law that is adopted by the Government, while Rulebooks are issued by ministers in charge of respective sectors to closer define additional areas regulated in higher legislative acts, such as laws and decrees.

budget beneficiary. Opportunities for public participation in the budget process are limited, as there are no legal provisions requiring public participation.

Strategies, programs and guidelines accompany legislation and provide additional PFM objectives and actions for achievement of the objectives. Overarching document which sets reform targets in the PFM area is the PFM Reform Program (PFM RP) which is a subset of the Public Administration Reform Strategy. The Program covers a period of five years, thus the previous program related to the period 2016-2020, while the new Program which will cover the period 2021-2025 is under preparation. Further on, the Fiscal Strategy, which covers a three- year period on a rolling basis provides framework guidance for PFM, including medium-term fiscal targets and parameters. Additional strategies that define the reform path in specific areas include the strategies on public internal financial control, external audit, debt management, public procurement and tax administration. Methodology on public investment management provides implementation guidance in the respective area, while a methodology on monitoring and management of fiscal risks is under preparation with the view of being finalized in early 2021.

Internal control framework

The principal requirements for the internal control framework in the public sector of Serbia are set out in Section VI of the Budget System Law. The BSL includes provisions related to (i) financial management and control, (ii) internal audit, and (iii) harmonization and coordination of the system of internal controls. Specific implementing modalities are elaborated in a number of MoF-issued by-laws, methodologies, and manuals. The internal control framework is being developed in the context of country's ongoing effort to fulfill PFM and PAR reform objectives of aligning with internationally recognized principles and standards, which are linked with Serbia's EU accession agenda.

The purpose of management and internal control, as defined in the law, corresponds with the definition in the relevant international standards. The purpose of the financial management and control framework in Serbia is to ensure: (i) operations compliant with regulations, internal procedures and contracts; (ii) accuracy and integrity of financial and operational reports; (iii) economic, efficient and effective use of assets; and (iv) safeguarding of assets and information. Implementation is envisaged through five interrelated components based on the underlying framework of the Committee of the Sponsoring Organizations of the Treadway Commission (COSO), i.e., control environment, risk assessment, control activities, information and communication, and monitoring.

Other PFM rules and procedures (in areas such as revenue administration and treasury operations) increasingly incorporate the required internal control principles and standards. Legislation in areas outside of PFM (such as strategic planning, human resource management (HRM), ethics and integrity) which influence the internal control effectiveness are progressively aligned with EU Administrative Space principles and enable full implementation of public internal control.

Roles in internal control framework policy formulation and implementation are clearly assigned and the institutional structure to support implementation are in place. In the MoF, the Central Harmonization Sector retains overall responsibility for formulation, coordination and monitoring of the public internal control framework policy. Day-to-day implementation of the internal control framework rests with the heads of public sector institutions who are accountable for establishing and developing cost-effective and proportionate internal controls that ensure compliance and performance of operations, including achievement of the institution's objectives.

The functioning of governance, risk management and internal control arrangements is subject to review by independent, decentralized internal audit (IA) function. The methodological framework for the internal auditors is grounded in the prescribed International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). MoF's CHS reports on the progress with implementation of the internal control framework annually, based on self-assessments by the institutions charged with implementing the relevant provisions of the BSL.

Internal control arrangements are subject to external scrutiny by the MoF and the SAI. MoF's CHS has the mandate to conduct reviews of the functional quality of internal control and internal audit function. In addition, the MoF's Budget Inspection Sector plays an important role in ex-post verification of regularity (compliance) of financial transactions and operations of public sector institutions against the prevailing legislation. Functioning of the internal control framework is examined in the course of financial, regularity and performance audits carried out by the SAI.

Details on internal control framework effectiveness, based on findings documented in Section 2 of the Report, are further elaborated in Section 3.2 and Annex 2 below.

1.4. PFM Reform process

The Government PFM RP 2016-2020 has been a major catalyst for change in support of fiscal consolidation efforts and alignment with international standards and good practices. PFM reform is one of the pillars under the Government's Public Administration Reform Strategy (2018). The Program covers the entire budget cycle and critical PFM functions, including forecasting, budget planning (recurrent and capital), revenue mobilization, expenditure management (including public procurement), accounting and financial reporting, as well as external oversight. Key roles in PFM RP implementation have been accordingly assigned to the MoF, the main revenue administrations, the external auditors, and the Parliamentary Budget and Finance Committee, with the understanding that the implementation is linked to all budget users in the public sector.

The current PFM RP Action Plan, as of the 2018 update,[8] is organized into five broad pillars, namely:

1. Planning and Budgeting of Public Expenditures
2. Efficient and Effective Budget Execution
3. Effective Financial Control
4. Public Sector Accounting
5. External Scrutiny over Public Finances

Links with concurrent subordinated strategic documents in specific PFM functions (e.g., public internal financial control, public procurement), institutions (e.g., Tax Administration Transformation Plan, SAI Strategic Plan) and cross-cutting areas (e.g., National Anti-corruption Strategy) are monitored and taken into account in the planning, monitoring and revisions to the PFM RP.

Implementation of the PFM RP is supported with institutionalized structures and processes and followed with a substantial degree of transparency. This reflects increased institutional capacity and is likely to enable further PFM reforms. Looking ahead, the existing PFM RP (last updated mid-2018) expired at the end of 2020 and the Government is planning a comprehensive plan covering 2021-2025. Efforts are underway, supported with external technical assistance, to strengthen the requirements

[8] The original first pillar "Sustainable medium-term macro-fiscal and budgetary framework" has been marked as completed.

for costing and improving the credibility of the monitoring framework in line with new national planning requirements prescribed by the Law on Planning System and accompanying by-laws. Reforms are likely to remain tied with EU accession priorities and somewhat dependent on external support.

1.4.1 Approach to PFM reforms

The PFM RP was set up with extensive support from development partners to address PFM shortcomings affecting Serbia's fiscal outcomes at the time and ensure fulfilment of the EU accession priorities. The adoption of the PFM RP was the key criterion for further IPA technical support and a prerequisite for sector budget support. In terms of technical links, PFM RP is seen as complementary to the PAR Strategy as it represents a separate activity in the PAR Action Plan while providing detailed objectives and activities under each PFM pillar.

Progress in PFM RP Implementation is subject to internal review and independent evaluations. The forum for coordination and reporting in planning and management of PAR and PFM reforms is the Special Group on PAR (co-chaired by the EC and Ministry of Public Administration and Local Self-government (MPALSG), which provides annual opportunities for discussing progress on PAR and PFM reforms. Progress on PFM reform is likewise monitored through the Sector Budget Support, one of the EU's pre-accession assistance instruments. The Annual Dialogue of PFM Reform Policy serves as a platform to report on progress and ensure the contribution of relevant stakeholders (European Union, international financial institutions, bilateral donors and CSOs).[9]

In its 2020 Progress Report, the EC acknowledged multiple reform successes across relevant negotiation chapters with PFM implications, but highlighted many challenges ahead including PFM RP implementation delays. Another independent source of information on PFM performance is available from the Organization for Economic Co-operation and Development's Support for Improvement in Governance and Management (SIGMA)'s Principles of Public Administration, which made a 2017 assessment that highlighted improvements on a number of its PFM indicators relative to the 2015 baseline scores that can be attributed to the implementation of the PFM Reform Program.

1.4.2 Recent and on-going reform actions

The overall objective of the PFM RP is to "achieve a sustainable budget with a reduced debt to GDP ratio through stronger financial management and control and audit processes and linking budget planning to Government policies." This is further elaborated in the following specific objectives: to underpin fiscal and macroeconomic stability, to develop a sound system of public finances and practices, to increase efficiency in the management of public resources, to improve efficiency in service delivery, and to increase transparency of public funds and accountability.

As a part of the 2018 revision of the PFM RP, the Government reported progress primarily in the following areas over the period 2016-2017:

- Improved credibility of macroeconomic forecasts,
- Better mid-term planning by budget users,
- Further improved program-based budgeting,

[9] There were no reports from CSOs which comment on PFM RP implementation.

- Strengthened financial control over public funds,
- Increased coverage and quality of fiscal reports and budget execution reports,
- Further progress in public procurement, and
- Advances in the operations of the SAI.[10]

Ongoing reforms have been designed to tackle the main weaknesses documented in different external diagnostic assessments, including 2015 PEFA assessment. The PFM RP was slated for a major revision at the end of 2020 which offers the possibility for targeting major weaknesses identified in section 3 of this report with new measures and activities.

1.4.3 Institutional considerations

- **Government leadership and ownership**

The Minister of Finance bears the overall responsibility for PFM reform implementation on behalf of the Government, with institutionalized technical support. The Minister chairs the Steering Committee for the PFM RP[11] which is tasked with high-level political coordination, including resourcing, monitoring, and reporting to the Government. The Steering Committee (SC) is nominally charged with management of administrative, institutional and financial risks associated with implementation. The MoF's Sector for EU Integration serves as the SC's Technical Secretariat. The Working Group for Preparation, Monitoring and Reporting on the PFM RP is the key technical body for the PFM RP.[12] Its role is to define medium-term objectives, results, measures and activities, monitor and report on their implementation and propose updates to the PFM RP as needed. The Working Group is also charged with aligning the parameters of the PFM RP with other relevant strategic documents.

- **Coordination across government**

The PFM RP Steering Committee and the Working Group are charged with coordination, monitoring and reporting at the political and technical level, respectively. The Steering Committee is charged with facilitating coordination with other reform streams and resolving any coordination issues in the course of PFM RP implementation. The Working Group is tasked with improving collaboration among the represented institutions to improve coordination and foster experience sharing.

- **A sustainable reform process**

The PFM RP is fully costed across pillars, measures and activities. Funding is secured through the national budget and the remainder through external technical assistance. The financing gap is known and is addressed through proactive dialogue with the development partners.[13] A number of PFM TA providers, continue to provide long-term support to the Government in designing and implementing

[10] Revised PFM RP 2016-2020, for the period July 2019 to December 2020.
[11] Minister of Finance (Chair), State Secretaries, Auditor General and Chair of the Parliamentary Budget Committee
[12] consisting of all 11 institutions, including the MoF (with competent sectors and administrations), key line ministries and bodies, the Parliamentary Budget and Finance Committee, and the SAI.
[13] Most notably EU, through the "PFM Complementary Assistance" (funded from 2015 IPA sector budget support for public sector reforms), OECD SIGMA, and GIZ, through its "PFM Reform and Agenda 2030" program, as well as the IMOF, the World Bank, UNDP and bilateral donors (Sweden, Switzerland, UK, US, Slovakia and others).

PFM reforms. Reforms are associated with comprehensive capacity development programs. The Government identifies retention of trained staff as a high priority due to substantial turnover and hiring freezes.

- **Transparency of the PFM program**

Implementation of the Serbian PFM RP is characterized by a high degree of transparency, with the main documents available publicly and without restrictions. The Government has actively sought to solicit contributions from Civil Society Organizations (CSOs) but the available implementation reports refer to low CSO responsiveness and overall capacity to respond.

2. Detailed analysis of PFM performance

PILLAR ONE: Budget reliability

What does Pillar I measure? The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: key strengths and weaknesses

The budget can be considered as generally reliable, given that the deviations of both actual expenditures and revenue are low to moderate compared to the original budget. Deviation of total expenditures remains below 5 percent in all three year of the assessed period 2017-2019. While variance in expenditure composition by function was relatively high and rising from 9.7 percent in 2017 to 25 percent in 2019, the variance in composition by economic classification was kept below 7.2 percent in all three years. Contingency reserve was low, on average at 0.2 percent of the central government budget. Budget revenues outturns were consistently higher than those planned in the annual Budget Law, with underestimates for income and profit tax and VAT as well as non-tax items such as dividends from SoEs.

PI-1. Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. Coverage is Budgetary Central Government (BCG). The assessment is based on the budget and actual expenditure for fiscal years 2017, 2018, and 2019. Detailed calculations are presented in Annex 5.

Indicator/Dimension	Score
PI-1. Aggregate expenditure outturn	**A**
1.1. Aggregate expenditure outturn	A

1.1 Aggregate expenditure outturn

The data used for calculation of expenditure deviation originates from audited financial reports of the BCG in case of 2017 and 2018, and unaudited reports for 2019. Absolute deviation of the actual budget expenditures versus the approved expenditure in the last three completed fiscal years (i.e., 2017, 2018 and 2019) was between 0.62 % and 3.61%. This translates into budget outturn for those years in the range between 98.7% and 103.6%.

Total budget and actual BCG expenditure (in RSD million)			
	2017	**2018**	**2019**
Budget	1,161,983	1,206,848	1,269,091
Actual	1,146,978	1,214,344	1,314,963
% Deviation	-1.29%	0.62%	3.61%

Based on the analysis and supporting evidence, the rating for this dimension is A.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage is BCG. The assessment period relates to the fiscal years 2017, 2018, and 2019. Data and calculations for this indicator are included in Annex 5.

Indicator/Dimension	Score
PI-2. Expenditure composition outturn (M1)	**D+**
2.1 Expenditure composition outturn by function	D
2.2 Expenditure composition outturn by economic type	A
2.3 Expenditure from contingency reserves	A

2.1. Expenditure composition outturn by function

Variance of expenditure composition outturn by function was 9.7% in 2017, 16.5% in 2018 and 25% in 2019. The source of variation differed from one year to another. In relation to 2019, when the variance was the largest, the primary source was the functional group 01 – Social Protection. Another large source of variation in 2019 were the capital expenditures under the functional group 05 – Economic Affairs.

Based on the analysis and supporting evidence, the rating for this dimension is D.

2.2. Expenditure composition outturn by economic type

The variance in expenditure composition by economic classification[14] was 4.3% in 2017, 4.5% in 2018 and 7.2% in 2019. The variance was relatively small, except in 2019 when it went above the limit of 5 percent mostly due to RSD 18 billion spent over the originally approved budget appropriation for the capital expenditures of RSD 127 billion.[15]

Based on the analysis and supporting evidence, the rating for this dimension is A.

2.3. Expenditure from contingency reserves

The Budget System Law defines current and permanent budget reserves (i.e. contingency reserve). The funds budgeted under each of those categories are spent upon decision of MoF with approval from the government. The current reserve is limited to 4 percent of total revenues and is distributed to existing budget appropriations which are insufficient or those which are omitted in the annual budget law. The Budget System Law particularly specifies that the current reserve can be used to fund liquidity needs of sub-national governments (as assessed in PI-7). The permanent budget reserve, on the other hand, is used to fund adversities resulting from emergency situations. These funds are limited to 0.5 percent of total budget revenues.

Aggregate amount of funds spent within the contingency reserve in the budgetary central government in 2017, 2018 and 2019 was at the levels of 0.17, 0.25 and 0.19 percent, respectively, while the average in the last three completed fiscal years was 0.20 percent.

Based on the analysis and supporting evidence, the rating for this dimension is A.

[14] Economic and functional classification for the Budget of the Republic of Serbia are prescribed by the Rulebook on Standard Classification Framework and Chart of Accounts for Budgetary System (Official Gazette 16/2016, amended subsequently), as assessed in PI-4.

[15] Capex financed from project loans are allowed to reach over the budgetary limits according to BSL which is a usual provision made for the sake of flexibility in order to accelerate implementation of capital investment projects

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Coverage is BCG. The assessment period relates to the fiscal years of 2017, 2018, and 2019. Data and calculations for this indicator are included in Annex 5.

Indicator/Dimension	Score
PI-3. Revenue outturn	**B**
3.1. Aggregate revenue outturn	B
3.2 Revenue composition outturn	B

Fiscal forecasting is performed by the Macro-Fiscal Department of the MoF based on macroeconomic framework projections that are developed with inputs from the Central Bank (i.e. exchange rates, interest rates and inflation). Revenue forecasts are published in the Fiscal Strategy and reviewed by the Fiscal Council. More detailed revenue forecasts are part of budget documentation (see dimension 14.2).

3.1. Aggregate revenue outturn

	2017	2018	2019
BCG revenue deviation	108.2%	105.8%	106.6%

Total actual revenue deviated from the revenue foreseen by the Budget Laws by 8.2% in 2017, 5.8% in 2018 and 6.6% in 2019. Budget revenues were consistently underestimated in the Budget Law in the observed period as the deviation was positive in all years at levels between 5% and 10%. The largest contributors to the variance included personal income tax and corporate profit tax and VAT as well as non-tax items such as dividends from SoEs.

Based on the analysis and supporting evidence, the rating for this dimension is B.

3.2. Revenue composition outturn

	2017	2018	2019
BCG revenue composition variance	8.5%	8.1%	4.7%

The variance in revenue composition was 8.5% in 2017, 8.1% in 2018 and 4.7% in 2019. The list of sources of variance remains the same as in the previous dimension. Namely, estimates of income and profit tax together with VAT contributed the most to the overall misalignment of actual values with those set by the budget. In 2017 and 2018 the irregular non-tax revenues (e.g. dividends from SoEs) also played a part with absolute deviation of over RSD 40 billion. In 2019 this deviation was reduced, while the 'sales of goods and services' category recorded a difference of nearly RSD 25 billion which partially compensated for it.

Based on the analysis and supporting evidence, the rating for this dimension is B.

PILLAR TWO: Transparency of public finances

What does Pillar II measure? Information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Overall performance: key strengths and weaknesses

The Budget proposal is presented using all relevant budget classifications, namely economic, functional, organizational and program classifications, broadly aligned with GFS2014 or comparable to it. Budget documentation is comprehensive and includes most of the elements required by the PEFA Framework, with the exception of aggregated data for revenue and expenditures and quantified tax expenditures. At the same time, expenditure and revenue execution is reported in the course of the year only by economic and program classification (see PI-28 and PI-8, respectively) which undermines transparency and public insight into the actual outturns against the targets. On the positive side, the annual financial statements (i.e. the final accounts) are presented along the full spectrum of prescribed classifications and is directly comparable to the budget.

The budget proposal and enacted budget are transparent and accessible to the public, same as most key fiscal documents, except in-year budget execution reports and the government's annual financial statements which are available with a delay relative to the PEFA Framework requirements. The level of CG operations which remain unreported is low. The SAI publishes all its audit reports on its website and those are readily and timely available to the public. Opportunities for public participation in the budget process are limited and the proposal of the annual Budget Law is not subject to public debate, which is standard practice for other primary legislative acts.

Given that existing program budgeting needs further development to fully achieve its objectives, the quality of performance information on service delivery and on the performance of the budget in general is deficient. While the performance plans are prepared for budgetary units and there is information on the resources received by service delivery units, information on the performance achieved and performance evaluation are either not prepared, are insufficient or not publicly available (except the SAI performance audit reports).

There is a rule-based system for transfers to the sub-national level embedded in regulation, however this has not been applied in practice given that the analysis which determines the levels of allocations was "frozen" in 2013. Therefore, the total amount of transfers and respective allocations to sub-national units were at the same level from 2013 to 2020.

PI-4. Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. The time period analyzed includes the last completed fiscal year. The coverage is BCG.

Indicator/Dimension	Score
PI-4. Budget classification	**D**
4.1. Budget classification	D

The matter of budget related classifications is generally regulated by the Budget System Law (BSL)[16]. The individual classifications (i.e., functional, economic, administrative and program) are defined in bylaws as foreseen in the BSL. Consistency of implementation of the classification throughout the public expenditure cycle (budgeting, expenditure, reporting) is warranted by the system architecture and the design of the underlying business processes. There is a sufficient level of interoperability between the BPMIS (budget preparation), BES (budget execution), JAFIN (payment operations) as well as the accounting and reporting modules (SAP) managed by the Treasury Administration. Current and capital budget preparation, execution and reporting procedures are fully integrated and covered by the uniform classification schemes.

4.1. Budget classification

Economic and functional classifications are defined by the Rulebook on Standard Classification Framework and Chart of Accounts for Budgetary System (Official Gazette 16/2016, amended subsequently). Economic classification applied is not fully compliant with the GFS2014 methodology, however fiscal surveillance tables follow the GFSM 1986 framework and are routinely bridged to the GFS 2014 for reporting purposes.[17] There are institutional and technical efforts made to ensure that the classification framework in place is made up to date with all applicable standards. For that matter, the Statistical Office, MoF and National Bank of Serbia have established a working group with technical support from the IMF experts. The mandate of the working group is to implement Government Finance Statistics (GFS) in line with the European System of National and Regional Accounts 2010 (ESA 2010), GFSM 2014, and the Public Sector Debt Statistics (PSDS) Compilation Guide. Functional and sub-functional classification is based on 10 main functions as prescribed by COFOG classification. The only difference is that COFOG numbers the functions from 1 to 10 while they are numbered from 0 to 9 locally.

Organizational classification of the BCG units is navigated based on the Rulebook on Determining and Maintaining the Registry of Public Funds Users and on Conditions and Procedures for Opening and Closure of TSA Accounts held at Treasury Administration (Official Gazette 99/18, amended subsequently). Every year, the Treasury Administration compiles a list of institutions that fall under the broad definition of users of public funds (contained within the Budget System Law) and publishes the entire registry of those institutions along with attributes such as their location, tax identification number and type. There are eleven types of institutions including direct (DBB) and indirect budget beneficiaries (IBB), mandatory social insurance organizations and institutions financed by those (e.g. hospitals and pharmacies) and the category of “other users” which includes regulatory agencies and institutes as well as state-owned enterprises which are controlled by the Government at any level.[18]

[16] Official Gazette of RS 54/2009, last amended in 72/2019. Can be accessed at: https://www.paragraf.rs/propisi/zakon_o_budzetskom_sistemu.html

[17] Local classification codes are assigned to a single GFS system code, thus reducing the risk of inconsistency

[18] Statistical Office (SORS) publishes the sector classification of institutional units in the country which is in line with ESA 2010 and SNA 2008. This central government sector (e.g. 1311) does not fully correspond to the list published by the Treasury. Some of the inconsistencies include the issue of SoEs in restructuring which are classified as being a part of General Government by the SORS classification scheme while they are not classified as such within the Treasury classification, and the state-owned pharmacies for which the opposite holds.

Program classification is prescribed by the Instruction for Preparation of the Program Budget[19] which is updated frequently (i.e. the last amendment was in July 2020) and is published on the website of the MoF. The classification is centrally managed by the Budget Department of the MoF and it identifies categories such as program, program activity/project. The Instructions define the methodological basis for formulation of other important program budgeting elements such as objectives, indicators and performance measurement.

In summary, there is an overall alignment with COFOG standards and in most parts with GFS 2014. The classifications used are either fully aligned or can produce consistent documentation comparable with those. The described classifications are used throughout budget formulation and budget execution processes. The reporting aspect under this dimension considers both annual and in-year budget reports. And while annual financial account of the Republic of Serbia contains the level of detail as in the Budget Law, the in-year budget execution reports are consistently reported only by economic classification (as assessed in PI-28).

Based on the assessment performed and supporting evidence, the score for this dimension is D.

PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. The coverage is BCG. The time period covered is the last budget submitted to the legislature (i.e., budget proposal for 2020 and supporting documents).

Indicator/Dimension	Score
PI-5. Budget documentation	**B**
5.1. Budget documentation	B

5.1. Budget documentation

Elements included in budget documentation for FY 2020

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Y	The forecast of the fiscal deficit is provided in the Article 1 of the Budget proposal for 2020.
2. Previous year's budget outturn, presented in the same format as the budget proposal	Y	The annual financial report for the previous year was prepared in the same format as the Budget proposal. It was submitted to the Parliament on September 16, 2019 while Budget proposal was submitted on November 4, 2019 which effectively supported a decision on the budget.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	Budget execution reports (as assessed in PI-28) are sent to the Parliament at the end of second and third quarter. The report contains the current year budget in the form which corresponds to the budget proposal. The Q3 report reached the Parliament in

[19] "Instruction for preparation of the program budget", available at: https://www.mfin.gov.rs/dokumenti/uputstvo-za-izradu-programskog-budzeta-2/

		October allowing for material support to the budget decision by the legislature.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	N	Article 1 of the Budget Proposal for 2020 contains the expenditure and revenues data aggregated to the main heads including breakdown at the third level of economic classification. Previous year budget data is not included.
Additional elements		
5. Deficit financing, describing its anticipated composition	Y	Deficit financing is presented within a table contained in Article 1 of the Budget proposal. The table includes a detailed breakdown of associated outflows (i.e., principal repayments and purchase of financial assets) and inflows (i.e., borrowing and sale of financial assets).
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Y	The key macroeconomic assumptions underlying projections of fiscal indicators over the medium term are a part of the Explanatory Note sent as part of the budget documentation along with the Budget proposal. They are also discussed thoroughly in the Fiscal Strategy which is adopted by the Government and submitted to the legislature nearly a month ahead of the Budget proposal submission in accordance with the Budget calendar (as assessed in PI-14.2 and PI-17-1).
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Y	Article 3 of the Budget proposal includes a detailed (i.e. item by item) breakdown of outstanding debt. The article includes all new debt items and guarantees planned for the upcoming year.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Y	Financial assets are shown within the balance sheet, which is part of the Final Account. They are not included in the Budget proposal but were made available to the legislature almost two months before submission of Budget proposal, i.e. on September 16, 2019 versus November 4, 2019.
9. Summary information of fiscal risks	Y	Discussion of various types of fiscal risks (e.g. macroeconomic, SoEs, banking system, natural disasters) with specific emphasis on guarantees is a part of the Fiscal Strategy (i.e. Chapter 2, Section 5), which is adopted by the Government and sent to the legislature before the Budget proposal is submitted.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of ***all*** major revenue policy changes and/or changes to expenditure programs	Y	All of the main revenue and major expenditure policy initiatives, their projected values, historical trends as well as estimated effect of potential policy changes are discussed in the Explanatory Note accompanying the Budget proposal for 2020.
11. Documentation on the medium-term fiscal forecasts	Y	Detailed documentation based on which the medium-term fiscal forecast is developed is part of the Fiscal Strategy for the upcoming three-year period (i.e. 2020-2022 in case of the budget documentation relevant for this indicator). (see PI-16.1 for more detailed description)
12.Quantification of tax expenditures	N	Quantification of tax expenditures is not systematically performed.

The requirements are met for 3 basic elements out of 4 and 7 additional elements out of 8.

Based on the assessment performed and supporting evidence, the score for this dimension is B.

PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. The assessment of this indicator is based on the latest information and reports available, which are related to the fiscal year 2019. The coverage is the CG.

Extrabudgetary units are identified in accordance with the definition prescribed by the GFS 2014 Manual as the entities with individual budgets not fully covered by the main budget as well as public enterprises that do not meet the criteria of a 'public corporation'.

Indicator/Dimension	Score
PI-6. Central government operations outside financial reports (M2)	**A**
6.1. Expenditure outside financial reports	A
6.2. Revenue outside financial reports	A
6.3. Financial reports of extrabudgetary funds	A

Dimension 6.1. Expenditure outside financial reports

This dimension assesses expenditure incurred by budgetary and extrabudgetary units (including social security funds) which are excluded from the government's financial reports.

The Treasury Single Account (TSA) system coverage is comprehensive in the sense that all financial operations of all budget users at all levels of governments (including central government) are conducted within it. General ledger, and thus the accounting records and financial statements which are consolidated in the CG annual financial report, are based on the transactional data extracted from this system as well as financial reports of all institutions that fall under the scope of the CG, including education and healthcare institutions, social security funds (SSFs) and extrabudgetary users.

Although their accounts are part of the TSA system managed by the Treasury, the budgets of the SSFs are considered and approved by the parliament independently from the BCG budget, as defined in the BSL. Consequently, the annual financial report of the BCG does not refer to the SSFs.[20] Their financial reports are comprehensive and are prepared and made available to GoS through the procedure prescribed by BSL (i.e. by 30th of April).

Combined expenditure of institutions identified as extrabudgetary was RSD 71.7 billion in 2019. The list of EBUs identified comprises the following 12 entities: road construction and management companies[21] (RSD 63.6 billion), the Development Fund of Serbia[22] (RSD 3.8 billion) and regulatory agencies[23] (RSD 4.2 billion). The estimate for the group of regulatory agencies excludes data for the

[20] In year budget execution reports shown in the Public Finance Bulletin report on the general government financial position whereas SSFs' data is shown.
[21] Roads of Serbia and Corridors of Serbia
[22] The Fund essentially works as a revolving fund with initial capital provided by the GoS, hence only operational revenue and expenditure are considered.
[23] This group comprises the Agency for electronic communications and postal services, Development Agency of Serbia, Bankruptcy supervision agency, Agency for Energy, Agency for Medicines and Medical Supplies, Business Registry Agency, Deposit Insurance Agency, Traffic Safety Agency and Agency for Port Management

Agency for Port Management and the Traffic Safety Agency. Although important, their unavailability does not materially affect the dimension score. All these institutions report on their financial operations to respective ministries or directly to the GoS in accordance with different pieces of legislation regulating the field in which they operate.[24]

Based on the analysis and supporting evidence, the rating for this dimension is A.

Dimension 6.2. Revenue outside financial reports

There was no revenue received by the SSFs and extrabudgetary units which was not contained in the financial reports of these institutions which were compiled and submitted timely to relevant institutions.

Based on the analysis and supporting evidence, the rating for this dimension is A.

Dimension 6.3. Financial reports of extrabudgetary units

This dimension assesses the extent to which ex-post financial reports of extrabudgetary units are provided to the central government, and are sufficiently detailed and timely to yield a full picture of government financial operations when combined with the financial reports for budgetary central government.

Financial reports submission procedure of EBUs and SSFs is defined by the BSL (for SSFs) and the Law on Accounting and the Law on Public Enterprises (for road construction companies and public agencies)[25] which requires submission of annual financial reports to the GoS by end-March for the previous fiscal year. Financial statements of all EBUs are submitted and published timely as evidenced by assessing the contents of the registry of financial statements administered by the Business Registries Agency of the Republic of Serbia[26].

Monitoring of the financial positions of extrabudgetary funds is not centralized as it is done as part of reporting on financial operations of the general government. In practical terms, this means that the SSFs and road construction companies as part of the general government as per the BSL submit data on their revenue and expenditure timely and consistently to the MoF, whereas this information is incorporated into and analyzed together with other segments of the general government including the BCG.

On the other hand, the financial positions of regulatory agencies and the Development Fund are monitored but not consolidated and contextualized since their financial reports go either directly to the Government or to the ministries in charge of supervising them (e.g., Ministry of Economy in case of Bankruptcy Supervision Agency).

Based on the analysis and supporting evidence, the rating for this dimension is A.

---

[24] The Law on Business Entities, Law on Development Fund of Serbia, Law on Public Agencies, Law on Bankruptcy, etc.
[25] In accordance with article 46 of the Law on Public Agencies
[26] Search of the registry of financial statements is available at https://pretraga3.apr.gov.rs/pretragaObveznikaFI

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from the central government to SNGs with direct financial relationships to it, therefore the coverage is CG and sub-national governments, i.e. local self-governments. It considers the basis for transfers from the central government and whether SNGs receive information on their allocations in time to facilitate budget planning. The time period assessed is the last completed fiscal year, 2019.

The Law on Financing of Local Self-Governments (LFLSG, 2006) introduced the Commission for financing local self-governments. According to the law, the Commission is responsible for ensuring that the principles of fairness, efficiency and transparency are followed within the system of SNG financing. The Commission is scheduled to meet at least every quarter and the LFLSG prescribes that it should be composed of six members nominated by the Government (one of which is the president) and five members nominated by the Standing Conference of Towns and Municipalities. The Commission was established during 2009 and met only on several occasions during the following years. The last meeting was held in April 2013.

Indicator/Dimension	Score
PI-7. Transfers to subnational governments (M2)	**D+**
7.1. System for allocating transfers	D
7.2. Timeliness of information on transfers	C

The area of sub-national governments (SNG) financing is regulated by the Law on Financing of Local Self-Governments. The LFLSG has been amended several times since adoption, however, since the relevant fiscal year for the assessment under PI-7 is the last completed fiscal year (2019), the assessment will be referring to the end-2018 version of it.

The LFLSG prescribes that SNGs are financed from the following four sources: own revenues, conceded revenues and two types of transfers. Own revenues are listed in Article 6 of the LFLSG and include property tax, local administrative and communal taxes, tourist taxes, rent fees, proceeds from sales, donations, interest, etc. SNGs are free to set the methodology for calculating and the rates associated with their own revenues. In case of property tax SNGs are bound by the upper limit for the tax rate while in cases of certain communal taxes upper limits are prescribe in absolute terms.

Conceded revenues include: (i) personal income tax (SNGs receive 77 percent in cities, 66 percent in Belgrade and 74 percent in municipalities), (ii) inheritance and gift taxes, and (iii) tax on transfer of absolute rights. The split of personal income tax between the central government and SNGs is done automatically within the Treasury payments system based on account classification and tax identification number which are obligatory elements of the tax payment order.

Article 37 of the LFLSG prescribes that SNGs are entitled to an aggregate of 1.7 percent of GDP in non-earmarked transfers each year. The LFLSG describes different types of transfers within this group of transfers, but does not provide exact shares of the aggregate amount which should be channeled through each of them. The only provision indicating how the split should be made is the highest priority given to the Equalization transfer. This transfer is made in favor of all SNGs which have 90 percent or less estimated per capita income from conceded revenues. Compensation transfer is given for the purpose of balancing the losses (i.e. revenue drop) incurred by SNGs due to changes in tax policy which is managed by the central government (e.g. personal income tax). The LFLSG does not prescribe how the compensation level is determined and what is the overall amount available for this type of transfer.

All SNGs are entitled to the General transfer. The LFLSG prescribes that the total amount for this type, is determined when the Equalization transfer and Compensation transfer funds are deducted from the total non-earmarked transfer budget. The Law then offers a very complex formula for determining the inter-SNGs proportion of the transfer based on criteria such as population, area, number of schools and classes in primary and secondary education. The SNGs are then classified to the income groups based on their development level according to the Law on Regional Development. Finally, the amount of the Equalization, Compensation and General transfer for the city of Belgrade is not transferred to the city but instead represents the total budget for the annual Solidarity transfer which is given to all SNGs again proportional to their development level as prescribed by the criteria defined in the Law on Regional Development.

7.1. System for allocating transfers

Although the system of SNGs financing through non-earmarked transfers is clear and concise and offers a coherent set of rules and source of information for applying the relevant criteria, it was not followed in practice during the last completed fiscal year (i.e. 2019). Instead, the aggregate amount of transfers was determined at the level of RSD 33.3 billion by the Budget Law and allocation among SNGs was determined based on criteria which are not specified. Discussion with the MoF revealed that the allocation of non-earmarked transfer among SNGs was determined based on 2013 data and has not changed since then. The same principle applies to determining the total amount of non-earmarked transfers to SNGs of RSD 33.3 billion, i.e. it was determined at this level in 2013 and was not modified in the subsequent fiscal years. The amount of non-earmarked transfers fell short from the level prescribed by the LFLSG. It was at 0.87 percent of GDP in 2013, and since it was held constant throughout the years, it dropped to the level of 0.65 percent in 2019.

Earmarked transfers are given to SNGs for the purpose of financing some of the responsibilities (i.e. functions) transferred from the central level (e.g. social services) and are also allocated through annual calls for participation in different programs sponsored by various line ministries. Earmarked funds constituted an aggregate of around RSD 59.8 billion in 2019 of which more than RSD 35 billion were funds transferred to the Autonomous Province (AP) of Vojvodina for wages of teachers in primary and secondary education. Other major items included transfers for support of institutions on the territory of Kosovo (RSD 9.6 billion), culture and media programs handled by the Ministry of Culture (RSD 3.5 billion) and housing program for military and police staff handled by the Ministry of Construction, Traffic and Infrastructure (RSD 1.4 billion).

Finally, Article 69 of the BSL prescribes that contingency the budget reserve can exceptionally be used to finance liquidity needs of SNGs for which there is an unexpected drop in revenues. These expenditures are made at the discretion of the GoS based on the recommendation coming from MoF after assessment of the request coming from an SNG. In 2019, these transfers were at the level of RSD 4.31 billion.

Municipalities on the territory of AP of Vojvodina are financed through the system of transfers as described above, while the functions of the provincial government are financed from the Budget of AP Vojvodina which is constitutionally entitled to a budget which is at least 7 percent of the central government budget. In 2019, the budget of AP Vojvodina benefited from the total of RSD 46.5 billion in transfers from the central government of which more than RSD 30 billion was meant for the salaries of teachers in primary and secondary education. Other transfers were also provided through one of the available earmarked transfer schemes administered by the line ministries at the central government level.

Based on the analysis and supporting evidence, the rating for this dimension is D.

7.2. Timeliness of information on transfers

This dimension assesses the timeliness of reliable information provided to sub-national governments on their allocations from the central government for the coming year.

Article 47 of the LFSLG prescribes that the precise amount of non-earmarked transfers that belong to each SNG are to be determined and published within the revised Fiscal Strategy[27]. The budget calendar which is defined by the Budget System Law prescribes that the Fiscal Strategy should be adopted by the Government by 1st of October (i.e. three months before the beginning of next FY). The revised Fiscal Strategy was adopted on 16th of November 2019 but it did not contain detailed allocations by municipality as prescribed by the law. Instead, the SNGs were officially notified when the Budget Law was sent to the Parliament in a draft form on 2nd of November 2019. Unofficially, the SNGs know well in advance about their allocations since the amount has not changed in the budgets for the past eight years (including 2020).

Based on the analysis and supporting evidence, the rating for this dimension is C.

PI-8. Performance information for service delivery

This indicator examines the service delivery information in the executive's budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. The time period covered for Dimension 8.1 on performance indicators and planned outputs and outcomes is the next fiscal year, and for Dimension 8.2 outputs and outcomes is the last completed fiscal year, which was 2019. For Dimension 8.3 and Dimension 8.4 the last three completed fiscal years (2017-19) were assessed. The coverage is CG.

Indicator/Dimension	Score
PI-8. Performance information for service delivery (M2)	**C+**
8.1. Performance plans for service delivery	A
8.2. Performance achieved for service delivery	D
8.3. Resources received by service delivery units	A
8.4. Performance evaluation for service delivery	D

The dimensions under PI-8 are closely linked with the degree of implementation of program budgeting. Program budgeting is embedded in the BSL and the program structure of the budget was introduced across the entire budget system at the CG starting from 2015. In order to ensure methodological consistency in the budget preparation, the MoF published the Instruction for Preparation of the Program Budget. This document contains a description of the program budget structure, definition of key terms and detailed description of the process of formulating a performance-based budget.

[27] The responsibility for determining the precise allocation for each SNG unit rests with the MoF, according to LFSLG. In this process, the MoF needs to work together with the Commission for financing local self-governments. As mentioned already, the Commission was established in 2009, but has not met since 2013.

8.1. Performance plans for service delivery

As part of the budget documentation (as assessed in PI-5), the MoF prepares and the Government adopts, the Explanatory Note accompanying the Budget proposal (i.e. draft Budget Law). The Note consists of the discussion related to the general part of the budget and the Program Information. While the proposal consists of titles of programs and projects with budgetary appropriations, the Program Information is a document which consists of detailed background information for all programs and projects of all budget users. The document is disaggregated on the same basis as the Budget proposal and provides thorough explanation of the purpose behind each project and program exactly as are shown in the Budget proposal. Specifically, for each of them, it lays out objectives, expected outputs, outcomes and associated performance indicators. The same level of detail is provided at the project level. Most of the performance indicators are formulated in a quantitative format and appear relevant for fulfilment of the stated objectives.

Although the quality of information varies from institution to institution, it is estimated that the quality and structure provided by most of them adhere to the standards required for the highest score under this dimension.

Based on the analysis and supporting evidence, the rating for this dimension is A.

8.2. Performance achieved for service delivery

Starting from 2017, all budget users submit their annual and semi-annual budget program performance reports to the MoF as part of the budget procedure. The semi-annual report for the current year is submitted by September 1, together with the proposal of the financial plan for the next year, while the annual report for the last budget year is to be submitted by March 15, together with the priority financing areas for the next year[28]. These documents are prepared based on the Instruction for Preparing Program Performance Reports published and updated regularly on the website of the MoF. Starting from 2020 the reports are collected through the information system used for budget preparation management (BPMIS). However, these reports are only briefly analyzed by the Budget Department of MoF and they are not published. The MoF is actively seeking an adequate format for a report which would summarize program performance information of budget users.

Based on the analysis and supporting evidence, the rating for this dimension is D.

8.3. Resources received by service delivery units

The MoF was in regular possession of up-to-date information on funds received by all budget users through the BES information system in the last three completed fiscal years[29]. In case of direct budget beneficiaries (DBBs) the financial operations are reconciled daily while for indirect budget beneficiaries (i.e. educational institutions) there is a lag as a number of them[30] are still not integrated in the budget execution system BES in spite of the continuous efforts of the MoF to roll out the system to enable full coverage. Financial position of indirect budget beneficiaries (IBBs) are reconciled through semi-annual and annual budget execution reports submitted to their responsible DBBs (e.g. Ministry of Education in case of primary and secondary schools, Ministry of Health in case of healthcare system institutions).

[28] The second step in the budget preparation process, as assessed in PI-17

[29] Also well before that, since introduction of the previous budget execution system – commonly referred to as FMIS locally.

[30] As of June 30, 2020, 529 out of 7503 IBBs are integrated in the budget execution system BES.

Comprehensive budget execution report containing detailed information on expenditure and revenue from all sources of all budgetary users is compiled at year-end based on the consolidated financial data from the Treasury Main Ledger and data from the final accounts of DBBs and IBBs. The annual financial report (as assessed in PI-29) is a statutory part of the Final Account of the Republic of Serbia.

Based on the analysis and supporting evidence, the rating for this dimension is A.

8.4. Performance evaluation for service delivery

The SAI is the only institution which conducts performance audits. Performance audits are carried out regularly in accordance with the SAI's audit plan and the Institution's Methodology for Performance Measurement developed by SAI. There were only two performance audits in total performed in 2017 and just as many in 2018. After personnel changes and organizational restructuring, the performance audit capacities were strengthened which resulted in 12 performance audits in 2019.

Performance audits conducted in the last three completed fiscal years are provided in the table below. Examination of these reports indicates that they are focused on specific functions or policies rather than institutions as such. The number and institutional coverage of performance audits is less than required for a C score.

Table 8.4: SAI performance audits in FY 2017-2019

Title of the audit (year)
Ensuring competitiveness in the process of centralized public procurement (2019)
Efficiency of the information system for registry of real estate owned by the public institutions (2019)
Flood prevention in Serbia (2019)
Accessibility and cleanliness of drinking water (2019)
Effectiveness of agricultural subsidies (2019)
Effectiveness of water infrastructure management (2019)
Renting commercial real estate owned by local self-governments (2019)
Financing of laboratory and sanitary equipment and effect on healthcare protection costs (2019)
Material support as a poverty reduction measure (2019)
Efficiency of acquisition control of responsible institutions (2019)
Efficiency of supervision over mineral resources exploitation (2019)
Managing industrial waste (2019)
Anti-hail protection in the Republic of Serbia (2018)
Subsidies granted by local self-governance to public utility companies (2018)
Justification of application of pension insurance benefits for certain job types (2017)
Efficiency of negotiations without publishing call for tenders in public procurement (2017)

Source: SAI

Based on the analysis and supporting evidence, the rating for this dimension is D.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. The time period is the last completed fiscal year and the coverage is BCG.

Indicator/Dimension	Score
PI-9. Public access to fiscal information	**D**
9.1. Public access to fiscal information	D

9.1. Public access to fiscal information

Table 9.1: Public access to fiscal information in 2020

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Basic elements		
1. **Annual executive budget proposal documentation**. A complete set of executive budget proposal documents (as presented in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	Y	Budget proposal for 2020 was adopted by the Government November 2, 2019 and was submitted to the legislature and published both on the website of the Government and the Parliament on the following business day.[31]
2. **Enacted budget**. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Y	Budget Law for 2020 was adopted by the Parliament on November 28, 2019. It was published in the Official Gazette 84/2019 on the following day (November 29, 2019).[32]
3. **In-year budget execution reports**. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	N	In-year budget execution reports as assessed in PI-28 (i.e. fully corresponding to the format of Budget Law) are prepared by the MoF's Treasury Administration) and submitted to the Parliament at the end of Q2 and Q3 every year (in line with the article 76 of BSL). However, these reports are not published. In addition, monthly in-year budget execution reports are prepared as part of Public Finance Bulletin by the MoF. These reports are made public five weeks after the end of each month in line with a pre-announced schedule.[33]
4. **Annual budget execution report**. The report is made available to the public within six months of the fiscal year's end.	N	Annual budget execution reports are not routinely prepared and published. They are compiled during the preparation of the Final Account (annual financial report) preparation, but are not published before the draft law on Final Account is completed. Draft law for 2019 is still not prepared (within the assessment cut-off date), while it was adopted by the Government on September 16, 2019 in case of 2018 Budget.
5. **Audited annual financial report, incorporating or accompanied by the external**	Y	External audit of the 2018 Final Account was completed on October 2, 2019. The report was published on the website of SAI at the time of

[31] Available at: http://www.parlament.gov.rs/upload/archive/files/cir/pdf/akta_procedura/2019/2730-19.pdf
[32] Available at: http://www.pravno-informacioni-sistem.rs/arhslgl/numberOverview/sgarh/22309
[33] Available at: https://www.MoFin.gov.rs/aktivnosti/bilten-javnih-finansija/

auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.		completion. The audit was not performed based on the draft law on Final Account, but based on the draft report on Final Account prepared by the Treasury Administration.[34]
Additional elements		
6. **Prebudget statement**. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	Y	As part of the budget procedure, the MoF prepares and publishes the Instructions for Budget Preparation (Budget Circular) which contains an overview of the mid-term macro-fiscal framework, planned revenues, expenditure and vertically set expenditure limits. The document was distributed on July 8, 2019 for the 2020 budget.[35]
7. **Other external audit reports**. All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	Y	External audit reports scheduled and carried out by SAI are published immediately after completion on the institution's website.[36]
8. **Summary of the budget proposal**. A "citizen's budget" is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	Y	Document titled "Citizens Guide through Budget" is prepared and published by the MoF on the front page of its website. For the 2020 budget, the document was made available in January 2020 (roughly one month after budget adoption).[37]
9. **Macroeconomic forecasts**. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	Y	Macroeconomic forecasts are prepared within the Fiscal Strategy which covers the next and the following two fiscal years. This document is prepared by the MoF and then adopted every year by the Government and the Parliament ahead of budget adoption. The Strategy is published immediately after it is adopted. Summary of the framework laid out in the Strategy is submitted along with the draft Budget law to the legislature as part of the Explanatory Note accompanying the Budget proposal.[38]

Although budget execution reports are prepared and published during the year, they are not published in the format which enables direct comparison with the Budget Law. Also, the year-end budget execution report is not published before the Law on Final account reaches the parliament. Given the circumstances, the requirements are met for 3 basic elements out of 5 and 4 additional elements out of 4.

Based on the analysis and supporting evidence, the rating for this dimension is D.

[34] Available at: https://www.dri.rs/php/document/download/2110/1
[35] Available at: https://www.MoFin.gov.rs/dokumenti/упутство-за-припрему-буџета-за-2021-годин/
[36] Available at: https://www.dri.rs/последњи-извештај.135.html
[37] Available at: https://www.MoFin.gov.rs/tip-dokumenta/gradjanski-budzet/
[38] Available at: https://www.mfin.gov.rs/en/document-type/fiscal-strategy/

PILLAR THREE: Management of assets and liabilities

What does Pillar III measure? Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Overall performance: key strengths and weaknesses

With the exception of debt management, the PFM functions assessed under this pillar are underdeveloped. While debt and guarantees recording, reporting, and approval are well established, management of assets, public investment and fiscal risks are in early stages of development. Debt management strategy is adopted for a period of three years, and the implementation of the strategy is annually reported, while annual borrowing plan is defined in the annual budget law.

The function of monitoring fiscal risks was first established within the MoF in 2019 and it is being gradually developed. In the assessed period, audited financial statements of public corporations and local governments were publicly available in most cases, however a consolidated annual report on public enterprises is not publicly available while the one for local self-governments is not prepared. There is very limited data on quantified contingent liabilities. There was no overall established system or practices for monitoring and managing fiscal risks arising from operations of public corporations, sub-national governments, PPPs, natural disaster, and other potential risks.

A solid regulatory framework for public investment management was established in 2019 (building upon initial efforts in 2017), but its implementation is still to be evidenced in practice. In the assessed period, management of public investments was underdeveloped in all stages of the cycle. Economic analysis, selection, costing and monitoring of capital investments is weak and was rated at the lower end of the PEFA ratings.

A register of non-financial assets has been in development for a number of years and further efforts are needed to make it fully functional. Data on non-financial assets remains incomplete in the meantime. Considering that a Balance Sheet is prepared as part of the government's annual financial statements (final account), figures on non-financial and financial assets are presented, however the accuracy of their valuation is questionable. This is due to cash basis of accounting being used, as well as due to uncertain valuation of non-financial assets. Procedures for transfer and disposal of assets are embedded in legislation, but only limited information on transfers and disposals is included in the budget documentation and other reports.

PI-10. Fiscal risk reporting

This indicator measures the extent to which fiscal risks to the central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of sub-national governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The most recent fiscal year, 2019, is considered for the assessment however given that criteria for timeliness for C score under 10.2 falls after the assessment cut-off date, the year 2018 is the last available fiscal year for this dimension. The coverage is central government public corporations for 10.1, sub-national governments for 10.2, and central government for 10.3.

Indicator/Dimension	Score
PI-10. Fiscal risk reporting (M2)	**C+**
10.1. Monitoring of public corporations	B
10.2. Monitoring of subnational governments	C
10.3. Contingent liabilities and other fiscal risks	C

The BSL defines fiscal risks, includes management of fiscal risks among fiscal principles and prescribes that the Fiscal Strategy will describe and quantify fiscal risks. The Fiscal Strategy for 2020 with projections for 2021 and 2022 includes a section on fiscal risks. At the moment, there is no secondary legislation which further regulates monitoring of fiscal risks, however there are plans to adopt it during 2021.

10.1. Monitoring of public corporations

In Serbia, public corporations which are majority owned or controlled by the central Government are grouped as follows:

- Public Enterprises: non-financial public corporations which operate in the area of public interest and which are subject to the Law on Public Enterprises, mostly operate in regulated or in some cases monopolistic markets, but charge economically significant prices. There are 35 public enterprises owned by the central government.
- Other SOEs: non-financial public corporations that operate in competitive industries, charge economically significant prices with the aim of creation of profits. They are subject to the Company Law, and there are 130 such companies.
- Financial public corporations, which for the purpose of the assessment include the National Bank of Serbia, three commercial banks (Bank Postanska Stedionica, Srpska Bank and MTS Bank), and Dunav Insurance company.

There are also around 700 local public enterprises, which are entities that are under control of local government (local utility enterprises in the commercial sectors and enterprises that provide public goods), and as such are not in the scope of the assessment.

Primary responsibility for monitoring public enterprises lies with the Ministry of Economy – Sector for Control and Supervision of Public Enterprises. The Ministry supervises implementation of the annual business plans of public enterprises, and for this purpose the public enterprises prepare quarterly reports which are delivered to the Ministry of Economy. The reports include financial statements for the reported period, but also additional forms which provide more analytical data (14 forms altogether). Based on the quarterly reports of public enterprises, the ministry prepares Information for the Government as the main form of reporting to the Government. The Fiscal Risk Monitoring Sector was established within the MoF in March 2019, and it is in the process of staffing the sector and developing work methodologies and manuals, secondary legislation and internal acts. The sector will, among other, monitor fiscal risks arising from public enterprises. Lastly, line ministries perform certain oversight functions over public enterprises, primarily of sector specific nature. There is no government body which supervises other SOEs, and the government exercises its ownership function in those through participation in managing boards and shareholders assemblies.

The Law on Public Enterprises prescribes mandatory annual audits of financial statements for all public enterprises. Other SOEs and financial public corporations are subject to the corporate Law on Accounting and Law on Auditing, which likewise prescribes mandatory audits for all medium and large companies (in line with the Law on Accounting classification), which covers virtually all SOEs. Financial corporations are by the Law on Accounting automatically classified as large irrespective of their size. In both cases above, the companies need to submit their audited financial statements within six months after the year end to the Business Register Agency, which publishes the audited financial statements on its website immediately upon receipt. This requirement is complied with by the companies almost without exception. In addition, the SAI performs audits on a sample of public enterprises in line with its annual audit plan.

Although as mentioned above according to the Statistical Office data there are 130 companies grouped under other SOEs, there is no reliable complete list of all companies in state ownership. In addition, no institution produces aggregate figures of key financial parameters for all companies owned by the central government. Based on this, for the purpose of scoring this dimension, a sample[39] of companies has been selected. Table below outlines the principal companies based on which assessment scores have been assigned.[40]

Table 10.1. Financial reports of sampled public corporations

Public corporation	Year covered	Audited FS's published by June 30 2020 (Y/N)	Total assets in RSD million	Covers contingent liabilities (Y/N)
Electricity Company Serbia (EPS)	2019	Y	254,603.63	Y
Railways Cargo	2019	Y	27,586.52	Y
Railways Infrastructure	2019	Y	340,084.26	Y
Railways Passenger	2019	Y	34,865.63	Y
SrbijaGas	2019	Y	202,555.90	Y
Post Office	2019	Y	30,504.87	Y
AirSerbia	2019	Y	25,883.51	Y
Telekom	2019	Y	324,078.70	Y
Dunav Insurance	2019	Y	51,129.68	Y
Official Gazette	2019	Y	3,231.24	Y
Electricity Grid Serbia (EMS)	2019	Y	91,578.34	Y
State Lottery	2019	Y	2,759.27	Y
Ski Resorts Serbia	2019	Y	12,848.39	Y
Resavica mine	2019	Y	7,426.04	Y
Serbia Waters	2019	Y	25,008.72	Y
Total	2019		1,434,144.69	

Source: Business Register Agency

Information for the Government which the Ministry of Economy prepares quarterly and annually, includes financial information of individual public enterprises, and some key parameters are provided at an aggregated level for all public enterprises. However, this document is not published.

Based on the analysis and supporting evidence, the rating for this dimension is B.

10.2. Monitoring of sub-national governments

The Budget System Law prescribes that financial statements of local self-governments are subject to annual audit. The audit is performed by the State Audit Institution (SAI), however since the capacity of the SAI is limited, local self-governments can appoint commercial auditors with the approval from the SAI. The audits performed by the SAI are published on the SAI website immediately after

[39] Sample was created to include largest PCs and identified as main potential sources of fiscal risks by the World Bank "Methodology of monitoring fiscal risks from SOEs" and the IMF's Policy Coordination Instrument 2018-2021.
[40] Given that no aggregated figure of PCs key parameters is readily available, compiling such data by the assessment team was impracticable.

completion, however the SAI audited 2018 financial statements of 20 local self-governments (out of 175), while the audits of remaining local self-governments were published in negligibly small number of cases[41].

According to the Budget System Law, local self-governments submit by June 30 each year annual financial statements of the local self-government to the Treasury Administration (July 1 for cities). In addition, the Public Finance Bulletin published by the MoF monthly includes the main categories of revenue and expenditures of local self-governments (as well as the province of Vojvodina). According to the Fiscal Strategy for 2020 with the projections for 2021 and 2022 document, the MoF is taking steps to improve the system of monitoring the performance of public finances of local governments from the budget preparation to the implementation. While the MoF publishes aggregated data per government level, most individual Local Self-Governments publish their financial reports.

For the purpose of the PEFA assessment, the score is assigned based on the sample[42] of Local Self-Governments as illustrated in the table below.

Table 10.2. Financial reports of sampled LG units

Local government	Year covered	Total expenditure In RSD million	% of total LSG budgets	Published by September 30 2019 (Y/N)
AP Vojvodina	2018	71,414.45	7.7%	Y
City of Belgrade	2018	95,810.00	10.3%	Y
Novi Sad	2018	25,815.53	2.8%	Y
Subotica	2018	3,711.67	0.4%	Y
City of Nis	2018	7,816.82	0.8%	Y
Kragujevac	2018	6,891.56	0.7%	Y
Zrenjanin	2018	4,039.86	0.4%	Y
Krusevac	2018	3,386.69	0.4%	N
Novi Pazar	2018	2,697.59	0.3%	Y
Leskovac	2018	3,975.17	0.4%	N
Total	2018	225,559.34	24%	In 97 percent of the sample value

Source: Local Self-Governments, local assemblies

Based on the analysis and supporting evidence, the rating for this dimension is C.

10.3. Contingent liabilities and other fiscal risks

In addition to risks from public corporations and local governments (as assessed in 10.1 and 10.2, respectively), the fiscal risk chapter of the Fiscal Strategy for 2020 with the projections for 2021 and 2022 describes several fiscal risks to which the Serbian economy is exposed. The chapter provides valuable information about materialized contingent liabilities such as the called guarantees (Table 13) and future maximum exposure from the guarantees to be issued (Table 14), payment made for court cases won against the government (p. 64-65), and the cost of past natural disasters such as the 2014

[41] Budget of local self-governments which published audits was below 50 percent of total budget of all local self-governments.
[42] Sample includes largest local self-governments by materiality.

floods (p. 65). Additionally, the chapter presents the steps that the government is taking to improve the resilience of the banking system and the deposit insurance scheme. Given that in 2019 two out of 48 public-private partnership (PPP) projects were implemented at the central level (the rest is implemented by the local self-governments), the discussion on PPPs is not included. The quantitative information on the risks that are discussed in the chapter relate to past materializations of the fiscal risks and there is no evaluation of the fiscal risks taking into account the likelihood or impact. There is some qualitative discussion of implicit contingent liabilities, such as natural disasters. Level of total and outstanding state guaranteed loans of public enterprises and local self-governments are presented in Public Debt Administration monthly and quarterly reports, as well as the annual budget.

Based on the analysis and supporting evidence, the rating for this dimension is C.

PI-11. Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on the fiscal year 2019 as the latest completed fiscal year and it covers CG.

Indicator/Dimension	Score
PI-11. Public investment management (M2)	**D+**
11.1. Economic analysis of investment projects Economic analysis of investment	C
11.2. Investment project selection	D
11.3. Investment project costing	D
11.4. Investment project monitoring	C

Based on the situation in 2019, the system for managing public investment in Serbia is fragmented with several institutions responsible for the coordination and oversight of different categories of investment projects or different aspects of the planning, preparation, appraisal, selection and monitoring phases of the public investment cycle. There is not one public investment management regulation and set of procedures in place and fully operational.

The Law on Planning and Construction administered by the Ministry of Construction, Transport and Infrastructure (MoCTI) defines requirements for the appraisal and external review of appraisals of investment projects requiring a construction permit. The Ministry of European Integration administers a framework developed for the Western Balkan countries for the pre-selection, gap assessment and prioritization of public investment projects with IPA financing, which has in recent years been expanded to all internationally financed investments. The Minister of Finance and the Minister of European Integration co-lead a National Investment Council (NIC) which is mandated to endorse a final investment project pipeline but has convened only irregularly.

The MoF is responsible for the selection and budgeting of public investment projects, but there are no standardized selection criteria in place and the scrutiny of project proposals is weak with only limited staffing and resources devoted to the area. In an attempt to create a unified and comprehensive national system for the oversight and management of public investment, in 2017, the MoF prepared The Decree on the Content, Method of Preparation and Evaluation and Monitoring Implementation and Reporting Realization of Capital Projects. While this Decree contained many improvements to the system it was not fully implemented.

In 2019, the 2017 Decree was replaced by a new Decree on Capital Projects Management prepared based on a PIM framework developed with support from the World Bank and discussed in a working group consisting of the key ministries with coordination responsibilities or with large capital spending portfolios. Seven bylaws (Rulebooks) have been drafted to guide implementation of the Decree in further detail.

This indicator defines major investment projects as project satisfying both of the following criteria:
• The total cost of the project amounts to 1 percent or more of total annual budget expenditure;
• The project is among the largest 10 projects (by investment cost) for each of the five largest central government units, measured by the units' investment project expenditure.

Twelve projects satisfied the above criteria in the last completed fiscal year (2019). They are shown in the table below.

Table 11.1: List of major investment projects (€, million)

	Ministry in charge	Capital project	Project cost (EUR)
1	Ministry of Construction, Transport and Infrastructure	Construction of the Motorway E-763, section Preljina-Požega	469,351,424
2	Ministry of Construction, Transport and Infrastructure	Reconstruction and modernization of the Serbian railway (section between towns Stara Pazova and Novi Sad)	826,480,558
3	Ministry of Construction, Transport and Infrastructure	Construction of the Motorway E-761 Belgrade – Sarajevo	252,372,881
4	Ministry of Construction, Transport and Infrastructure	Construction of the Motorway E-761, section: Pojate – Preljina	943,000,000
5	Ministry of Construction, Transport and Infrastructure	Construction of the state road Ruma - Sabac – Loznica	472,133,797
6	Ministry of Construction, Transport and Infrastructure	Bypass around Belgrade, construction of Motorway E70 / 75, section: bridge over the river Sava near Ostružnica - Bubanj potok (sectors 4, 5 and 6)	207,000,000
7	Ministry of Construction, Transport and Infrastructure	Hungarian-Serbian railway, section Belgrade Center - Stara Pazova	315,612,894
8	Ministry of Construction, Transport and Infrastructure	Hungarian-Serbian railway, section Novi Sad - Subotica - State border	1,020,907,763
9	Ministry of Construction, Transport and Infrastructure	Realization of railway infrastructure projects	230,000,000
10	Ministry of Mining and Energy	Construction of flue gas desulphurization plant in TPP Nikola Tesla - A3-A6	167,000,000
11	Ministry of Mining and Energy	Construction of the TPP Kostolac - B3 block	591,470,437
12	Ministry of Mining and Energy	Completion of the construction of TPP "Kolubara B" with a capacity of about 350 MW	447,971,533

11.1. Economic analysis of investment projects

The Law on Planning and Construction under the MoCTI defines detailed and specific requirements for projects requiring a construction permit, including project appraisal. Since most, if not all, major projects involve construction, this practice ensures that these projects are subject to assessments of their feasibility, including financial and socioeconomic viability.

The Law defines the contents of the prefeasibility and feasibility studies with details given in accompanying rulebooks. De jure requirements compare with good international practice of the contents of pre-feasibility and feasibility studies and include requirements to conduct social and environmental impact analyses. Requirements for socioeconomic appraisal are focused on social cost-benefit analysis (SCBA). The Law on Construction and underlying rulebooks however do not include provisions for alternative assessment tools, nor is there any guidance published on their use.

The project appraisal methodology for EU-funded projects is also elaborate and detailed in guidelines adopted by the government. Likewise, public investment projects intended for IFI-financing undergo formal appraisal procedures when explicitly required by the lending institution.

The 2017 Order on the Content, Method of Preparation and Evaluation and Monitoring Implementation and Reporting Realization of Capital Projects requires that projects financed or co-financed with budget funds go through appraisal, including economic analysis, with the exact method depending on project size.[43] However, this Order was not fully implemented during 2019.

An independent review for budget-funded construction projects is done by the Technical Review and Audit Committee. The report of the Committee with a "no-objection" is binding for the project proponent to proceed with the project. The committee is external to the proposer and appraiser except in those cases where projects originate from the MoCTI itself or from underlying entities. The Committee is appointed by the Minister of Construction, Transport and Infrastructure based on professional and academic merit. The Committee is composed of accomplished experts covering all fields involved in the project, including various types of engineers, lawyers and economists.

For the projects funded from external resources, the independent review of appraisal is often defined in the loan or grant agreement in which case it is performed by outsourced experts. Procedures for IPA funded projects require in certain cases independent review of the project proposals.

For budget funded projects which are outside the scope of the Law on Planning and Construction, the Order on the content, method of preparation and evaluation and monitoring implementation and reporting realization of capital projects has introduced a review by an expert committee nominated by the MoF. This committee would check non-construction projects larger than EUR 500 thousand. However, by the end of fiscal year 2019, the composition and terms of reference for the expert committee was yet to be decided.

While there is not one unified set of national rules for the appraisal of all public investment projects, there are rules requiring the economic analysis and external review of appraisal for all major projects. Nevertheless, the Government may decide to exempt projects from these requirements and select projects for financing even in the absence of documented appraisal. This has been the case for projects deemed of special national importance and where partnership with a foreign investor, for example government-to-government financed projects, has been seen to require more flexibility on the timelines and requirements for appraisal. According to information from the MoF, all major projects under implementation in 2019 had been subject to economic analysis and external review of the same. Since the economic analyses are generally not published, it has however not been possible to establish the quality of the economic analysis and the extent of compliance with the national guidelines. It has also not been possible to establish whether the economic analysis was conducted prior to the selection for financing.

Based on the analysis and supporting evidence, the score for the present dimension is C.

11.2. Investment project selection

There are several parallel efforts to prioritize public investments in Serbia. In March every year, as part of the budget preparation process, the MoF requests line ministries and other direct budget

[43] Requirements in the Order for appraisal and investment documentation vary by project size. Projects are classified into four different size categories based on their estimated budgets: "very small projects" (less than EUR 100,000 EUR), "small projects" (between EUR 100,001 and 500,000), "medium size projects" (between EUR 500,001 and 5,000,000) and finally "large projects" (more than EUR 5,000,000). Aside from the application for funding which has to be produced for all projects - small projects only have to produce a project concept (OPI form), middle-sized projects only a pre-feasibility study and large projects only a feasibility study.

beneficiaries to submit priority areas for financing for the next fiscal year and the two following years of the medium-term budget framework, including on public investments. The submissions are reviewed by the Ministry of Finance although this review does not include an in-depth review of appraisal documentation. Based on a consolidation of the line ministry submissions, the Government announces its priority financing areas including national investment priorities for the next fiscal year and the following two years and organizes a public hearing on these priority areas. However, the prioritization of investment projects for financing through the budget procedure happens without the benefits of clear and transparent prioritization criteria.

The Order on the Content, Method of Preparation and Evaluation and Monitoring Implementation and Reporting Realization of Capital Projects (Article 22) defines it as a responsibility of the Capital Investment Commission to rank high- and medium-value projects by sector. In the ranking of high- and medium-value capital projects, the following criteria are used:

- The level of implementation of capital projects in a particular area in previous years.
- Strategic relevance of the proposed project for national or regional and local development priorities.
- Financial sustainability.
- The impact of the project on the social, economic, regional and environmentally sustainable development.
- Other relevant criteria.

However, as mentioned, the Order was not fully implemented and the Capital Investment Commission was not functional during 2019. Hence, the prioritization criteria were not used in practice. Projects financed from the EU's IPA funds are prioritized based on a methodology developed for the Western Balkan Accession countries and administered in Serbia by the Ministry of European Affairs. The methodology includes prioritization based on sector-level criteria and has been practiced as well for a broader range of internationally financed or co-financed investments. The resulting pipeline for investments has been presented to the National Investment Committee co-chaired by the Minister of Finance and the Minister for EU Integration. Aside from IPA funded projects, it is however not clear how or to what extent this pipeline has impacted the selection of projects for financing through the budget procedure.

Based on the evidence, it is clear that in 2019 there was not one unified and functional mechanism for prioritizing public investment projects based on standardized and publicized criteria.

Based on the available information, the score for the present dimension is D.

11.3. Investment project costing

The annual budget law and supporting documents submitted to the Parliament contain the following information on project costing:

- Article 5 of the Budget Law presents an overview of capital projects with budget financing. The overview table presents capital costs for the fiscal year and each of the two out years but does not provide a projection of the total project value/total investment cost, nor does it provide any information on recurrent costs for operation. Recurrent costs for projects (facilities) which are planned to start operations during the fiscal year are built into the relevant administrative and economic codes. However, there is no breakdown of this information by projects/facilities and the information is only included in the budget documentation for the fiscal year.

- Article 4 presents project costs for IPA funded projects in 2020 broken down by EU-financing and national co-financing, respectively. The table does not provide projections for total project values/total investment costs, nor recurrent costs for operations.
- Article 3 presents outstanding debt for project loans during the fiscal year for loan financed investment projects but does not provide information on project costs per se for these projects.

While it is not submitted to the Parliament as part of the budget documentation, additional information about project costing is submitted by direct budget beneficiaries and is available in the budget system.

The forms for the inclusion of new as well as ongoing investment projects, include information about the total project costs up till the end of the implementation phase broken down by the fiscal year, outer years and beyond. The forms require information on all costs related to the preparation of the capital project idea proposal, elaboration of the capital project idea proposal, all costs related to technical documentation, costs of preparation and costs of construction, as well as other costs necessary for the implementation of a project.

The financial plans prepared by direct budget beneficiaries and submitted to the MoF as part of the budget procedure contain projections of capital costs as well as recurrent costs for the fiscal year and two out years, although the latter is not broken down by individual projects or facilities.

Based on the analysis and supporting evidence, the score for the present dimension is D.

11.4. Investment project monitoring

Different aspects of investment projects implementation are monitored by different central government entities, although there is not one central requirement providing for adequate project monitoring integrating both financial and physical progress and monitoring against desired results.

Ministries report to the government on the implementation of their annual program, which includes also public investment projects. This reporting is based on annual reports on the status of the implementation of projects submitted by project management to the Steering Committee of the project and the relevant ministry. These progress reports provide a short description of the current status of the projects, resources withdrawn and the deadline for the use of undisbursed funds, but typically without referring to the strategic goals. Financial information and indicators on physical progress of investment projects are usually included in reports, but there is no performance information to enable tracking of whether the projects achieve their stated objectives. In case of externally funded projects, individual project reports are usually submitted to the Management Board of the project. Data collection relies on standalone applications coupled with manual updates using ad hoc reporting formats.

In terms of financial reporting, financial reports of the line ministries and other direct budget beneficiaries showing the financial implementation of capital projects are submitted quarterly to the MoF Treasury Administration, as like any other spending unit. The financial execution of the capital budget is shown at an aggregate level as part of in-year (quarterly) budget execution reports.

There is also a regular separate monitoring of projects involving external loans and grants done by the Public Debt Administration. This monitoring aims to identify performance of the loans and grants by tracking project disbursement against other financial indicators such as planned disbursements, total loan amount and project value. Since major projects typically involve external financing, this monitoring covers most major projects.

Starting from the 2017 Order, it is required that the line ministries, local authorities or other responsible entities to submit to the MoF quarterly and annual progress reports within 10 days of the end of the reporting period. Annual progress reports shall be submitted together with progress reports for the fourth quarter of each year. The reports are meant to ensure timely identification of any departures from implementation plans and propose measures to eliminate them. The Order also emphasizes the requirement for direct budget beneficiaries to notify the MoF of any unforeseen circumstances that have a major adverse impact on the scope, deadlines, and/or costs of a project. However this was not implemented during 2019.

Based on the analysis and supporting evidence, the score for the present dimension is C.

PI-12. Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The reference period for this PI is the last completed fiscal year, FY 2019. Coverage is the CG on dimension 12.1, BCG on dimension 12.2 and both CG and BCG on dimension 12.3.

Indicator/Dimension	Score
PI-12. Public asset management (M2)	**D+**
12.1. Financial asset monitoring	C
12.2. Nonfinancial asset monitoring	D
12.3. Transparency of asset disposal	D

In Serbia, the information on financial and non-financial assets is reported annually in the Balance Sheet which is an integral part of the Final Account of the Budget (for BCG) and the Final Accounts of the SSFs (as elaborated in PI-29 Annual financial reports).

12.1. Financial asset monitoring

Financial assets are classified under account number 100000 of the economic classification with changes in values reported annually in the Balance Sheet that the CG entities publish as a part of their final accounts.[44] The responsibility for managing the financial assets on behalf of the Government at the time of the assessment is accordingly distributed across a number of institutions. Main categories of financial assets for the Government include cash and cash equivalents, investment in equity of state-owned and private entities, receivables and loans given. The applicable rules for monitoring and accounting of financial assets (valuation) are regulated under the national accounting framework which relies on a cash basis of accounting. The proper application of fair or market value was not evidenced, and there are concerns about the accuracy of data on investments in equity, receivables and loans given. Information about performance of the portfolio of financial assets is not published.

The information on Government financial assets in the form of equity and shares in state-owned and private enterprises is available from the Central Registry of Securities. A Statement from the Central Registry is the basis for the Treasury Administration to enter the information on financial assets and equity in the Treasury Main Ledger. Foreign currency deposits within the National Bank of Serbia (NBS) are managed in accordance with the Strategy for Management of Foreign Reserves of NBS with the structure and profitability measured and reported annually. Records of receivables and loans given

[44] The same Chart of Accounts is used in BCG entities and OOSOs, i.e. accross the entire CG.

are held within the auxiliary ledgers managed by individual central government institutions in line with the prevailing legislation.

Based on the analysis and supporting evidence, the score for the present dimension is C.

12.2. Nonfinancial asset monitoring

Budget beneficiaries record non-financial assets in their auxiliary records in accordance with economic classification prescribed in the Decree on Budget Accounting and report to the Treasury Administration in line with the prescribed reporting requirements.[45] The SAI notes that inventories which the budget beneficiaries perform annually to inform their records are unsatisfactory, thus undermining the accuracy and usefulness of the underlying data.

Principal responsibilities for monitoring of the most material categories of non-financial assets rest with the Republican Directorate for Assets (RDA).[46] The statutory competences of the RDA are to maintain comprehensive records on state-owned immovable property and summary records of movable property (by type and value). Establishment of a registry on immovable property is prescribed under the Law on Public Property Assets. The comprehensive records are to be informed by the data on immovable property which the users[47] are required to report on using prescribed templates from their own records.

According to Article 79a of the BSL it is the responsibility of the RDA to report the structure and value of assets of Republic of Serbia to the Treasury Administration for the purpose of preparation of the Final Account of the Budget. Contents of the report are prescribed in the Rulebook on the Contents and Value of Non-financial Assets of the RoS. At the time of the assessment, the registry which was initially implemented in 2016 was still not considered complete. Consequently, there is uncertainty about the completeness and accuracy of the reports submitted to the Treasury Administration by the RDA. Government monitoring of non-financial assets is hampered by lack or poor quality of management reports and the SAI conclusions in 2019 highlighted that the Government did not secure uniform and up to date records. The following table provides an overview of the categories of non-financial assets as reported in the government's Balance Sheet.

Table 12.1. Categories of nonfinancial assets

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings	Balance Sheet, data not drawn from complete and accurate registries	Buildings are the largest category in terms of amount, followed by Land and Equipment. Inventories are the only other material amount, while other categories are immaterial.
	Equipment		
	Other fixed assets		
Inventories	—		
Intangible assets	—		
Cultivated assets	—		
Valuables	—		
Natural assets	Land		
	Forests and water		

In the absence of a reliable and comprehensive register in the RDA, the relevant provisions of the BSL are yet to be fully implemented in practice. In the meantime, the Treasury Administration fills the

[45] As required under the Rulebook on Standard Classification Framework and the Budget System Chart of Accounts. Categories of non-financial assets assessed under this dimension correspond to the categories used in the government Balance Sheet.
[46] Defined in Article 29 of the Law on Ministries (RS OG, no. 72/12 and 76/13).
[47] Users of immovable property are not necessarily budget beneficiaries, and different accounting by-laws are used in recording and valuation of immovable property in non-financial assets category.

resulting gap with information received directly from budget beneficiaries. Reports supplied by the beneficiaries are taken without further verification and aggregated for the purpose of producing the Balance Sheet figures.

In line with the PEFA requirements in instances where it cannot be evidenced that the registers of all material assets are complete and current, the score for the present dimension is D.

12.3. Transparency of asset disposal

Principal legislation which regulates disposal of non-financial assets is the Law on Public Property (2011, last amended 2020), accompanied by associated secondary legislation[48]. The Law prescribes procedures for acquisition, transfer, renting and disposal of non-financial assets. Article 27 of the Law states the Government decides on the acquisition, transfer and disposal of assets of large value, while for the rest a responsible person of a public entity makes a decision. In addition, there is a complex framework of primary and secondary legislation in place that governs different aspects of asset disposal and the RDA reports over 22 laws and almost as many by-laws.

The RDA is charged with carrying out the operations pertaining to the acquisition, disposal, lease or rental of immovable property owned by the state and a number of related duties.[49] Work of the RDA is overseen by the MoF. Users of fixed assets are required to seek approval of the RDA for acquisition, disposal, lease or rental.

Advertisements for transfer and disposal of non-financial assets are published on the RDA's website, and partial information on transfers and disposals is included in the final account and the annual budget but this information does not include at least the original purchase cost and disposal value as required for the C score. There is no specific regulation or procedures for disposal of financial assets.

Hence, the score for the present dimension is D.

PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. The indicator covers the central government. The time period assessed is at the time of assessment for 13.1 and 13.3, and last completed fiscal year for 13.2 (2019).

Indicator/Dimension	Score
PI-13. Debt management (M2)	**A**
13.1. Recording and reporting of debt and guarantees Economic analysis of	A
13.2. Approval of debt and guarantees	A
13.3. Debt management strategy	A

A full-fledged Debt Recording System (DRS) is in place, which keeps Central Government (CG) domestic and external debt, as well as guaranteed debt by the CG. The system was developed with open source

[48] Decree on Conditions for Acquisition and Disposal of Immovable Property by Direct Agreement, Leasing of Things that are Public Property and Procedure of Public Competition and Collection of Written Bids

[49] Protection of state-owned property through inspections; administrative procedure to determine the existence and validity of the legal basis for the use of state-owned property; management of funds owned by the state (maintenance, insurance); scheduling the use of residential buildings and apartments and business premises; storage and maintaining of records of presents owned by the state; registration of ownership of real estate by the state; ensuring the collection of rent; as well as other duties specified by law

technologies (Angular, Java, Hibernate) on MS SQL RDMBS exclusively for the Government of Serbia and its full implementation was concluded in 2018.

In terms of debt recording, the above-mentioned system meets all Public Debt Administration (PDA) needs. However, there are plans to improve the existing cost-and-risk management model which would benefit from timely data captured in the system. Integration is also an option under consideration.

13.1. Recording and reporting of debt and guarantees

The Public Debt of the Republic of Serbia amounted to RSD 3,154.2 billion, or 57.3% of GDP, as of June 30 2020, according to the "National methodology" defined in the Public Debt Law. Most of it (54.2% of GDP) was represented by the central government debt (direct liabilities), while guaranteed debt and local government debt accounted for 2.6% and 0.4% of GDP, respectively. Central government direct debt was almost distributed between domestic and external debt (43%/57%, respectively), however just 28% was denominated in local currency.

Recording and reporting of public debt is regulated by Article 41 of the Public Debt Law,[50] and responsibility for this task is given to the Public Debt Administration (PDA) by item 9 of Article 44 of the said law. The system records external and domestic central government direct and indirect (guaranteed) debt and enables PDA to capture any possible differences against invoices received from creditors.

Reconciliation is made for the payment of each loan installment against received invoices. There is also an internal "Loan record procedure" stating in its activity 19 (oversight) that not later than five days after receiving a monthly report from the user (guarantees beneficiary), an analyst needs to compare "debt balances, repayment and withdrawals based on indirect liabilities in the Public Debt Management System (PDMS)".

As described in further details in dimension 13.2, PDA is the entity entitled to negotiate with creditors the conditions of guaranteed loans and issue the guarantees (that assume the format of a law), while line ministries may lead the procurement process and prospect alternative funding options. Given PDA is the sole authority to prepare and issue the guarantee, it does have the timely information to record them.

Quarterly and monthly public debt reports are produced and published in PDA's website.[51] In the quarterly public debt report, total General Government Debt is reported broken down by Central Government and Local Government. The former is separated in direct liabilities and contingent liabilities, whereas the latter is divided in guaranteed and non-guaranteed debt. Detailed information from guarantees beneficiaries is also reported. Finally, debt service for the quarter is presented with a separation between principal repayment, interest, commitment and fee and other costs. The monthly debt report, besides the higher publishing frequency, further details public debt creditors, government securities and pricing. The National Bank of Serbia also publishes quarterly data on total public debt (and composition) and national external debt which are either provided by the MoF or reconciled, in the case of the later.[52]

[50] No. 61/2005, 107/2009, 78/2011 and 68/2015.
[51] http://www.javnidug.gov.rs/eng/default.asp
[52] https://www.nbs.rs/internet/english/90/fs.html

Therefore, the public debt (direct and indirect) liabilities are appropriately recorded, updated and reconciled under the required timeframe, as well as dully and timely reported. **Hence, the score for the present dimension is A**.

13.2. Approval of debt and guarantees

Article 5 of the Public Debt Law defines that "The Minister of Finance is solely authorized, on behalf of the Government and in the name of the Republic, to contract borrowing, conclude loan agreements and/or issue government securities". The same article determines that "taking loans and/or issuing government securities shall be done within the limits determined by the law regulating the budget of the Republic."

The "Procedure for negotiation and conclusion of the Loan and Guarantee Agreement" establishes a six-step approach for concession of guarantees: (i) launching preparation and making decision on conducting negotiations; (ii) preparation of the proposal and adoption of the act (Conclusion) by the Government; (iii) conducting negotiation;(iv) adoption of the Draft Act (Conclusion) by the Government; (v) completion of negotiation; and (vi) ratification.

If a sub-national government (SNG) wants to contract a loan or provide guarantees ("underwrite") to local companies, it needs to apply for MoF's opinion. SNG can receive guarantees from the CG, and to do so needs to have it planned in the budget law.

The annual budget law includes planned new borrowing by the central government, specifying the borrowing model, lending institutions, amounts, currencies, etc.

The Revised Fiscal Strategy for 2020 with projections for 2021 and 2022 describes the ongoing program of structural fiscal adjustment that has enabled the reduction of Public Debt/GDP from 2015-2018 and is expected to achieve further decreases towards the 45% debt ceiling in 2024, stipulated by the existing fiscal rule. The document contains a section that describes the "Strategy for Public Debt Management from 2020 to 2022", which is a full-fledged Medium-Term Debt Strategy (MTDS) with projections of cost-and-risk indicators, assessment of alternative strategies and risk scenarios. The latter provides explicit authorization for borrowing under limits set according to the funding instruments to be used (see more details at PI 13.3).

Based on the analysis and supporting evidence, the score for the present dimension is A.

13.3. Debt management strategy

Article 11 of the Public Debt Law defines the concept and needed content of the Public Debt Management Strategy (PDMS). Moreover, it states that the PDMS is an integral part of the Fiscal Strategy for the following medium-term period.

A Medium-Term Debt Management Strategy (MTDS) for the period 2018-2020 is currently published at PDA's website[53]. It follows a 8-step framework developed by the WB and the IMF, including the definition of target interest rate, refinancing and foreign currency risks. It also defines the long-term strategic framework of public debt management with specific cost-and-risk indicators. This MTDS is available in Serbian for the period 2020-2022[54]. This MTDS is also fully disclosed/published as part of the Revised Fiscal Strategy for 2020.

---

[53] http://www.javnidug.gov.rs/upload/Strategija/2018/Fiskalna%20strategija%20eng.pdf

[54] http://www.javnidug.gov.rs/default.asp?P=27

A Public Debt Report is annually produced by the Ministry of Finance (PDA) and sent to the Government in accordance to Article 41 of the Public Debt Law (Record and Reporting). The report duly provides information on debt management strategy implementation against medium- and long-term objectives. The same article requires that an annual report containing all data related to public debt stock be sent to the parliament. This requirement is met when the Government sends the Law on Final Account of the Budget (pages 285 to 322 of the 2018 Budget related to debt reporting). Moreover, the PDA also sends detailed quarterly data to the Parliamentary Budget Office, for the preparation of a quarterly report for parliament members[55].

There is not a consolidated published Annual Borrowing Plan, but just an annual and a quarterly domestic debt issuance calendar, and broad guidelines and limitations on debt borrowing set in the Annual Budget Law. Article 2 of 2020 Budget Law defines a total debt borrowing ceiling for the year, with the following breakdowns: (i) income from securities issued in the domestic financial market in local and foreign currency; (ii) income from securities issued in the international financial market (Eurobond) in local and foreign currency; (iii) income from local and foreign borrowing (loans) from commercial and multilateral institutions and foreign governments; and (iv) income from sale of local financial assets. The information available in the auction calendars and in the Annual Budget law enables verifying consistency between the MTDS and the annual borrowing plan. However, this information is not consolidated and published under a single document, to facilitate stakeholders' understanding about annual borrowing needs and plan to meet them by the use of different debt instruments.

The requirements on the development, content and publication of the MTDS is fully met, and consistency with the approved strategy is verified.

Based on the analysis and supporting evidence, the score for the present dimension is A.

[55] http://pbk.rs/wp-content/uploads/2020/05/Analiza_javnog_duga_jan%E2%80%93mart_2020.pdf

PILLAR FOUR: Policy based fiscal strategy and budgeting

What does pillar IV measure? The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections**.**

Overall performance: key strengths and weaknesses

Macroeconomic forecasts for the budget year and two following years are prepared annually and updated once a year. Forecasts of key macroeconomic indicators are presented primarily in the Fiscal Strategy, but also in the annual budget documentation and the Government's Economic Reform Program,[56] and they are reviewed by the Fiscal Council. Fiscal Strategy includes fiscal forecasts for the three years, including revenue, expenditure and fiscal balance, and discusses the changes from the previous year's projections. Fiscal Strategy likewise includes three alternative macro-fiscal scenarios which are compared with baseline assumptions. Fiscal impact of revenue and major expenditure policy proposals is elaborated in the annual budget law and the Economic Reform Program, which is prepared for a -year period on a rolling basis.

The Fiscal Strategy is prepared annually and covers a three-year period on a rolling basis. The Fiscal Strategy includes time-bound and quantified fiscal goals and targets, with qualitative objectives and narratives for the period. However, reporting on the progress of implementation of the Fiscal Strategy and deviations from its objectives and targets is weak. The legislation prescribes that the Fiscal Strategy document includes an annex on achieved progress of the previous year's strategy, however such an annex was not included in practice and the main body of the strategy discussed only limited information about the progress and deviations.

Medium-term expenditure estimates and ceilings are prepared for the budget year and two following years and included in the Fiscal Strategy, however the ceilings are not subject to the government's approval. Expenditure estimates are presented in line with economic and administrative classification. Expenditure ceilings are determined at the level of direct budget beneficiaries. On the downside, subsequent medium-terms estimates do not explain deviations from previous year's expenditure estimates. In addition, strategies are not always operationalized through the budget, and the linkage of sector and institutional strategies with annual and medium-term expenditure proposals, is not always obvious.

There is a clear budget calendar prescribed by the Budget System Law, however different steps in the calendar were not respected in the assessed period, primarily reflecting a delay in preparation and adoption of the Fiscal Strategy. Budget proposals were submitted to the parliament relatively late, i.e. just over one month before the start of the fiscal year. However, the annual budget laws were adopted by the parliament in a timely manner before the start of the budget year, and the legislative scrutiny was adequate in terms of the scope and legislative procedures, rules for budget adjustments, and timeliness.

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of

[56] Since 2015, Serbia prepares its Economic Reform Program which is intended to prepare the country for its future participation in the EU's economic policy coordination procedures.

potential changes in economic circumstances. Indicator coverage is whole economy on dimension 14.1 and CG on dimensions 14.2. and 14.3. The scope is the last three completed fiscal years.

Indicator/Dimension	Score
PI-14. Macroeconomic and fiscal forecasting (M2)	**A**
14.1. Macroeconomic forecasts	A
14.2. Fiscal forecasts	B
14.3. Macro-fiscal sensitivity analysis	A

14.1. Macroeconomic forecasts

Macroeconomic forecasts are presented and discussed in the Fiscal Strategy as well as in the Economic Reform Program (ERP). In line with the Budget System Law, the macroeconomic forecasts are prepared annually in May/June as a basis for the formulation of the medium term macro-fiscal framework and setting of budget limits for the medium term. An updated version of the macroeconomic forecasts is prepared in the autumn and presented to the Parliament in October as part of the annual budget documentation (as assessed in PI-5). In the period 2017-19 the Fiscal Strategy was published only once annually, in October.

The macroeconomic forecasts cover the fiscal year and two following years in line with the medium-term fiscal and budgetary framework. The forecasts cover all main macroeconomic indicators including GDP growth, current account balance, exchange rates, inflation and interest rates. The assumptions behind the forecasts are presented and explained in some detail.

The preparation of macroeconomic forecasts is led by the Ministry of Finance with input from the Central Bank on exchange rates, interest rates and inflation. The macroeconomic forecasts are reviewed by the Fiscal Council, which provides and publishes an opinion on the Government's forecasts. The Government is not obliged to follow the opinion of the Fiscal Council, but should provide explanations in case it is not followed.

The Fiscal Strategy is closely related to the Economic Reform Program (ERP), which is submitted to the European Commission (EC) by end January each year. The ERP is aligned with the Fiscal Strategy in terms of the macroeconomic and fiscal forecasts and policy framework including supporting fiscal measures (Chapters 1 and 2) and provides additional detail on the structural reform agenda outlining public policies concerning infrastructure, sector reforms, private sector development and business environment, technology and innovation, trade integration, labor market and poverty alleviation policies (Chapter 3). The ERP is likewise independently reviewed by the EC and the European Central Bank.

Based on the analysis and supporting evidence, the score for the present dimension is A.

14.2. Fiscal forecasts

Based on the macroeconomic projections, the MoF prepares annual fiscal projections for the fiscal year and two following years. These projections are presented in different parts of the annual budget documentation as detailed below.

The Fiscal Strategy presents revenue projections for the fiscal year and two following years broken down by economic categories which include the major types of tax and non-tax revenues, including current revenues and grants. The document discusses the changes from the previous revenue estimates and explains the impact of revenue and expenditure policy changes. The Fiscal Strategy also presents projections for aggregate expenditure for the fiscal year and two following years broken down by economic categories, as well the projections of the primary and overall fiscal balances together with various structural adjustments.

The Budget Law itself contains detailed estimates by program, administrative and economic classifications, but only for the fiscal year, except for investment projects for which estimates are presented for the two following years as well.

The Budget Law is accompanied by a document titled “Program Information” which provides detailed performance information following the programmatic classification for the fiscal year and two following years (see PI-8.1 for details), but this information is not matched with the financial information and the document does not include any cost estimates. Another accompanying document entitled “Overview by Sector” provides a breakdown of the budget for the fiscal year and two outer years by 24 sectors corresponding to high-level functions. A further breakdown of the sector by program classification is also provided, but only for the fiscal year.

Even though the budget documentation includes some brief explanation of deviations from the planned and previous years’ executed budgets, it is not possible to identify changes in expenditure in individual years from their predecessors. It is also not clear from the documentation to what extent the new expenditure forecasts take their starting point from the previous year’s forecasts.

Based on the analysis and supporting evidence, the score for this dimension is B.

14.3. Macro-fiscal sensitivity analysis

This dimension assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and public debt.

The Section 4 of the revised Fiscal Strategy for 2020 (same as the strategies for previous years) discusses the baseline assumptions used for projected revenues and expenditures for the period 2020-2022 in some detail, including estimates for public debt level in the covered period. The section briefly elaborates on structural measures to improve the stability and sustainability of public finances based on the Economic Reform Program for the period 2019-2021.

The analysis is complemented by the description of baseline assumptions used to generate annual Debt/GDP forecasts up to 2027. Three alternative scenarios are then added to illustrate how this indicator would behave under different assumptions. Baseline and alternative fiscal forecasts scenarios are prepared and published in the Fiscal Strategy.

Hence, the score for the present dimension is A.

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals. The coverage is CG across dimensions and the scope is last three completed FYs in dimension 15.1 and the last completed FY (2019) in dimensions 15.2 and 15.3.

Indicator/Dimension	Score
PI-15. Fiscal strategy (M2)	**B**
15.1. Fiscal impact of policy proposals	B
15.2. Fiscal strategy adoption	A
15.3. Reporting on fiscal outcomes	C

15.1. Fiscal impact of policy proposals

Information about new expenditure proposals are systematically collected from DBBs in February/March as part of defining priority areas for financing for the upcoming budget. DBBs are requested to submit proposals for new spending and indicate the budgetary consequences for the fiscal year and two following years, including possible financing through savings and other measures, for themselves and their IBBs. For SSFs, their draft expenditure plans are approved by the Government and annexed to the annual budget proposal for parliamentary deliberation. Any proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years of the SSFs have to be aligned with the corresponding policies defined by the Government.

The new expenditure proposals adopted by the Government are built into the expenditure ceilings issued by the MoF in June and the macro-fiscal framework presented as part of the Fiscal Strategy. The fiscal impacts of new policy proposals on the expenditure side are described in the budget documentation for major policy initiatives, which cover a high percentage of all policy proposals in terms of value. In the revised Fiscal Strategy for 2020, as well as the explanatory note accompanying the budget law for 2020, for example, there is a description of two significant policy measures: an increase in the public sector salaries for various groups of public sector employees and a change in the methodology for indexation of pensions. However, fiscal impacts are not broken down by specific budget headings, economic or other classification.

Policy changes on the revenue side are described in detail including descriptions of major changes within individual revenue types, their assumptions and the effects on total revenues and fiscal balance. The explanations can to some extent be linked to changes in individual economic codes, although the description does not systematically show the impacts for individual budget headings and years.

In addition, the ERP provides a medium-term perspective of the fiscal impact of the proposed structural reform measures within the medium-term budget period. Since it covers the three-year period and is updated annually, the ERP also follows up on the implementation of structural reform measures from previous years.

The ERP which is being prepared for the period of three years, with the current one covering 2020-2022, explains the fiscal implications on revenue and expenditures for 22 policy reform measures for the period covered by the ERP. It includes a brief description of each measure, its implementation timetable (for the next three years), its potential impact on growth and competitiveness, and risks associated with the measure, as well as its estimated quantification and budgetary impact broken down by four main economic classification (wages, goods and services, subsidies and transfers, and capital expenditures.

Based on the analysis and supporting evidence, the score for this dimension is B.

15.2. Fiscal strategy adoption

The Fiscal Strategy is drafted annually by the MoF covering the fiscal year and two following years defining the macro-fiscal framework which sets the coordinates for the fiscal spending during this period. The Fiscal Strategy is endorsed by the MoF, adopted by the Government and finally sent to the Parliament's Committee for Finance and Budget for review of alignment of the draft strategy with legislative requirements and providing any suggestions to be incorporated in the revised Fiscal Strategy.

The Budget System Law specifies that the first draft of the Fiscal Strategy is published in June, and a revised version published and shared with the Parliament in October each year taking into account the updated macroeconomic and macro-fiscal developments and assumptions and comments received by the Fiscal Council. From 2015 to the date of the assessment, however, the Fiscal Strategy was published only once annually, in October. The 2020 Fiscal Strategy was published in the Official Gazette and the web page of the MoF.

The Fiscal Strategy includes time-bound and quantified fiscal goals and targets, with qualitative objectives and narratives, for the period covered. Quantifiable targets include the debt level, fiscal balance (deficit/surplus), aggregate expenditures and revenues for each of the years in the medium-term fiscal framework. These fiscal goals and targets reflect the general fiscal rules defined in the BSL, including that (i) the target annual fiscal deficit shall amount to 1% of GDP in the medium term; and (ii) the debt of the general government sector, excluding liabilities from restitution, shall not exceed 45% of GDP. There are additional objectives in the Fiscal Strategy for specific revenue or spending areas, for example the Fiscal Strategy for 2020-22 targets a significant expansion of general government capital spending. The Fiscal Strategy also outlines several structural reform measures for the medium-term period.

The Fiscal Strategy is closely related to another policy document of strategic importance - the ERP – that Serbia (like the other EU candidate and potential candidate countries) is required to submit to the European Commission no later than at the end of January each year. This policy document replicates the medium-term macro-economic and fiscal policy framework including supporting fiscal measures from the Fiscal Strategy and outlines a comprehensive structural reform agenda including their fiscal impacts.

Based on the analysis and supporting evidence, the score for the present dimension is A.

15.3. Reporting on fiscal outcomes

There is no stand-alone report published which elaborates on the progress made against the Fiscal Strategy from the previous year or explains the reasons for any deviations in objectives and targets set. The BSL makes it mandatory for the Fiscal Strategy to include an annex with a "Report on the Achieved Progress in the implementation of fiscal policy as defined by the Fiscal Strategy adopted in the previous fiscal year". Such an annex was not included in the Fiscal Strategy in the assessed period, although the main report embeds some explanations of deviation in the general sections outlining the macroeconomic and fiscal framework.

The annex of the ERP includes tables showing the actual fiscal developments compared with the objectives and targets from the previous program (which correspond to the objectives and targets in the Fiscal Strategy). The deviations shown in the tables are however not systematically explained in the annex or the main report.

There are internal reports from the MoF on the progress against objectives and targets in the Fiscal Strategy which are shared with Government on a regular basis. Such report were likewise prepared for the last completed fiscal year (2019).

While the ERP is shared with the National Assembly, it is not part of the annual budget documentation or shared at the same time as the annual budget so that the reporting against previous Fiscal Strategy and ERP can be taken into account in deliberating on the new Fiscal Strategy and program.

Hence, the score for the present dimension is C.

PI-16. Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. Coverage is BCG and the scope is the last budget submitted to the legislature (budget for 2020).

Indicator/Dimension	Score
PI-16. Medium-term perspective in expenditure budgeting (M2)	**D+**
16.1. Medium-term expenditure estimates	B
16.2. Medium-term expenditure ceilings	D
16.3. Alignment of strategic plans and medium-term budgets	C
16.4. Consistency of budgets with previous year's estimates	D

16.1. Medium-term expenditure estimates

As per the BSL, a three-year expenditure framework was introduced to improve the budget process and medium-term forecasting. As noted in the BSL, the Fiscal Strategy must contain, among others, medium-term expenditure framework of the Republic of Serbia budget, including total expenditures by budget beneficiaries for the next budget year and two subsequent budget years.

The Fiscal Strategy, the revised version of which is shared with the Parliament as part of the budget documentation, includes estimates of expenditures for the fiscal year and the two following years by 2-digit economic classification. Medium-term estimates covering the fiscal year and two following years and broken by 54 direct budget beneficiaries, corresponding to main administrative headings, are shared with the Parliament and published on the MoF website as a separate document.

The Budget Law itself contains detailed estimates by program, administrative and economic classifications, but only for the fiscal year, except for investment projects for which estimates are presented for the two following years as well.

The Budget Law is accompanied by a document titled "Program Information" providing detailed performance information following the programmatic classification for the fiscal year and two following years (see PI-8.1 for details), but this information is not matched with financial information and the document does not include any cost estimates. Another accompanying document entitled "Overview by Sector" provides a breakdown of the budget for the fiscal year and two out year by 24 sectors corresponding to high-level functions. A further breakdown of the sector by program classification is also provided, but only for the fiscal year.

Further details of the ceilings and estimates for both the fiscal year and two following years are collected through the financial plans submitted by direct budget beneficiaries and stored in the Budget Information System (BIS), but are not shared with the Parliament, except for the SSFs.

Based on the analysis and supporting evidence, the score for the present dimension is B.

16.2. Medium-term expenditure ceilings

Budget ceilings are issued in June every year ahead of the issuance of budget instructions to prepare detailed budget submissions for DBBs in July. The ceilings are prepared and issued by the MoF.

The ceilings cover the fiscal year and the two following years and are issued at the level of direct budget beneficiaries. There is some flexibility for budget users to decide on the distribution of funds within the ceiling as part of their budget submissions (financial plans), although sub-ceilings exist for certain groups of expenditures such as salaries.

Given the ceilings are issued ahead of the budget instructions they provide guidance to the preparation of the budget submissions by direct budget beneficiaries. The BIS prevents DBBs from submitting financial plans that amount to more than their respective ceilings, although DBBs can request additional funds. However, the ceilings are not subject to the government's approval.

Based on the analysis and supporting evidence, the score for the present dimension is D.

16.3. Alignment of strategic plans and medium-term budgets

Institution level medium term plans are still a relatively new phenomenon in Serbia. However, the Law on the Planning System requires the preparation of such plans and is gradually being implemented. So far, three institutions have developed and published their mid-term plans (Ministry of Public Administration and Local Self-Government MPALSG, Ministry of Health and the Public Policy Secretariat) with general support from the Public Policy Secretariat.

However, main policy areas in a majority of ministries are covered by sector strategies or other strategic plans adopted by the Government. A database managed by the Public Policy Secretariat included at the time of assessment 77 Strategies and 52 Programs, which cover most ministries.

A sampling of sector strategies reveals that the structure and level of detail in costing information varies. Some sector strategies provide detailed budget plans while others do not. Recurrent costs are not in all cases included and the strategies are generally not structured along the lines of the program budget included as part of the budget documentation, nor do they consistently refer to it. The program information included as part of the budget documentation in some cases refers to the relevant sector strategies.

Review of selected sample of strategic documents[57] covering the assessed period, and comparison with the related allocations in the annual budget for 2020, showed that in some cases the expenditure proposals are aligned with the strategic plans.

As part of the implementation of the Law on the Planning System, several steps have been taken to improve the quality of strategic planning and the consistency between various strategic documents. The Public Policy Secretariat has offered support to the preparation of institution level medium term

[57] Public Administration Reform Strategy, Public Financial Management Reform Program, Medium-term plans of the Ministry of Public Administration and Local Self-Government, Ministry of Health and the Public Policy Secretariat.

strategic plans in five more institutions – Ministry of Finance, Ministry of Culture, Ministry of Internal Affairs, Republic Geodetic Authority and National Employment Agency. A Unified Information System for Mid-term Plans is in advanced stages of preparation as well as further guidance on the costing of public policies. A Policy costing Manual has been completed and published on PPS website on the following link on July 29, 2020[58].

Based on the analysis and supporting evidence, the score for the present dimension is C.

16.4. Consistency of budgets with previous year's estimates

The Budget documents provide little information to explain changes between the current and previous medium-term budget. The Fiscal Strategy for 2020-22 provides some detail in explaining changes in revenues broken down by main revenue headings. There is also a brief explanation of the changes in the macro-fiscal program, including the overall changes in macroeconomic assumptions and developments during 2019 that are expected to impact on the new medium-term budget. However, the explanations are not broken down by budget headings and individual years and do not provide a comparison of individual years of the medium-term budget with its predecessor.

The explanatory note provided to Parliament alongside the Budget Law for 2020 explains assumptions behind the fiscal year budget but does not systematically address or explain changes since the previous budget.

Hence, the score for this dimension is D.

PI-17. Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The time period for Dimensions 17.1 and 17.2 is the last budget submitted to the legislature (Budget for the FY2020) and for Dimension 17.3 it is the last three completed fiscal years. The coverage is BCG.

Indicator/Dimension	Score
PI-17. Budget preparation process (M2)	**B**
17.1. Budget calendar	A
17.2. Guidance on budget preparation	C
17.3. Budget submission to the legislature	C

The timeline for preparation and adoption of the annual Budget Law is set forth in the Article 31 of the BSL.[59]

The budget preparation cycle starts with distribution of the instructions for development of the Priority Financing Areas (PFA) by the budget users. PFA practically represents an initial survey of the financing priorities for the following three fiscal years of all budget users. Their expenditure estimates are based on the limits communicated through the Budget Circular distributed for the previous year and the Fiscal Strategy which applies to the previous, current and next fiscal year. These estimates are aggregated to inform the medium-term expenditure perspective and are incorporated into the upcoming version of the Fiscal Strategy (i.e. valid for the current and following two fiscal years).

[58] https://rsjp.gov.rs/wp-content/uploads/Prirucnik-za-utvrdjivanje-troskova-javnih-politika-i-propisa.pdf
[59] (Official Gazette 54/2009, amended subsequently)

The second block of activities in the budget preparation process deals with preparation and adoption of the Fiscal Strategy, while the third and final set of activities starts with distribution of Budget Circular followed by submission of financial plans (i.e. draft budgets) of all budgetary users and finally adoption of the Budget Law. The Budget Circular is scheduled to be distributed by July 5, while the deadline for submission of draft budgets is September 1. This allows budgetary units about nine weeks to complete their estimates.

17.1. Budget calendar

The table below lists all the actions of the budget preparation process with the deadlines prescribed by the Budget System Law and the dates when these actions took place in case of the last budget submitted to the legislature (i.e. 2020 budget). Budget Circular is scheduled to be distributed by 5th of July, while the deadline for submission of draft budgets is 1st of September which is a period of about 9 weeks. In 2019, the circular was distributed to all budgetary users on 8th of July implying that all budgetary users were given sufficient time to submit their draft budgets.

The budget calendar is largely adhered to. A notable exception are the activities related to preparation and adoption of the Fiscal Strategy. Throughout 2019 there was a one-month lag in submission of the Fiscal Strategy to the Fiscal Council for opinion, and that delay was carried throughout the entire year until the revised Fiscal Strategy was adopted. This delay did not affect adoption of the Budget Law which took place on November 28, more than two weeks before the deadline.

Table 17.1 Budget calendar for the FY 2020 budget

Activity	Planned date	Actual date	Respected
Minister distributes the Instruction for preparation of PAF	15.2.2019	14.2.2019	Y
Budget users submit their PAF documents along with last year's budget performance report	15.3.2019	15.3.2019	Y
Minister submits preliminary draft of Fiscal Strategy to the GoS for consideration	15.4.2019	n/a	n/a*
GoS grants approval to the Minister to prepare the Fiscal Strategy	25.4.2019	n/a	n/a*
Minister submits draft of the Fiscal Strategy to the Fiscal Council	30.4.2019	6.6.2019	N
Fiscal Council issues opinion about the draft Fiscal Strategy	15.5.2019	24.6.2019	N
Minister submits the draft Fiscal Strategy to GoS for adoption	1.6.2019	25.6.2019	N
GoS adopts the Fiscal Strategy and submits it to the Parliamentary Committee for Finance and Budget	15.6.2019	25.6.2019	Y
The Committee for Finance and Budget submits their comments and recommendations on Fiscal Strategy to GoS	30.6.2019	n/a	n/a*
Minister distributes the Budget Circular to all budget users and MSIIs	5.7.2019	8.7.2019	Y
Minister distributes the Budget Circular to the local self-governments and distributes the Fiscal Strategy to MSIIs	5.7.2019	9.7.2019	Y
Budget users and MSIIs submit their financial plans (i.e. draft budgets) and	1.9.2019	1.9.2019	Y

GoS adopts the revised Fiscal Strategy (in line with suggestions formulated by the Parliament)	1.10.2019	31.10.2019	N
GoS submits the revised Fiscal Strategy to the Committee for Finance and Budget	5.10.2019	4.11.2019	N
Minister submits the preliminary draft Budget Law to GoS	15.10.2019	30.10.2019	Y
GoS adopts the draft Budget Law and submits it to the Parliament	1.11.2019	2.11.2019	Y
Parliament adopts the Budget Law	15.12.2019	28.11.2019	Y

**there is no evidence that these activities were carried out during 2019*
Source: PEFA assessment team.

Based on the assessment performed and supporting evidence, the score for this dimension is A.

17.2. Guidance on budget preparation

Budget preparation is guided by the Fiscal Strategy and the Budget Circular which was issued in the second week of July in FY2020. The Budget Circular is distributed to all budgetary users and contains a solid overview of the analytical background used for development of the budgetary framework for the following year. Specifically, it includes a discussion of the macro-fiscal trends from global and local perspective and the list of estimates of all the key aggregates (e.g., growth, inflation, trade, consumption, investment, etc.) which define the budgetary landscape.

The Circular is a document issued by the MoF. It is based on the input from the Fiscal Strategy document which is adopted by the Government, but the Circular and the limits that follow from it are not Government approved. The Circular includes specific limits defined by headings (i.e. large budgetary users – mostly ministries). The Circular allows some flexibility on how these limits can be distributed within the heading (i.e. within the institutions which belong to the same group[60]). The limits are formulated by the MoF based on the framework provided by the Fiscal Strategy and the trend implied by past budgets. The users cannot submit draft budgets in excess of the limits, but are allowed to file a request for modification of their limit. During the last completed fiscal year the Government considered the expenditure limits and made related decisions only at the level of formulation of the draft Budget Law (i.e. after the budget users submitted their budget proposals)[61].

There are no quantitative limits attached to particular economic classifications except for wages and wage-related expenditures (i.e. group 41)[62]. Limits related to other expenditure are either determined at the aggregate (i.e. budget) level or provided in narrative form. It is important to note that the capital budget is prepared together with the current budget and that the Circular refers equally to both segments. Recent public investment management reforms introduced a new process of capital project inception and budgeting together with new project proposal forms which are distributed as an annex to the Budget Circular. Finally, the entire budget preparation process is carried out within a corresponding internal purpose-built information system (BIS)[63].

[60] For instance, Ministry of Agriculture heading includes institutions such as Directorate for Water, Forests Administration and similar. Limits are defined for this group of institutions as a whole, not for each one of them individually.
[61] In previous years, limits were defined in the Fiscal Strategy which was approved by the Government. The limits formulated in the Fiscal Strategy were transposed to the Budget Circular. This practice was abandoned several years ago.
[62] Wage related limits not communicated through the Circular itself but through budget preparation and management information system (BIS).
[63] BIS is a full-fledge information system which is developed and maintained using internal resources of the Ministry of Finance. It is able to support the entire budget preparation process. The interoperability of this system and other

Total expenditure within the adopted Budget Law for 2020 was at RSD 1.25 trillion while the sum of limits prescribed by the Circular was RSD 1.23 trillion which the MoF represents as a tolerable deviation.

Based on the assessment performed and supporting evidence, the score for this dimension is C.

17.3. Budget submission to the legislature

Draft budget laws for the last three completed fiscal years were sent to the Parliament one month before the start of the next fiscal year in 2017, thirty-nine days before the start of the next fiscal year in 2018 and little short of two months before in 2019. The dates of submission of the budget laws for three assessed years are shown in the table below. The Government has not submitted the draft Budget Law to the Parliament two months before the start of the next fiscal year in any of the last three completed fiscal years. However, the draft Budget Laws reached the legislature more than one month before the start of the next fiscal year in all three years.

Table 17.3: Actual dates of budget submission for the last three completed fiscal years

Fiscal year	Actual date of submission
2018	1 December 2017
2019	23 November 2019
2020	4 November 2019

Based on the assessment performed and supporting evidence, the score for this dimension is C.

PI-18. Legislative scrutiny of budgets

The indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. Coverage is BCG and the reference period in this indicator are the last three completed fiscal years for dimension 18.3 and the last completed fiscal year for dimensions 18.1, 18.2 and 18.4.

Indicator/Dimension	Score
PI-18. Legislative scrutiny of budgets (M1)	**B+**
18.1. Scope of budget scrutiny	A
18.2. Legislative procedures for budget scrutiny	B
18.3. Timing of budget approval	A
18.4. Rules for budget adjustments by the executive	A

The legal basis for legislative scrutiny of the annual budget law and in-year amendments by the National Assembly (NA) is contained in the BSL and the Rules of Procedure of the National Assembly. The National Assembly is constitutionally responsible for adopting the Budget and the Final Account of the Budget of the Republic of Serbia, upon reception of respective proposals from the Government, in accordance with further regulations outlined in the Assembly's Rules of Procedure as specified in the Law on National Assembly.

The National Assembly has a 17-member standing body for budget and finances, the Committee on Finance, State Budget and Control of Public Expenditure (the Committee). The duties of the Committee are specified in Articles 55, 171-178 of the Rules of Procedure, and include deliberation on proposed laws in the domain of the Republican budget, final accounts of the budget, and financial plans and final accounts of mandatory social insurance organizations. The Committee is also charged with monitoring and reporting to the Assembly on the execution of the Republican budget (BCG) and accompanying financial plans in terms of legality, effectiveness and efficiency in public spending. The Parliamentary Budget Office (PBO), established in 2015 with external support, is in place with four staff who provide additional analyses in support of legislative deliberation of the budget proposal (original and supplementary), the final account and budget execution across different levels of government, public debt and other fiscal topics. As of the time of the assessment, the PBO was not formally integrated in the National Assembly's organizational structure. Fiscal Council further feeds the legislative review with independent analyses of the Fiscal Strategy and proposal of the annual Budget Law, proposal of the Law on the Final Account and other legislative proposals.

18.1. Scope of budget scrutiny

The BSL regulates the procedure and the calendar for presentation of budget-related documents to the National Assembly. Under this Law,[64] as a part of the budget adoption procedure, the Government is required to submit the following documents to the National Assembly:[65]

- Fiscal Strategy, by June 5
- Revised Fiscal Strategy, by October 5
- Proposal of the Law on Budget of Republic of Serbia, by November 1.

The Fiscal Strategy should contain the objectives and guidelines of the Government's economic and fiscal policy for the medium-term covered by the Strategy, including an overview of priority financing areas and the medium-term expenditure framework of the budget of Republic of Serbia, covering the next budget year and the subsequent two years (see PI-15.2 for details).[66]

Any comments and recommendations about the proposal of the Fiscal Strategy made by the National Assembly need to be reflected in the revised Fiscal Strategy which should be resubmitted to the National Assembly before the submission of the proposal of the next year's annual budget. The Revised Fiscal Strategy should an integral part of the materials accompanying the budget proposal, which itself presents a detailed disaggregation of revenues and expenditures. The Secretariat of the Committee on Finance, State Budget and Control of Public Spending noted that all of the documents listed above are subject to a detailed legislative review. The practice was upheld for the 2019 Budget proposal as evidenced in the minutes of the National Assembly.

The second important stage of legislative review of budget documents consists of the review of the in-year reports on budget execution (as discussed under PI-28). Legislative review likewise includes the review and scrutiny of any in-year supplementary budget proposal (budget rebalance). The final vital stage of legislative review is discussion and adoption of the proposal of the Law on Final Account of the Budget of Republic in Serbia, submitted by the Government. In the period under review, the Government did not regularly submit the proposal of the Law to the National Assembly within the BSL-prescribed deadline. Instead, the National Assembly approved the proposals of the laws on final account for the period 2008-2018 (i.e. for a period of 11 years) in a single sitting.

Based on the practices of scrutiny over the annual budget proposal as assessed under this dimension, the score is A.

[64] Article 31, BSL.
[65] Actual dates in 2019 for the FY 2020 budget proposal are presented in Table 17.1
[66] Article 27d, BSL.

18.2. Legislative procedures for budget scrutiny

The procedure for legislative review is prescribed in detail in the National Assembly's Rules of Procedure. The National Assembly is bound by the Budget System Law to adopt the Budget of Republic of Serbia by December 15. The proposal of the Law is initially discussed in the Committee, in principle and in detail.[67] At the time of the PEFA assessment, the Committee was supported by the Committee Secretary, four advisers and one clerk—and, as necessary, by the Assistant General Secretary for Legislation.

The Rules of Procedure foresee the possibility for line committees (e.g. health, education) to submit initiatives for amendments to the Committee on Finance, State Budget and Control of Public Expenditure. For the 2019 Budget Law proposal, the document was deliberated by four other line committees that reported back to the Committee (for budget rebalance for the same year, by seven line committees). In addition, amendments of the proposal may be filed by any interested stakeholder, on paper or electronically. Those are collected by the Committee Secretariat and submitted to the Committee and the MoF for opinion since the amendments may formally be filled either by the official sponsor of the legislation (MoF) or the Committee in accordance with Article 157 of the Rules of Procedure. For the 2019 Budget Law proposal, there were 177 amendments filed by individual members of the Parliament and 2 amendments filled by the Committee.

Subsequently, the proposal of the Law is discussed in the National Assembly, both in principle and in detail where it may be subject to further amendments by the legislature. The same procedures apply for any budget rebalance proposed during the year. Negotiation procedures in the National Assembly mainly include consultations with the MoF which is effectively defending the annual budget proposal as a whole.

The current setup offers two opportunities for public participation in the budget proposal procedure. In the first instance, while the Law on Budget is in draft stage, the Government and the responsible ministry[68] may organize public consultations and invite all interested parties to propose their suggestions. Neither the initial draft of the Law on Budget nor the subsequent rebalancing draft law were subject to public consultations. In the second instance, once the Government has submitted the proposal of the Budget Law to the NA, the Committee may organize a public hearing to collect information, professional opinions and clarification of the proposals.[69] No public hearings have been held for the proposal of the Budget Law in 2019.

Based on the supporting evidence, the score for the preset dimension is B.

[67] The Committee carries out the procedures foreseen in Articles 171-176 of the Rules of Procedure.
[68] In line with the Government Rules of Procedure,
[69] in line with Article 83 of the NA Rules of Procedure. For more details on public hearings related to public finance held, please see PI-31.

18.3. Timing of budget approval

In the period covered by the assessment, the Government submitted the annual budget proposal to the National Assembly before the start of the respective fiscal year. For each of the three fiscal years under review, the National Assembly approved the annual budget law before the start of the actual fiscal year.

Table 18.3: Actual dates of budget approval for the last three completed fiscal years

Fiscal year	Actual date of approval
2017	10 December 2016
2018	14 December 2017
2019	7 December 2018

Source: National Assembly, the Committee on Finance, State Budget and Control of Public Expenditure

Based on the available evidence, the score for the present dimension is A.

18.4. Rules for budget adjustments by the executive

There are clear legal and procedural rules in the BSL that govern in-year budget amendments by the executive without ex-ante approval by the legislature. [70]

- Reallocations of in-year appropriations of no more than 10 percent of the annual appropriation approved for a particular type of expenditure or expense financed from the general budget are decided by the DBB, with prior approval of the MoF.[71]
- Changes in the overall appropriations which result from organizational changes within the government, changes in the volume of operations or competencies of specific institutions are decided by the Government.[72]

All other changes to the budget exceeding the thresholds above, must be presented by the Government to the parliament. In the last completed fiscal year (2019), the government proposed one supplementary budget (October) that followed a clear and predictable approval procedure in the National Assembly. Regularity (propriety in following the rules for budget adjustment by the executive) have not been singled out in the SAO Annual Report for 2019.

Based on the available information, the score for the present dimension is A.

[70] As defined by article 61, BSL (in-year changes in appropriations).

[71] The rules apply for general budget revenue. For other sources of revenue, DBBs may reallocate funds without restrictions. DBBs must advise the MoF with request for increase of appropriation for funds made available in-year that had not been known at the time of passing of the budget.

[72] Budgetary reserve is used to (i) provide supplementary funding, e.g. if a new budgetary institution is established, or (ii) store the excessive funds, e.g. if a budgetary institution is abolished and the funded activities are not expected to continue.

PILLAR FIVE: Predictability and control in budget execution

What does pillar V measure? The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Overall performance: key strengths and weaknesses

On the revenue administration side, revenue agencies are promoting voluntary compliance through dissemination of comprehensive and timely information to taxpayers. They use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue. Staffing issues in Serbian Tax Administration (STA) affected the implementation of its audit plan. Despite relatively efficient collection of tax arrears under 12 moths, overall stock of tax arrears is still considered substantial. Accounting for revenue continues to be satisfactory.

All BCG cash balance are consolidated daily through the TSA and reported monthly. Cash management practices are supported by a cash flow forecast, prepared annually and updated monthly on the basis of the actual inflows and outflows. Cash management is supported by means of beneficiary-submitted spending plans and Treasury Administration-approved quotas that effectively restrict the amount of funds that budget beneficiaries may pay in the coming month. In 2019, there were no significant in-year adjustments to budget allocations and those that did take place were carried out in a transparent and predictable manner.

On the payroll side, the coverage of the centralized payroll operated by the Treasury Administration remains unchanged relative to the previous assessment with approximately 125.000 civil servants and employees. The plans to implement a more comprehensive registry of public sector employees have been progressively delayed and this broader registry is still not used in practice. Under the current system, the payroll is supported by full documentation for all changes made to personnel records and checked against the previous month's payroll data with reported rare retroactive adjustments. Robust internal control system to protect data integrity is in place, including a generated audit trail on access and changes to records. Payroll operations are audited, albeit partially.

Public procurement framework in 2019 ensured that competitive methods accounted for 84.10% of the total value of contracts. Transparency of public procurement procedures is high, with detailed information available through the Public Procurement Office (PPO) portal. The portal allows the interested parties to access up-to-date procurement legislation, procurement plans and notices, and contract awards, as well as the annual procurement statistics. The procurement complaints mechanism meets 4 out of 6 criteria foreseen under the PEFA methodology, noting issues with fees charged to file complaints and timeliness in the issuance of complaint decisions.

Treasury Administration-operated BES provides for appropriate segregation of duties in the processes of registration of contracted commitment and payment, with the responsibilities clearly laid down in the Rulebook on Budget Execution System. For other CG entities, clear rules prescribed by the MoF CHS on segregation of duties as a part of public internal financial control apply. Payment is approved only for commitments within the available budget appropriation and for which there is actual cash availability as foreseen in the assigned quota. No hard ex-ante controls are in place to ensure that budget beneficiaries do not enter into legal commitments above the approved appropriation.[73] Ultimately, the obligation rests with the head of the budget beneficiary to ensure legal, purposeful,

[73] Article 56, BSL.

economic and efficient use of the budget appropriations[74] within the limits set in the annual budget law.[75] This is supported by concept of managerial accountability that is considered as work in progress.

Payments are executed in IBIS by the Treasury Administration based on submitted payment requests in accordance with the rules and procedures, where exceptions must be duly justified and authorized in advance. Timeliness of CG payments is monitored through the Registry of Settlement of Liabilities and Centralized Registry of Invoice. Reported stock of CG arrears appears contained but the data for assessment purposes over the last three FYs was limited. Information on arrears is published weekly but only presents the total stock as of a given date. Budget inspection function within the MoF has the mandate to examine and sanction irregularities and illegal proceedings.

Decentralized internal audit function, established by and accountable to management of CG entities, is operational for central government entities representing nearly 90% of total public funds (revenue and expenditure alike, for the assessed sample). Internal audit activities follow strategic and annual audit plans (where around 85% of the planned engagements are completed) and are focused on evaluations of the adequacy and effectiveness of internal controls. Self-reported data from IAUs indicate partially timely follow up of internal audit findings by management with about 74% of implemented recommendations on average in the last three years for the organizations in the sample. Data disaggregated by institution suggest room for improvement of management response in individual institutions.

PI-19. Revenue administration

This indicator covers the administration of all types of tax and non-tax revenue for central government. It assesses the procedures used to collect and monitor central government revenues. The assessment period for dimensions 19.1 and 19.2 is at the time of assessment. For dimensions 19.3 and 19.4, the relevant scope is the last completed fiscal year (FY 2019). The coverage is CG.

Indicator/Dimension	Score
PI-19. Revenue administration (M2)	**B**
19.1. Rights and obligations for revenue measures	A
19.2. Revenue risk management	A
19.3. Revenue audit and investigation	C
19.4. Revenue arrears monitoring	D

Overall revenue policy is managed by the MoF's Sectors for Fiscal System and for Customs System and Policy, while the Tax Administration (TA) and the Customs Administration of Serbia (CAS) administer and collect all principal tax revenue streams (including VAT, CIT, PIT, customs, excise taxes) and mandatory social security contributions (SSC). Together, the TA and the CAS account for more than 86.6 percent of total central government revenues collected and all of central government tax revenues and SSC. A limited number of other entities have the mandate to raise most of the non-tax revenues that are collected in the form of charges and fees. The table below presents the categories of CG tax and non-tax revenues in Serbia and the responsibilities assigned for their collection.

[74] Article 71, BSL.
[75] Article 54, BSL.

Table 19.1. CG revenue categories, collecting agencies and annual collection for 2019

Category of CG revenue	Collecting entity	Collected revenue Amount (RSD, million)	Percent of total
Taxes & SSC	**TA and CAS**	**1,779,548**	**86.6**
Taxes	TA and CAS	1,103,672	53.7
Personal income tax[76]	*TA*	*69,054*	*3.4*
Corporate income tax [77]	*TA*	*115,982*	*5.6*
Value added tax	*TA and CAS*	*550,563*	*26.8*
Excises	*TA and CAS*	*306,546*	*14.9*
Customs	*CAS*	*48,093*	*2.3*
Other tax revenue	*TA*	*13,435*	*0.7*
Social Security Contributions	TA	675,876	32.9
Other CG revenue (includes EBU revenues of 39.44 billion, revenues of SSF other than contributions of 11.12 billion, and non-tax revenues and receipts from sale of assets of 209.34 billion)	**Other**	**259,904**	**12.6**
Donations	**Other**	**15,344**	**0.7**
Total		**2,054,796**	**100**

Source: Assessment team, based on information reported in the Final Account for FY 2019

Revenue administration is subject to a comprehensive legal framework that specifies the roles and responsibilities of the revenue collecting entities and payers. Separate legislation is in place for tax administration, customs administration, administrative procedures (general, tax and customs), and audit, alongside specific legislation for all taxes and social security contributions.

Tax administration reforms have been a priority agenda for the Government since 2015, when the Tax Administration Transformation Program (TATP) 2015–2020 was formulated and adopted by the Government. Tax administration is as a priority reform area in the Government's Economic Reform Program for 2020–2022 and the Public Financial Management Reform Program for 2016–2020. The TATP's three strategic goals are: enhancement of the efficiency and effectiveness of core business processes and increase of tax collection; improvement in the quality of services and reduction of compliance costs; and the establishment of modern infrastructure and work environment. Since 2015 a number of organizational and operational reforms have been implemented in the TA, including branch network optimization and the introduction of mandatory electronic filling for all major tax streams.

19.1. Rights and obligations for revenue measures

Two main revenue collecting agencies, the TA and the CAS, maintain a variety of physical and on-line communication channels to provide timely information about the rights and obligations of individual payers. Both administrations maintain a physical presence through a network of regional and local offices outside of headquarters. The TA has 37 local branch offices and a Large taxpayer's office (LTO)

[76] Amount of collected Personal Income Tax provided (PIT) in this table does not include portion of the PIT that is being transferred to subnational levels of government (municipalities and Autonomous Province of Vojvodina) and is not included in the CG budget.
[77] Amount of collected Corporate Income Tax (CIT) provided in this table does not include portion of the CIT that is being transferred to Autonomous Province of Vojvodina and is not included in the CG budget.

dealing with core tax issues (VAT, PIT, CIT, excise tax) and 76 local branch offices dealing with non-core activities.[78] The CAS has 15 customs clearance offices. Both agencies undertake regular outreach efforts, as well as campaigns on social networks, electronic media and in print. In addition, both administrations interact with taxpayers by answering queries submitted online, over the phone, or in writing. Detailed statistics are publicly reported, with annual figures disaggregated by type of service provided, revenue stream, and payer segment served. Web pages of both administrations included on-line access to all guidance and forms, brochures and leaflets, a guidebook, and series of frequently asked questions.

Beyond data dissemination, both administrations continue to develop online services for registration and filing of tax returns and payments, thus further reducing associated transaction costs and mitigating the risk of potential discretionary treatment. In the CAS, almost all customs declarations (99.94 percent) in 2019 were filed electronically. In the TA, electronic filling of tax returns for all major taxes is mandatory and in 2019, 98 percent of collected tax revenue was reported electronically. TA offers service to taxpayers that are not able to file their returns electronically on their own, requests for VAT and other tax refunds, as well as access to individual registration data and taxpayers' individual tax file.

In terms of redress procedures, all decisions of the TA and CAS may be appealed to a second-instance body in the Sector for Second-instance Procedure for Tax and Customs in the MoF. Decisions of the second-instance body can be further appealed in front of the Administrative Court in administrative dispute. Information about the available legal remedy is an integral part of each decision issued to payers by the revenue collecting agencies.

Information provided by the revenue collecting entities covers notifications, instructions, and procedures for registration, declaration and payment, customized for different revenue streams and taxpayer segments.

Based on the analysis and supporting evidence, the score for the present dimension is A.

19.2. Revenue risk management

In the TA, risk analysis is conducted on strategic and operational level. On the strategic level, Compliance improvement plan is prepared by the Strategic Risk Department and adopted by the Compliance Risk Management Committee. The Compliance improvement plan is operationalized by the Annual Tax Control Plan which results in operational control plans and the selection of taxpayers for control. On the operational level, departments for operational risks in charge for selecting taxpayers for control are located in Audit, Large Taxpayer's Office (LTO) and the Tax Police, while the Collection Department has its risk analysis unit in charge for managing risk related to tax collection. The compliance risk management approach applied by the TA covers all core taxes[79] (PIT, CIT, VAT) and SSC and taxpayers. The compliance risk register exists in the Large Taxpayer's Office.

In the CAS, the Risk Analysis and Management Department has been operating within the Sector for Control of the Application of Customs Regulations since 2005 and includes the Group for Analysis and Direction of Controls and the Department for Regional Risk Management. The Risk Analysis and

[78] As part of the modernization process, the TA placed all non-core activities into a separate unit – Department for non-core activities. This Department is in charge for collection property transfer tax, inheritance and gift tax and tax on usage of certain goods (such as guns or motor vehicles) and some other activities that are not related to revenue collection such as property valuation or software legality. Revenue collected by this department in 2019 was less than 1% of total CG revenue collected.

[79] Core taxes, including SSC, represent more than 98 percent of revenue collected by the STA.

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

Risk management in CAS is a cyclical process that begins with the analysis and evaluation of available information, on the basis of which appropriate decisions are made and appropriate action is taken (creation of risk criteria / profiles). After the evaluation of the control results, the existing criteria / profiles are modified / extended or deleted.

The compliance risk management approach applied by the CAS covers all taxes collected (VAT, Excise and Customs) and taxpayers. The CAS does not have currently a compliance risk register and its development is envisaged by the Risk management development program 2020-2024.

Risk management processes in both administrations are comprehensive, structured and systematic and they cover all categories of revenue and taxpayers. Both agencies apply diverse risk mitigation measures such as audits, post clearance audits, investigations, transfer pricing controls, and public outreach.

Based on the analysis and supporting evidence, the score for the present dimension is A.

19.3. Revenue audit and investigation

TA undertakes audits and investigations on the basis of a documented annual audit plan which is defined in line with the Compliance Improvement Plan. Until 2018, TA had annual compliance improvement plans and as of 2019, the compliance plan covers two years. The 2019 Compliance Improvement Plan includes planned mitigation measures related to all revenue types, key payer segments and risks associated with the main obligation areas.

TA has been preparing annual audit plans since 2010, and since 2018 they have been publicly accessible on the TA web site. Information on execution of planned audits is accessible to the public on the TA web site. In 2019, the TA completed most of planned audits (81.27 percent). This is an improvement compared to 2018 when TA completed only 61.1 percent of planned audits. As per information provided by the TA, the main reason for not implementing the audit plan fully, was the reduction of number of tax auditors due to their retirement and inability to replace them due to the government wide hiring freeze (in place since 2014). In addition, TA has a separate organizational unit – Tax Police with a mandate to detect and investigate tax related criminal offences. Tax police acts in pre-investigation procedure under the direction of a public prosecutor. In 2019, the Tax Police worked on a total of 4,650 cases (2,420 opened before 2019 and 2,230 opened during 2019) of which 2,523 were closed in 2019.

CAS Department for post clearance control undertakes its controls on the basis of an annual control plan. The plan relies on the optimal use of resources (personnel, material, financial), the optimal use of time, and is based on risk analysis. There is no compliance improvement plan. The Annual control plan is not publicly available. In 2019, the CAS planned for 396 post clearance controls and completed 469, delivering 118 percent relative to the Plan. Also, it completed 170 investigative controls.

Table 19. 2. Revenue audits and investigations planned and carried out in the TA and CAS in 2019

Type of revenue audit, by revenue stream	Total planned	Total carried out	Percent completed
Number of comprehensive audits (TA)	2,598	2,413	92.88
Number of audits of tax refunds and credits (TA)	647	489	75.58
Number of audits of turnover reporting and registration of taxpayers (TA)	4,500	3,392	75.38
Number of post clearance audits (CAS)	396	469	118.43
Total	**8,141**	**6,763**	**83.07**

Source: STA and CAS

The TA which in 2019 collected 60 percent (majority) of government revenue undertakes audits and fraud investigations using compliance improvement plan completed most of planned audits and investigations.

Hence, the score for the present dimension is C.

19.4. Revenue arrears monitoring

In 2019 CAS reported RSD 15,577 million of revenue arrears (1.3 percent of total revenue arrears), while in the same period, the STA reported RSD 1,159,975 million (98.7 percent of total revenue arrears).

Table 19.3. CG tax and SSC arrears stock and age profile in 2019 (RSD, million)

No.	Central government tax arrears stock and age profile	
1	**Total CG revenue collections**	**2,054,796**
2	**Total stock of tax arrears at end of the fiscal year**	**1,175,552**
2.1	TA arrears at the end of fiscal year	1,159,975
2.2	CAS arrears at the end of fiscal year	15,577
3	**Share of tax arrears in the total revenue collections (2/1, percentage)**	**57.2**
4	**Tax arrears older than 12 months**	**1,141,088**
4.1	TA	1,135,078
4.2	CAS	6,010
5	**Share of tax arrears older than 12 months in the total arrears (4/2, percentage)**	**97.06**

Source: TA and CAS data generated for the needs of the PEFA assessment (October 2020).

Over the past five years, the TA has focused on improving the efficiency of current revenue collection with the aim of reducing the emergence of new arrears. The amount of arrears that is less than 12 months old is 2.15 percent of the total amount of arrears to the TA and it includes arrears under the appeal and debt for which a deferral of payment of tax debt was granted. Significant amount of arrears is classified as uncollectable (57.2 percent). The TA is in the process of transferring uncollectible arrears to off-balance sheet records. A certain part of arrears that are classified as collectible is not actually collectible or is very difficult to collect, but due to legal restrictions it is not possible to transfer them to off-balance sheet records. The definition of tax debt is determined by the law and records are kept on each payment account for the appropriate public revenue. By aggregating data by payment accounts, appropriate subgroups of accounts are created (PIT, CIT, VAT, Excise, etc.).

Monitoring of arrears is done for analytical accounts, types of tax revenue streams and taxpayers. Information on the status of tax arrears is reliable and is updated daily. TA conducts regular and enforced collection procedures, as well as procedures for securing collection such as pledge or mortgage, based on the Law on Tax Procedure and Tax Administration. In the process of debt management, the TA issues directives and other instructions that provide organizational units with guidelines for debt management. Typically, reports are compiled daily and monthly in order to monitor trends in the debt situation and react to observed deviations in collection.

Based on the analysis and supporting evidence, the score for the present dimension is D.

PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government. Coverage of the indicator is at the time of assessment, and the scope is central government.

Indicator/Dimension	Score
PI-20. Accounting for revenue	**A**
20.1. Information on revenue collections	A
20.2. Transfer of revenue collections	A
20.3. Revenue accounts reconciliation	A

The procedural framework for collection of public revenues in Serbia is regulated by the Budget System Law[80] and several bylaws – Rulebook on conditions and manner for maintaining public revenue accounts and allocation of funds on those accounts[81] and Decision on form, content and mode of usage of payment order templates in dinars[82] The Rulebook defines the accounts to which payment of public revenues specified by the law and other regulations is to be made (as sub-accounts of the system of consolidated treasury account), conditions and manner of keeping accounts for payment of public revenues, as well as the distribution of funds from those accounts, with the Treasury Administration.

The Consolidated Treasury Account is used for public revenues collection and for making allocations for respective beneficiaries such as the CG budget, SNG budgets, and institutions entitled to receive public funds in line with the law. Transaction accounts are analytically systematized by type and form of fiscal obligation, which ensures a clear presentation of reports by structure and type of collected revenues in the revenue collecting agencies and the State Treasury. There is a specific sub-account for each type of tax to ensure the information required for the recording of tax receipts in the Treasury Main Ledger and the reconciliation of tax liability in revenue collecting entities by payer and type of tax is disaggregated.

[80] Official Gazette of the Republic of Serbia numbers. 16/16…149/20.
[81] Official Gazette of the Republic of Serbia numbers. 54/09…/19. *(Pravilnik o uslovima i načinu vođenja računa za uplatu javnih prihoda i raspored sredstava sa tih računa*)
[82] Official Gazette of the Republic of Serbia nos. 55/15,78/15,82/17. *(Odluka o obliku, sadržini i načinu korišćenja obrazaca platnih naloga za izvršenje platnih transakcija u dinarima).*

20.1. Information on revenue collections

Since the collection of public revenues is done through a consolidated treasury account, information on revenue collected is available to the Ministry of Finance on a daily basis. The TA receives from the Treasury Administration, on a daily basis, data on collection by groups of public revenues, and on a monthly basis data on payments of public revenues on all individual revenue accounts. The TA receives collection data daily (for the previous day), while the CAS receives updates on payments every 10 minutes. Each payment of public revenue has a mandatory identifying reference which is in most cases tax identification number (for legal entities) or unique personal identification number (for natural persons). This enables verifying the source of payment. The Ministry of Finance issues on a monthly basis publicly available Bulletin of Public Finances, which comprehensively reports on revenues (disaggregated by revenue type) and expenditures in the previous months and cumulatively for the current year, as well as on other relevant issues such as public debt, economic trends, price movements (inflation - deflation), etc.

To evidence materiality for score A, in addition to 86.6 percent of CG revenue from taxes and social contributions, at least additional 73 billion (or 3,7 percent)[83] of non-tax revenues reported in the Final Account (as shown in category Other CG revenue in Table 19.1) are subject to the same requirements described above relevant for tax revenues. **Based on the analysis and supporting evidence, the score for the present dimension is A.**

20.2. Transfer of revenue collections

Payments of public revenues are made through payment service providers (commercial banks or other financial institutions with license for providing payment services in Serbia) either in cash or via wire transfer to the relevant Treasury Administration-controlled account. In limited number of cases (property taxes (annual property tax, transfer tax and gift and inheritance tax), PIT on income from agriculture and forestry, annual PIT, motor vehicles transfer tax and SSC for farmers) it is possible to pay taxes directly to the Treasury Administration in cash.

Based on the analysis and supporting evidence, the score for the present dimension is A.

20.3. Revenue accounts reconciliation

The reconciliation of data between the Treasury Administration and the revenue agencies is done daily. Information received from the Treasury Administration on payments of public revenues to treasury accounts under the jurisdiction of revenue agencies are processed and automatically reconciled with the corresponding tax or customs debt.

Collecting entity	Revenue category	Frequency	Type of reconciled data (Y/N):		
			Assessments	Collections	Arrears
TA CAS	See table above	Daily	Yes	Yes	Yes

Source: TA, CAS.

Based on the analysis and supporting evidence, the score for the present dimension is A.

[83] Categories of administrative fees (economic code 742), revenues from sales of goods and services (742), fines (743) and other regular non-tax revenue (714, 745, 73).

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. The coverage is BCG and the scope is at the time of assessment on dimension 21.1 and last completed year (FY 2019) on the remaining three dimensions.

Indicator/Dimension	Score
PI-21. Predictability of in-year resource allocation (M2)	**B+**
21.1. Consolidation of cash balances	A
21.2. Cash forecasting and monitoring	A
21.3. Information on commitment ceilings	C
21.4. Significance of in-year budget adjustments	A

All BCG cash balance are consolidated daily through the TSA and reported monthly. Cash management practices are supported by a cash flow forecast, prepared annually and updated monthly on the basis of the actual inflows and outflows. Available cash is managed through a system of beneficiary-submitted operational spending plans and Treasury Administration-approved quotas.

The main actors in the budget execution process are the budget beneficiaries and the Treasury Administration. Budget execution operations are supported by a dedicated information system for budget execution (BES). The BSL and the Rulebook on Budget Execution System (version amended as of 2019, in force at the time of the assessment)[84] define the applicable parameters for budget execution, including the following:

- Direct and indirect budget beneficiaries may execute payments up to expenditure ceilings set by the Minister, and/or local government finance authority, for a specific period (i.e., the "quota"). When setting quotas for budget beneficiaries, the Minister, and/or local government finance authority, takes into consideration the appropriation for the DBB in question (funds planned in the budget for the budget beneficiary), the budget beneficiary's budget execution plan, and liquidity capacities of the budget. The Ministry and/or local government finance authority informs budget beneficiaries of the quotas, no later than 15 days before the beginning of the period to which it refers. (BSL, Article 53)
- The budget beneficiary is required to deliver the budget execution plan to Treasury by the 5th of the month, using the ISIB,. The budget execution plan contains all planned revenues and receipts, expenditures and expenses at the third level of economic classification, distributed on a monthly basis, by the end of the budget year, for all sources of financing. (Rulebook, Article 15) The Treasury must establish the quotas by the 15th of the month for the following month. Quotas are set on a monthly basis until the end of the budget year (Rulebook, Article 16)
- Budget beneficiaries submit requests for change of quotas through the information system of budget execution. Along with the request for change of quotas, the budget beneficiary, through the information system of budget execution, submits an explanation stating the reason for changing the quota. When deciding on the request for change of quotas, the Treasury Administration is guided by the projection of revenues and budget receipts, execution of the budget of beneficiary from the previous period, as well as the submitted

[84] Official Gazette 72/19. The Rulebook has been amended since in 2020 (Official Gazette, 20/2020 and 151/2020)

explanation. Requests for change of quotas of indirect budget beneficiaries are approved by the competent direct budget beneficiary. (Rulebook, Art. 17)

- Commitments created by DBBs/IBBs and SSFs must conform to the appropriation approved for such purpose in the budget year (excluding multi-annual capital expenditure and contracts, with approval of the governing entity, and agricultural subsidies, under applicable agreements in EU pre-accession assistance). Commitments created in line with the approved appropriations, but not executed during the year, are carried over and executed from the appropriations in the following budget year. (BSL, Article 54)

21.1. Consolidation of cash balances

As defined by the Article 9 of the BSL, the Treasury manages the Consolidated Treasury Account System (CTAS) held with the National Bank of Serbia, separately for domestic currency and separately for foreign currency, and it includes the Consolidated Treasury Account (CTA) for the Republic of Serbia and the local governments.

Beneficiaries of public funds that are not included in the CTAS, as well as other legal entities and other entities that do not belong to the public sector, which receive transfers of funds from the budget, are provided with a special dedicated dinar account at the Treasury Administration for the funds in question, which is included in the CTAS. The Minister or local government finance authority, or a person authorized by him, open those special dedicated dinar accounts.

Exceptionally, the beneficiaries of public funds that are included in the CTA of the Republic of Serbia, or CTA of the local government, may have foreign currency accounts with the National Bank of Serbia, if provided by a special law or international agreement, or with an authorized bank with the approval of Minister, for payments that cannot be made through the National Bank of Serbia, if required by the specificity of activities of that beneficiary.

The CTA can have sub-accounts where funds are kept separately. Sub-accounts are reserved for: funds allocated by the budget, and/or the financial plan of SSFs; and for own source revenues generated by direct and indirect budget beneficiaries, and/or SSFs, in line with the law, as well as own source revenues of other public funds beneficiaries included in the CTAS.

The Treasury Administration through the CTA has daily calculation of cash balances and consolidation of all BCG accounts on CTAS, as well as real-time monitoring of such accounts. Cash balances are reported every month in the Public Finance Bulletin.

Based on the available evidence, the score for the present dimension is A.

21.2. Cash forecasting and monitoring

As defined in Article 15 of the Rulebook on BES, the Treasury Administration plans the budget liquidity of cash flows of the budget for the budget year on the basis of budget execution plans prepared by the budget beneficiaries. After the adoption of the Law on the Budget of the Republic of Serbia, and the recording of appropriations in the information system of budget execution, the Treasury Administration allocates quotas to beneficiaries for January.

The beneficiary submits the budget execution plan after the allocated January quotas, through the budget execution information system every month, no later than the fifth of the month. For direct budget beneficiaries who have indirect budget beneficiaries included in the budget execution system of the Republic of Serbia, the deadline for submitting plans is extended by two working days in order to check and correct the plans of indirect budget beneficiaries.

Accordingly, the score for the present dimension is A.

21.3. Information on commitment ceilings

Once approved in the Budget Law, the annual appropriation is the only legal limit on possible commitments and no further "commitment" ceilings are prescribed for specific shorter periods. In theory, the budget beneficiary may commit the entire appropriation at any point in the year provided it has advised the Treasury Administration one month in advance through its budget execution plan[85] and received a "quota" for executing the corresponding payment. By definition, quotas represent a cap on payments that can be executed in the following month that is administered through the BES for liquidity management needs. For all practical purposes, however, the monthly quotas function as commitment ceilings since budget beneficiaries cannot register commitments and the corresponding payment requests unless sufficient quotas are pre-approved in the BES.

Budget beneficiaries may apply for quota changes for approval by the Treasury Administration or MoF,[86] e.g. in case of an expenditure profile different from the anticipated one. With just over 8,000 Treasury Administration-approved requests for quota changes in 2019, these are considered frequent and signal possible issues with predictability of spending.[87] While the financial planning horizon for budgetary beneficiaries is nominally the entire year, they can reliably plan for registration of commitments and filing of payment requests only based on the quota assigned each month.

Based on the analysis and supporting evidence, the score for the present dimension is C.

21.4. Significance of in-year budget adjustments

This dimension assesses the frequency and transparency of budget allocations adjustments by the executive, without requiring parliamentary approval. The adjustments by the executive without parliamentary approval are carried out according to the rules described in PI-18.4. The SAI has not reported any concerns with the transparency of in-year budget allocation adjustments. In-year changes to appropriations may also occur as a result of court rulings that implicate BCG funds. In cases where the total annual appropriation of the budget beneficiary for these purposes is consumed, the Treasury Administration reallocates funds from another relevant appropriation in the amount needed to execute the court ruling.[88] Adjustments on the basis of such court rulings are deemed immaterial in the last completed fiscal year. The assessment score was determined based on the above and in consideration of the evidence presented in PI-2.2 which suggests that composition variance in 2019 has stood at 7.2 percent for economic classification relative to the original budget.

Based on the analysis and supporting evidence, the score for the present dimension is A.

[85] Prepared on 3-digit economic classification each month for the entire year. In a random sample of 2 DBBs, majority of the items are planned simply as 1/12 of the annual appropriation.
[86] MoF for economic codes for salaries (411000 and 412000)
[87] While outside of the assessment cut-off period (and not considered in the scoring), the number of quota change requests is 2020 was lower at 6400 requests.
[88] Article 56, BSL. The described limits and procedure refer only to appropriations from the budget revenues; appropriations from revenues from other sources may be changed without restrictions, except that these changes must also be approved by the Ministry of Finance.

PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. As per PEFA methodology, the calculations below exclude arrears between public sector entities. VAT refunds are executed by the Treasury Administration in line with the Budget Execution Plan and there are no material arrears for unprocessed VAT refunds. The assessment below accordingly looks at BCG expenditure arrears. Performance is assessed for the last three completed fiscal years on dimension 22.1 and at time of assessment on dimension 22.2.[89]

Indicator/Dimension	Score
PI-22. Expenditure arrears (M1)	**D**
22.1. Stock of expenditure arrears	D*
22.2. Expenditure arrears monitoring	D*

Arrears to suppliers and contractors are defined in the Law on Payment Deadlines in Commercial Transaction.[90] The Law stipulates that the contracts that regulate transactions from public sector entities to businesses may not exceed payment deadline over 45 days or 60 days for transactions between public sector entities.[91] Timeliness of payments is monitored through the Registry of Settlement of Claims (RINO) information system as well as through the Central Registry of Invoices (CRF), established in 2018, which includes public sector users except public companies who continue to report obligations through the RINO system. Both information systems are operated by the Treasury Administration. In line with the Rulebook on Procedure for Control over Implementation of the Law on RINO,[92] Budget Inspection Sector in the MoF has full access to the system with a view to identify and sanction arrear-generating entities. Payment deadlines to civil servants and employees are defined in individual contracts.

The Treasury Administration generates reports on arrears from the RINO and CRF information systems which are populated by self-reported data on liabilities and payments[93] by the public sector entities and suppliers, respectively. The Treasury Administration provides compiled reports to the MoF which publishes weekly the information on the number of payments not executed and the total stock of arrears, disaggregated by organizational classification.[94] Each update replaces the data on the previous balance and it is not possible to retrieve data from earlier periods from the web site.

22.1. Stock of expenditure arrears

The data on the total year-end stock of BCG arrears for the last three fiscal years was not available for assessment. In line with the prevailing cash-based accounting practices (see PI-29), arrears are not reported in the Final Account of the Budget. With respect to arrears, SAI's Audit Report on 2018 Final Account notes that assets and liabilities (including arrears) of BCG entities which use BES for budget

[89] While the issue of local government arrears is not assessed here, it is noted that the Fiscal Council highlighted concerns with their volume in its Assessment of the Law on Budget for FY 2018.
[90] Article 2, paragraph 1, item 7
[91] Article 4, paragraphs 1, 2 and 3. Deadline of 90 days is foreseen in the case when the debtor is the Republic Health Insurance Fund, ie the user of the funds of the Republic Health Insurance Fund in terms of the law governing the budget system (relevant for CG arrears).
[92] Pravilnik o vršenju nadzora nad sprovođenjem Zakona o RINO
[93] Functionalities allow the users to enter, adjust or delete liabilities. Explanations for changes are not a mandatory field (Uputstvo za popunjavanje obrasca u RINO sistemu).
[94] https://www.mfin.gov.rs/tip-dokumenta/pregled-iz-rino/

execution are not in recorded in the Main Treasury Ledger.[95] Publicly available information on the stock of BCG arrears at the time of assessment places arrears at around 2.4 percent of 2019 actual expenditure but this information is not sufficient to assign dimension score.

Table 22.1: Stock of expenditure arrears (RSD)

Total stock of BCG arrears at the time of the assessment (i)	31,571,323,410
Total stock of BCG arrears at end of last three completed FYs (ii)	Not available
Total actual expenditure for the previous FY (iii)	1,314,962,901,176
Ratio (i)/(iii) – at the time of the assessment	2.4 percent
Ratio (ii)/(iii) – at end of last three completed FYs	Not available

Source: MoF web page on the stock of arrears (accessed 10 August 2020). Actual 2019 expenditure as reported in PI-1.

In the absence of information needed to score the dimension, the rating is D*.

22.2. Expenditure arrears monitoring

Data in the RINO information system and the CRF are monitored daily and it should be possible to generate reports showing the stock by different categories of budget users as needed. The Treasury Administration does not carry out verification concerning the existence, accuracy, and completeness of reported information but the Budget Inspection may act ex-post upon any of those parameters when outstanding payment claims are identified. The data entered by BCG entities in the RINO and the CRF allows the Treasury Administration and the Budget Inspection to see the information on the budget beneficiary, supplier, invoice amount, invoice date and due date at commitment and payment stages. Automated controls are available and include cross-referencing of all reported executed payments with a corresponding number from the Treasury-operated public payments system.

At the time of assessment, the information on the stock of arrears is publicly available from the MoF website on a weekly basis, presenting the total figure by government level (BCG, autonomous province, municipality), category of BCG users (IBBs and DBBs) and organizational classification but not by composition or age profile.

Since there is no accessible information with details on composition and age of registered arrears, the score for the present dimension is D*.

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. Coverage is CG and the assessment of all dimensions is undertaken at the time of assessment, except the 23.4 which is assessed for the last three completed FYs (2017-2019).

[95] *The 2018 SAI report notes that "(22) Assets and liabilities of IBBs of the Budget of RoS which are included in the budget execution systems are not recorded in the Main Treasury Ledger, which indicates that records are not maintained for each direct and indirect budget beneficiary of the budget of RoS, as foreseen in Article 11 of the BSL.".*

Indicator/Dimension	Score
PI-23. Payroll controls (M1)	**C+**
23.1. Integration of payroll and personnel records	B
23.2. Management of payroll changes	B
23.3. Internal control of payroll	A
23.4. Payroll audit	C

Each Government institution specifies the work posts, number of civil servants in each post and work requirements in their rulebooks on internal organization and systematization of work posts.[96] The salaries of the civil servants are regulated by the Law on Salaries of Civil Servants and Employees. The remuneration consists of the basic salary and salary allowances. The basic salary is calculated by multiplying the coefficient with the basis for salary calculation and payment. The basis for salary calculation and payment is uniform and is determined for each budget year in the budget law.[97] The coefficients for civil servants are determined through the classification of service work posts into one of 13 payment groups (Article 9, Law on Civil Service). The coefficient for each civil servant is determined by the decision of the Head of the institution.[98]

The Government's Service for Human Resource Management is in charge of professional affairs related to human resource management in the public administration.[99] Among other duties, the Service is required to maintain the Central Personnel Records of Civil Servants and Employees in Government Authorities.[100] Timeliness and regularity of submission of the data entered into the Central Personnel Records are monitored and supervised by the Service's Administrative Inspection Unit.[101] Although the Law on Civil Service stipulates that the Central Personnel Records shall contain comprehensive records, including the data required for calculation of salary,[102] it does not play a role in payroll processing and is not assessed under this indicator.

The principal authority in charge of centralized payroll processing for BCG entities is the Treasury Administration of the Ministry of Finance, whose statutory obligations are set out in amendments to the Law on Budget System, from 2013. The role of the Treasury Administration is two-fold: (i) the calculation of income,[103] and (ii) managing a database of employed, elected, appointed and engaged persons, which pertains to their income.[104] To implement these provisions, the Treasury Administration is required to manage a Registry of Employed, Elected, Appointed and Engaged Persons in the Public Sector (Registry).[105] Reservations were expressed at the time of the assessment with respect to quality (i.e., comprehensiveness and credibility) of the Registry due to delays in data gathering and issues with accuracy of the submissions from individual public funds beneficiaries. This is mainly due to the fact that the Registry is designed as a self-reporting tool where the Treasury has no control over the quality or reliability of data provided. At the time of the assessment, the Registry

[96] Article 46, Law on Civil Service.
[97] Article 8, Law on Civil Service.
[98] Article 15, Law on Salaries of Civil Servants and Employees
[99] Article 158, Law on Civil Service.
[100] Article 159, Law on Civil Service.
[101] Article 174, Law on Civil Service.
[102] Article 160, Law on Civil Service.
[103] That is, salaries, income increases, salary allowances, compensation and other income.
[104] Article 93, item 14, Budget System Law.
[105] The Registry is intended to capture data on the number of employed, elected, appointed and engaged persons in the public sector as well as data pertaining to income (i.e., salary, salary allowance, compensation and other income of these persons). Personnel data are to be supplied on the basis of the documentation contained in the personnel files from the official records of the beneficiary of public funds.

was still not used by the Treasury Administration for its payroll operations and is not assessed under this indicator.

The rating for this indicator is accordingly based on the database of personnel records and application software for processing of earnings (TREZAR) currently operated by the Treasury Administration. At the time of the assessment, the Treasury Administration relied on its own database of personnel records (established in 2006) to underpin the centralized payroll system for civil servants and employees in the BCG entities. The Sector for Payroll Processing of the Treasury Administration performs both payroll calculation and processing for some budget beneficiary entities, while for other entities the Sector only performs payroll processing. In the latter case, the budget beneficiary entities submit payroll data electronically to the Treasury Administration and the information is uploaded into the payroll system. The coverage of the system is presented in the table below.

Table 23.1: Payroll for BCG entities

Category	Number of entities	Number of employees	Personnel records
DBBs covered by the Treasury Administration's centralized payroll	130	14,612	Main parameters for payroll calculation centralized, underlying personnel records fully decentralized
IBBs covered by the Treasury Administration's centralized payroll	1303 elementary schools	74,319	
	457 secondary schools	36,330	
Total	**1,890**	**125,261**	
DBBs who carry out payroll calculation and submit for uploading and payment to the Treasury	Ministry of internal Affairs		Parameters for salary calculation and personnel records fully decentralized
	Security and Intelligence Agency		
	Ministry of Defense		

Source: Treasury Administration for the PEFA Assessment, status at June 2020.

As for the other most material category of CG entities, 264 health care institutions comprise a heterogeneous population which includes those for primary, secondary and tertiary health care.[106] The personnel records and payroll calculations are fully decentralized within individual institutions while the key parameters for controlling and validating payroll calculations are contained in the information systems of the RFZO. For public institutions in the health sector (i.e., "users of RFZO funding), each institution calculates the payroll based on changes in the personnel records of each institution, which is then invoiced to the RFZO for control and approval. Once the invoice and the supporting documentation are checked against the annual contracts and approved by the RFZO, the institutions file payment requests individually to the Treasury Administration for processing. After the salaries are paid out, health care institutions file reports on salaries paid out to the RFZO for analysis and control. If any irregularities, RFZO requests repayment of funds. Accordingly, controls are carried out ex-ante, before the funding is released to individual spending units, and ex-post, after the reports on salaries paid out are submitted to the RFZO. To carry out the required controls, RFZO maintains a comprehensive information system with one module intended to capture fixed parameters that change less frequently (e.g. degree of qualifications) and the second one with the variable parameters which change on monthly basis (e.g. overtime or sick leave).

[106] In the period under assessment (while the salaries for all health care workers are funded from the RFZO revenues) the founders of the respective institutions may be both the SNGs and the CG so not all entities may formally qualify as CG entities as per GFS 2014.

Table 23.2 Payroll for users of RFZO funding

Category	Number of entities*	Number of employees**
Primary health care institutions	169	36,804
Secondary health care institutions	65 (includes 12 health centers and 6 rehabilitation hospitals)	32,211
Tertiary health care institutions	30 (includes 2 rehabilitation institutes)	29,010
Total	**264**	**98,025**

Source: RFZO for the PEFA Assessment, status at end-2019.
** as defined in the Decree on the Plan of Health Care Institutions Network*
*** as confirmed in the annual contracts between the RFZO and users of RFZO funding*

The assessment and rating below do not take into account the Registry and the Central Personnel Records described above as they currently play no role in the system used for BCG centralized payroll processing. The assessment below likewise does not score payroll operations in the health care sector in order to retain comparability with previous assessments, whereas payroll operations of other central government SSFs, users of their funding and EBUs in relation to the CG totals are considered marginal.

23.1. Integration of payroll and personnel records

Both the DBBs and IBBs and the Treasury Administration maintain databases of personnel for employees whose payroll is centrally processed. Virtually all DBBs maintain electronic personnel records. In the Treasury Administration, the relevant string of personnel records required for salary processing are available electronically. These parameters are changed solely on the basis of documentary proof supplied by the DBBs/IBBs.

The payroll data is centralized and computerized in the TREZAR system. Each month, data in the payroll TREZAR system is cross-checked against data from the separate personnel database. Changes in the payroll are entered manually. Any changes in the payroll must correspond to changes in the personnel database. The Sector for Payroll Processing sends the recapitulation of the calculation to DBBs and IBBs for review and confirmation before the release of funds. The payments for all institutions currently in the system are made by the Treasury Administration, directly to the bank accounts of each individual.

The quality and completeness of payroll data, personnel records and personnel database, as evidenced by the reported low rate of retroactive adjustments, is deemed satisfactory. The SAI has not singled out payroll processing and calculation carried out by the Treasury in its opinions on financial statements and regularity.[107] Staff hiring and promotion is controlled by a list of approved staff positions, approved as part of the annual budget submission.

Based on the available information evidence, the score for the present dimension is B.

[107] As per latest available Audit Report for 2018 Final Account (as of 1 November 2020).

23.2. Management of payroll changes

All the changes to personnel data and the corresponding payroll changes are updated monthly, on the basis of personnel documentation[108] submitted to the Sector for Payroll Processing by the Human Resources Department of each DBB/IBB.

On the payroll side, the joint parameters (i.e., salary basis, new legal provisions or Government decisions) are updated as necessary. Other specific payroll parameters, (such as the highest basis for calculation of contributions, minimum price of labor, etc.), are entered by the processing administrator of the Sector for Payroll Processing on a monthly basis. Any retroactive adjustments are made in the following month. While the volume of these adjustments is reportedly well under the 3 percent threshold set under the PEFA Framework, no reliable statistics were available to evidence a higher score.

Based on the available information, the score for the present dimension is B.

23.3. Internal control of payroll

Only appointed officers from the Sector for Payroll Processing can enter changes to the records in the personnel database maintained by the Treasury Administration. They access the personnel records with a unique password and may make the necessary changes solely on the basis of authentic documentary proof. Access and changes to payroll records are likewise restricted to authorized staff only. Controls in the process ensure full integrity of all personnel and payroll data. The IT system generates logs, but the Sector for Payroll Processing reported that such logs are not reviewed in the course of regular operations—although they present an audit trail of changes to personnel records and payroll.

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

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

Hence, the score for the present dimension is A.

23.4. Payroll audit

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

Furthermore, audits of the payroll system are conducted by internal audit functions in the respective institutions where the IAUs have been established. In 2019, internal auditors made a total of 529 recommendations in the area of employees, salaries and allowances. In 2018, the number of internal

[108] For example, promotions, benefits derived from the number of years in service, etc.

audit recommendations was 460 and in 2017 the number was 411.[109] Using the number of internal audit recommendations as a proxy for audit coverage suggests an ever-widening coverage of payroll audits.[110]

Based on the analysis and supporting evidence, the score for the present dimension is C.

PI-24. Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. Indicator coverage is central government and the scope on all dimensions is the last completed fiscal year (FY 2019).

Indicator/Dimension	Score
PI-24. Procurement (M2)	**A**
24.1. Procurement monitoring	A
24.2. Procurement methods	A
24.3. Public access to procurement information	A
24.4. Procurement complaints management	B

Key institutions in the public procurement system are the Public Procurement Office (PPO) and the Republic Commission for the Protection of Rights in Public Procurement Procedures (RCPRPP). The National Assembly of the Republic of Serbia adopted the new Public Procurement Law (PPL), which came into force on January 1, 2020 and which took effect on July 1, 2020 (Official Gazette of the Republic of Serbia No. 91/2019). Therefore, the data provided in this report from FY 2019 are based on the application of the previous PPL. All public sector entities are mandated with the application of the PPL. This includes all central government entities, local government entities and public corporations.

24.1. Procurement monitoring

The PPO, as provided in the PPL, monitors the application of public procurement legislation, participates in drafting laws and other regulations and adopts bylaws in the field of public procurement, provides opinions regarding the application of the provisions of the PPL and other regulations in the field of public procurement, provides expert assistance, manages the procurement portal, etc.

Data on the ratio of the value of the public procurement stated in the awarded contract in relation to the actual value of the public procurement based on the performance of the contract is not monitored by the PPO, given that monitoring of performance of public procurement contracts is not within its competence but that of the contracting authorities. However, accurate and complete records and data are available for each procurement contract, subject, value and awardees, for all types of procurement methods for goods, works and services. The SAI reports on financial and compliance audit, including the audit of the Law on Final Account, do not raise any issues with regard to accuracy and completeness of the said procurement data. The reports confirm that procurement databases and records are one of the strong sides in compliance with overall procurement regulation and requirements and are complied with by all entities subject to application of the PPL, including central

[109] The figures reported in the (draft) annual CHU report 2019 may extend to other parts of the public sector as the CG numbers cannot be disaggregated with a reasonable amount of effort.
[110] The figures are almost triple compared to those considered in the last PEFA assessment (2015).

government entities. Also, Article 154 of the PPL stipulates that the MoF carries out supervision over the performance of the public procurement contract.

The number of planned public procurements in relation to the number of public procurements that are completed by awarding of public procurement contract can be monitored and data is available in the public procurement portal. The search can be performed by contracting authority, contract values, etc.

Based on the available evidence, the score on this dimension is A.

24.2 Procurement methods

The Public Procurement Law provides the following public procurement procedures:

- open procedure.
- restricted procedure.
- competitive procedure with negotiations.
- competitive dialogue.
- negotiated procedure with publication of the contract notice.
- innovation partnership.
- negotiated procedure without publication of the contract notice.

As a rule, contracting authority awards contracts in open or restricted procedures, and may also award contracts in other public procurement procedures if the requirements regulated by this Law are met, with the exception of negotiated procedure with publication of the contract notice. Furthermore, as a rule, the contracting entity shall award the contract in an open procedure, restricted procedure, negotiated procedure with publication of the contract notice or competitive dialogue, and may perform other public procurement procedures if the conditions prescribed by this Law are met, except in competitive procedure with negotiations. (Article 51, paragraph 3). Procurement conducted under open competition was at 84.10% of the total value of procurement in 2019.

The PPL provides thresholds on procurement activities to which the PPL does not apply: Activities with a cost estimate of less than RSD 1 million for goods and less than RSD 3 million for works. Article 28 provides for application of the PPL for any activity that has a cost estimate equal to or above the thresholds prescribed in Article 27. Small value procurement is 9.10% of the total procurement.

Table 24.1. Public Procurement by Type and Value of Procurement (2019)

Type of procedure	Total Procurement Value (in EUR 000)	Percentage of the Total
Open Competition	3,152,270	84.10
Small Value Procurement	340,437	9.10
Negotiations without advertisement (Direct Selection), including urgent procurement*	121,005	3.25
Others including negotiations with advertisement	132,543	3.55
Total procurement	**3,746,255**	**100**

*urgent procurement is EUR 22,689,557
Source: PPO.

Based on the available evidence, the score on this dimension is A.

24.3. Public access to procurement information

Public access to procurement information facilitated through the PPO website is free of charge. The PPO website publishes all bylaws as well as all annual and semi-annual reports about public procurement in Serbia. The procurement portal, managed by the PPO, publishes procurement notices and contract awards.

Table 24.2. Key procurement information to be made available to the public

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) legal and regulatory framework for procurement	Y	All legal acts and bylaws are available from the PPO website free of charge.
(2) government procurement plans	Y	All procurement plans are published in the PPO portal.
(3) bidding opportunities	Y	Procurement notices are published in the PPO portal.
(4) contract awards (purpose, contractor and value)	Y	Contract awards are published in the PPO portal.
(5) data on resolution of procurement complaints	Y	This is published in the RCPRPP website.
(6) annual procurement statistics	Y	These are published in the PPO portal.

The requirements are met for six out of six elements. The SAI reports on financial and compliance audit, including the audit of the Law on Final Account, do not raise any issues with regard to completeness and reliability of the data related to six elements. The data covers all procurement operations of entities subject to application of the PPL (inclusive of all CG entities), and there are no exceptions noted by the SAI.

Based on the available evidence, the score for this dimension is A.

24.4. Procurement complaints management

The Republic Commission for the Protection of Rights in Public Procurement Procedures (RCPRPP) is the central institution in charge of the review and remedies system for public procurement in Serbia. This institution decides on the economic operators' requests for the protection of their rights and must make a decision on every allegation of a claimant, as well as *ex officio* on the breaches that claimants are not aware of, but which influence the decisions of a contracting authority in a public procurement procedure. The RCPRPP is an independent specialized procurement review body with the status of a legal entity and is responsible to the National Assembly of Serbia. The PPL stipulates that the Commission is to submit annual operating reports for the previous year by 31 March of the current year, and requires these reports to contain the information set out in the PPL.

Table 24.3. Body reviewing complaints

Element/ Requirements	Met (Y/N)
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y
(2) does not charge fees that prohibit access by concerned parties	N
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y
(4) exercises the authority to suspend the procurement process	Y
(5) issues decisions within the timeframe specified in the rules/ regulations	N
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y

The RCPRPP has to decide on a request for protection of rights within 20 days from the day it received a regular request for protection of rights, and not later than 30 days from the day a regular request for protection of rights was submitted. If the RCPRPP before making its decision asks the contracting authority, claimant, other parties to the proceeding or third party for additional documents, data, explanations, or opinions, the deadline for making a decision starts from the day it received said documents, data, explanations or opinions. Exceptionally, in justifiable situations this deadline for making decision can be extended for 15 days, and both the contracting authority and claimant are informed on this and reasons for this extension are given. The written decision of the Republic Commission is to be delivered to the contracting authority, claimant and selected bidder within five days from the day the decision was made.

The RCPRPP took 872 decisions on requests for protection of rights in 2019, which is in terms of number of decisions less than the average during the period 2015-2018, but when compared to the number of received requests, it is around the average for previous years. Similarly, public procurement procedures that were partially or fully annulled in 453 cases in 2019 (51.9 % of all decisions) is lower compared to 2015-2017, and slightly higher than in 2018. The RCPRPP reviewed the implementation of all its decisions ordering a partial or total annulment of public procurement procedures.

Table 24.4. Complaints

Year	Claims received	Claims resolved	Claims upheld	Claims upheld as % of claims resolved	Claims resolved as % of claims received
2015	2,012	1,912	1,196	62.55	95.03
2016	1,202	1,399	800	57.18	116.39
2017	1,135	1,127	676	59.98	99.30
2018	1,027	1,094	536	48.99	106.52
2019	866	872	453	51.95	100.69
Total	**6,242***	**6,404***	**3,661**	**57.17**	**102.60**

*The no. of claims resolved is higher than the no. of claims received for 2016, 2018 and 2019, because some of the resolved cases/claims are carryover from the previous year(s) cases.
Source: RCPRPP

The requirements are met for criterion (1), and three additional criteria. **Based on the available evidence, the score on this dimension is B.**

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator coverage is CG and the scope is at the time of assessment. The assessment below does not capture the practices concerning the expenditures of CG EBUs, which are considered immaterial relative to the total CG expenditure at under 4 percent of the total.

Indicator/Dimension	Score
PI-25. Internal controls on non-salary expenditure (M2)	**A**
25.1. Segregation of duties	A
25.2. Effectiveness of expenditure commitment controls	A
25.3. Compliance with payment rules and procedures	A

The BSL establishes the requisite elements for public internal controls. Internal controls over non-salary expenditure are exercised by the Treasury Administration, individual budget beneficiaries, SSFs and individual users of funding of SSFs.

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

To help strengthen the decentralized controls at the level of spending units, a thorough legal basis for financial management and control (FMC) is set forth in the BSL.[111] The provisions apply to all "public funds beneficiaries" (inclusive of all CG entities). The principal responsibility rests with the heads of these entities, who are required to introduce, maintain and improve the FMC system in their organizations so as to ensure regularity, compliance, transparency and value for money. Secondary FMC legislation[112] sets forth the specific responsibilities of the heads and elaborates in detail the five components of the COSO Framework as suggested by the INTOSAI Guidelines for Internal Control in the Public Sector.

25.1. Segregation of duties

In terms of segregation of duties in the Treasury Administration managed BES, responsibilities are clearly laid down in the Rulebook on Budget Execution System. In general, two stages in each transaction carried out through the BES are distinguished: preparation and authorization.[113] For entry and approval of assumed commitments into the BES, the duties are divided among the financial service, preparation officer, approval officer, and preparation, authentication and approval officer at the budget beneficiary and the Treasury Administration.[114] For entry and approval of payment requests in the BES, the duties are likewise segregated between the finance department, preparation officer, and approval officer at the budget beneficiary and the Treasury.[115]

Requirement for segregation of duties applies equally to the remaining CG entities (SFFs, users of funding of SFFs and EBUs) who are required to apply the FMC framework. Required segregation of duties in this regards extends beyond commitment and payment processes and covers other key

[111] Article 51b, Law on Budget System. In the one hand, there is a single appropriation (annual), as the total available funds. On the other hand, there is a quota (monthly), which is a portion of the available appropriation that represents a specific spending ceiling for the given period.

[112] Rulebook on Common Criteria and Standards for Establishment, Functioning and Reporting on the System of FMC in the Public Sector, Articles 10 and 11.

[113] Article 12, Rulebook on Budget Execution System

[114] Narrative process description of competences and activities is available in the Rulebook on Budget Execution System, Annex 4.

[115] Narrative process description of competences and activities is available in the Rulebook on Budget Execution System, Annex 5.

operations in e.g. procurement and contract management operations. Statistics by the CHU indicate that spending units are progressively developing internal rules and procedures to implement the requirements, which further elaborate the general responsibilities and duties of specific entities in the light of their specific organizational set-up, degree of information system development and process automation, and human resource capacities. Maintaining segregation of duties is a challenge in smaller IBBs (such as remote schools) which face staff constraints but these are not considered material to affect the score.

Based on the available information, the score for the present dimension is A.

25.2 Effectiveness of expenditure commitment controls

Heads of individual DBB/IBB, SSF and users of funding of SSFs are responsible for the assumption of commitments, their verification, and filling of the payment order (i.e., for orderly execution of the budget). Ex-ante controls over assuming of commitments are accordingly exercised at the level of the individual spending units. It is the statutory responsibility of these entities to use the budget appropriation up to the amount of the appropriation for the given year and this is controlled through the BES at the time of registration of new commitments by reducing the amount of the annual appropriation (minus all executed payments and commitments registered to date) for the amount of commitment registered.[116] In addition, payment requests of DBBs/IBBs must remain within the limits of a monthly quota (i.e. the maximum amount up to which payments can be made) that is approved by the Treasury Administration on the basis of the Budget Execution Plan submitted by the DBB/IBB (see also PI-21).[117]

In practice, it is possible for the budget beneficiaries to assume commitments within the approved budget appropriation but not be able to execute them against the subsequently set quotas (see PI-21). In such cases, the DBBs may apply for a change of the quota. If the Treasury Administration, guided by the revenue and receipts projections and budget liquidity, decides it is not possible to change the quota, delays in payment of the already assumed commitments may occur.

On the level of the Treasury Administration, controls over the registration and approval of already assumed commitments and payments are centralized and integrated in the BES. In practice, the automated application controls effectively prevent budget beneficiaries which use BES from registering for payment any commitment which exceeds the available appropriation and the expenditure ceiling set out in the monthly quota regardless of the type of expenditure. MoF approval is required for multi-annual capital and recurrent commitments. The rules are applied uniformly for all types of expenditures.

For public health care institutions, the largest category of spending units outside of BCG by materiality, commitments for the expenditure financed from health care contributions (salaries and current expenditure) must remain within the specification of expenditure and annual contracts which these institutions sign with the RFZO and any discrepancies must be duly justified. For capital expenditure financed from the CG budget (including any multi-annual contracts), these must be pre-approved by the Ministry of Health. In 2019, the system of controlling commitments and payments has been

[116] Article 54, Budget System Law. Multi-annual commitments for capital expenditure must be approved by the Government/Managing Board of SSF (for funding from budget and social contribution revenues, respectively) and must align with the overview of capital expenditures presented in the budget/financial plan of the SSF (paras. 2-3). Higher-level approvals are likewise needed for multi-annual contracts (para. 6). These restrictions do not apply to debt management operations and obligations from international agreements (para. 4) and additional exclusions are elaborated with respect to subsidies for investments in industry and agriculture (paras. 8 and 11, respectively).

[117] Article 53, Budget System Law.

reinforced through introduction of centralized purchases for specific categories of goods and services. **Based on the analysis and supporting evidence, the score for the present dimension is A.**

25.3. Compliance with payment rules and procedures

Control procedures over payments are set out in detail in the Rulebook on Budget Execution System. The actual controls are integrated in the BES. All payment transactions must be prepared and executed in the BES. Request for payment may only be generated for previously registered commitments. Before any commitment is paid, the legal basis and the amount of the assumed commitment, originating from the original accounting documentation, must be confirmed in writing. In exceptional cases, which require prior authorization, BES may automatically generate the assumed commitment from the request for payment.

While no precise statistics were reported for the percentage of payment processes executed in accordance with regular rules and procedures, the Treasury Administration reported very rare instances of exceptions, all of which are duly justified and authorized in advance. SAI has not raised concerns over payment control procedures for transactions executed through the BES.

Outside of the BES, users of the RFZO funding submit requests for payments from the sub-accounts which are a part of the Treasury Administration-operated TSA. Rules specify that the payments are approved against the RFZO-approved invoice and advice on transfer of funds to confirm their availability.

Based on the analysis and supporting evidence for budget beneficiaries, the score for the present dimension is A.

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit on the CG level. The scope is at the time of assessment in 26.1 and 26.2, last completed year in 26.3 and the audit reports issued in the last three years in 26.4.

Indicator/Dimension	Score of current PEFA
PI-26. Internal audit (M1)	**B+**
26.1. Coverage of internal audit	A
26.2. Nature of audits and standards applied	A
26.3. Implementation of internal audits and reporting	B
26.4. Response to internal audits	B

The functional and organizational independence of internal audit (IA) is enshrined as one of the principles in the Budget System Law and its remit includes assessment of the FMC system, which implies auditing of all functions and processes in the operations of the organization. The responsibility for establishing the prerequisites for IA functioning rests with the Head of the institution, while the MoF’s Central Harmonization Sector prescribes the legislative and methodological framework, supports and monitors implementation. The main by-law that regulates establishment of IAUs in the public sector is the Rulebook on Common Criteria and Standards for Organization, and Standards for Methodological Instructions for Operations and Reporting of Internal Audit[118] (the IA Rulebook). All public sector internal auditors are trained and certified under a program designed and implemented by the CHS. The program involves in-class and practical on-the-job training.

[118] Official Gazette, no. 99/11 and 106/2013

In agreement with the MoF, the assessment is based on the sample of 11 CG bodies, of which 9 DBBs and 2 SFFs which are the largest institutions by executed revenue and expenditure.[119] As of the time of the assessment, about 75% of systematized work posts in the sampled organizations were filled and the CHU reported that the trained and certified public sector internal auditors in the sample stood at 86%. The narrative refers to general observations on IA practices in other CG bodies but these are presented for information purposes only and not taken into account in dimension scoring. The sample is presented in the table below.

Table 26.1: PEFA 2020 sample of CG institutions, by materiality

Institution	Budgeted 2019				IA unit in place
	Expenditure[1]	%	Revenue[2]	%	
1. MoF (excluding transfers to	841,676,229,000	--	--	--	Y
2. Customs Administration	6,732,664,000		1,779,548,000,000	86.60	Y
3. Tax Administration	9,985,499,000				Y
4. Treasury Administration	4,126,716,000	--	--	--	Y
5. Ministry of Education, Science and Technological Development	211,491,288,000	--	--	--	Y
6. Ministry of Labor, Employment, Veterans and Social Affairs	134,328,522,000	--	---	--	Y
7. Ministry of Construction,	103,633,309,000	--	--	--	Y
8. Ministry of Defense	103,088,585,000	--	--	--	Y
9. Ministry of Internal Affairs	89,067,408,000	--	--	--	Y
Total 2019 BCG budget (PI-1 planned BCG budget, PI-19 total collected CG revenue)	**1,269,091,337,000**	**84.37**	**2,054,796,000,000**	**86.60**	
10. Pension Insurance Fund	668,140,626,000	68.58	Principal OOSOs revenues are those collected and administered by the STA		Y
11. Health Insurance Fund	273,900,000,000	28.11			Y
Total 2019 SFF budget (sum, 4 entities)[3]	**974,145,626,000**	**96.69**			

Source: MoF, CHS

[1]2019 execution data not available at the time of the assessment

[2] includes all tax revenues and mandatory social security contributions which are used to finance the SSFs operations, therefore the only material figure for all institutions in the sample. See PI-19 for details.

[3] includes financial plans of the National Employment Service (RSD 26,705,000,000) and Veteran's Fund (RSD 5,400,000,000)

26.1. Coverage of internal audit

The IA Rulebook stipulates that all DBBs have the obligation to establish autonomous internal audit units. Other entities may use one of the other approved modalities for establishment of the internal audit function under the applicable by-laws. Figures reported by the CHS indicate not all DBBs on the CG level have established IA units and the number of internal auditors may not be fully matched with the risks, complexity of operations and the amount of funds for which they are accountable.[120] This was not the case for the entities in the sample where nearly 75% of systematized internal audit work posts are filled.

All public funds beneficiaries in the sample have established the internal audit function, implying that all revenues and expenditures in the sample are covered by the internal audit. As shown in table 26.1, these beneficiaries account for nearly all CG revenues and expenditures (i.e., 86.60 percent and 84.37

[119] No EBUs are in the sample considering their materiality relative to CG revenue and expenditure totals.

[120] 10 of 27 mandatory IAUs for BCG entities are staffed with the minimum of at least three auditors.

percent, respectively). On the total population, reported IA coverage over BCG entities is 87% and for SFFs is 100% of the planned expenditures.[121]

Coverage of expenditure and revenue in the sample is 100 percent of revenues and expenditures, and the score A assigned on this dimension.

26.2. Nature of audits and standards applied

Public sector internal auditors are required and trained to follow the internationally recognized International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA). The Internal Audit Manual issued by the MoF's CHS incorporates these standards and reflects good international practice. In the sample, 86% of internal auditors have been certified public sector internal auditors under the national training and certification scheme maintained by the CHS. Methodological guidance and training provided by the CHS have contributed to increasing focus on the adequacy and effectiveness of internal control rather than the control of individual transactions.

By-laws[122] foresee a comprehensive quality assurance program, comprising internal and external quality assessment. These requirements are integrated in the methodological guidance issued by the CHU and their fulfilment monitored annually through self-reported information by the public funds beneficiaries with established IA (including those in the sample). The CHS monitors IA work through annual reports provided by the IADs and annually reviews the IA work carried out on a sample of 6-7 IADs and the institutions in the sample (on the basis of their materiality) have been the first institutions to undergo such review in 2017. Finally, one full-scale independent external quality assessment of the IAUs in CG ministries involved in EU funds management (largest by materiality) was carried out in 2017.

Table 26.2 Existence of internal quality assessments

Institution	Self-reported internal assessment in 2019	
1. MoF (excluding transfers to SNGs and OOSO)	Y	
2. Customs Administration	Y	
3. Tax Administration	Y	
4. Treasury Administration	Y	
5. Ministry of Education, Science and Technological Development	Y	
6. Ministry of Labor, Employment, Veterans and Social Affairs		N
7. Ministry of Construction, Transport and Infrastructure		N
8. Ministry of Defense	Y	
9. Ministry of Internal Affairs	Y	
10. Pension Insurance Fund	Y	
11. Health Insurance Fund	Y	

Source: MoF, CHS from the self-reported responses collected through the FY 2019 IA annual reporting questionnaire

Based on the analysis of available information, the score for the present dimension is A.

26.3. Implementation of internal audits and reporting

The Internal Audit Manual guides the internal auditors who are required to prepare risk-based strategic and annual audit plans that are subsequently approved by top management of their respective organizations. In the sample, IADs in 2019 managed to complete nearly 85% percent of the

[121] CHU Annual Report, 2019, Table 3.
[122] Article 19 of the IA Rulebook.

audits (100/118) set out in the individual annual audit plans of their respective organizations. More broadly, the implementation rate of planned audits for all CG entities is similar at 85.59% (202/236).

Table 26.3 Audits planned and implemented in FY 2019

Institution	Implementation rates	
1. MoF (excluding transfers to SNGs and OOSO)	7/7	100 percent
2. Customs Administration	19/16	84.21 percent
3. Tax Administration	5/5	100 percent
4. Treasury Administration	2/2	100 percent
5. Ministry of Education, Science and Technological Development	20/13	65 percent
6. Ministry of Labor, Employment, Veterans and Social Affairs	6/2*	33 percent
7. Ministry of Construction, Transport and Infrastructure	5/3	60 percent
8. Ministry of Defense	5/5	100 percent
9. Ministry of Internal Affairs	13/11	84.62 percent
10. Pension Insurance Fund	21/21	100 percent
11. Health Insurance Fund	15/15	100 percent
Total for all institutions	118/100	84.75 percent

Source: Assessment team using MoF, CHS data
* due to staff turnover

Internal auditors report directly to the head of the public funds beneficiary in which they operate. As a rule, the reports are issued after each completed audit assignment for all entities. The audit report contains the summary, audit scope and objectives, findings, conclusions and recommendations as well as the comments of the auditee. Under the decentralized model in place in RoS, the MoF and the SAI are not the designated recipients of IA reports, as the report is considered an internal enactment of the respective institution.[123] Instead, the individual IA unit makes the reports available to SAI upon request.

The MoF discharges its responsibility of monitoring the activities of public sector internal auditors through annual reports of the IA units submitted to CHU and quality reviews on a sample of institutions. This information, along with the information annually reported by the IADs, is thoroughly analyzed and serves as the basis for development of CHU's consolidated Annual Report on the Status of PIFC covering both FMC and IA, which the Minister of Finance forwards to the Government.

Accordingly, the score for the present dimension is B.

26.4. Response to internal audits

Annual reports submitted by individual IADs to the CHS indicate that government managers across different public funds beneficiaries take a substantial degree of prompt action to address internal audit recommendations. Within the sample, the reported average implementation rate for recommendations was close to 75% of recommendations issued across the last three years. This is slightly higher compared to all entities in the CG sector which reported around 71% of recommendation implementation rates on average in the same period.[124] Major public funds beneficiaries in the sample have been responsive to internal audit recommendations within 12 months but the percentages presented by individual institutions suggest partial management response overall.

[123] Automatic distribution of these reports to the MoF and SAI is not formally mandated in law.
[124] 2018 draws the average percentages down with only 51% and 58% of implementation rates for the sample and the overall CG sector, respectively.

Table 26.4 Rate of audit recommendations implemented in FYs 2017-2019

Institution	FY2019 (carry over)*	FY 2018	FY2017	2017-2019
1. MoF (excluding transfers to SNGs and OOSO)	77% (31%)	80%	64%	--
2. Customs Administration	100%	0%	100%	--
3. Tax Administration	48% (52%)	26% (74%) **	65% (34%) **	--
4. Treasury Administration	100%	100%	n/a	--
5. Ministry of Education, Science and Technological Development	46% (53%)	33%	65%	--
6. Ministry of Labor, Employment, Veterans and Social Affairs	0% (55%)	n/a	67%	--
7. Ministry of Construction, Transport and Infrastructure	86% (14%)	0%	100%	--
8. Ministry of Defense	69% (31%)	100%	97%	--
9. Ministry of Internal Affairs	35% (51%)	93%	87%	--
10. Pension Insurance Fund	90% (3%)	97%	85%	--
11. Health Insurance Fund	81% (19%)	71%	95%	--
Average for all institutions	> 85%	> 50%	> 80%	73.34%

Source: Assessment team using MoF, CHS data
* from FY 2019, statistics are disaggregated to capture carry over recommendations (deadline for implementation not past due)
** disaggregated data on carry over recommendations reported for the purposes of the PEFA assessment

Based on the reported information, the score for the present dimension is B

PILLAR SIX: Accounting and reporting

What does Pillar VI measure? Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance: key strengths and weaknesses

In-year budget execution reports of the budgetary central government are produced on a quarterly basis, with the exception of the first quarter. The reports include information on revenue and expenditures, and there are no material concerns about data accuracy, however commitments are not included. The reports are presented in line with economic classification and the aggregates allow only partially comparison to the breakdown presented in the format of the budget. Both practices limit the usefulness of the official reported information in spending trends analysis. It is noted, however, that most of the information is available from the Treasury Administration information systems and can be drawn up on demand.

Annual financial statements of budgetary central government (final account), in addition to revenue and expenditure, include also the information on financial and non-financial assets and liabilities, guarantees and public debt. The format of the financial statements is fully comparable to the approved budget. Financial statements are prepared in accordance with local regulation, however accounting standards used are not disclosed in the financial statements. Application of cash basis IPSAS is prescribed by legislation, but it remains indirect and with gaps due to certain departures embedded in local regulation. The Draft Law on the Final Account is submitted to the government within six months after the year end and at that time the financial statements are available to external auditors.

Procedures with regard to regular bank accounts reconciliations are in place, and the accounts are reconciled daily. The integrity of financial data is sound, and adequate controls with regard to access and recording of data are prescribed and implemented in the BES.

PI-27. Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. The coverage is BCG and the time period assessed is at time of assessment, or covering the preceding fiscal year for 27.1-27.3.

Indicator/Dimension	Score
PI-27. Financial data integrity (M2)	**A**
27.1. Bank account reconciliation	B
27.2. Suspense accounts	NA
27.3. Advance accounts	A
27.4. Financial data integrity processes	A

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

The Treasury Main Ledger (TML) is managed by the Treasury Administration. The statutory requirement is for the records in the TML to be recorded in accordance with the Chart of Accounts and on the level of budget classification and encompass transactions and business changes, including expenditures and revenues, and changes and balance of assets, liabilities and capital.[125]

27.1. Bank account reconciliation

The Treasury Administration generates daily statements on executed transactions at the end of each day for all Treasury-managed accounts and makes them available to the beneficiaries. These statements can be used for reconciliation with the beneficiaries' auxiliary records. There are no officially reported significant unresolved differences between these records.

DBBs which are beneficiaries of accounts held in the commercial banks and NBS[126] are under the requirement to report the account flows to the Treasury on a monthly basis.[127] Treasury enters the information on execution from the foreign currency account into the TML on the basis of those reports. The Treasury requires that the closing balance of the report matches the amount on the bank statement which implies prior reconciliation between the account beneficiary and the bank. In their audits of DBBs/IBBs which are foreign currency account beneficiaries, the SAI has not raised any issue as to timeliness of the reconciliation. The reconciliations are performed within 4 weeks from period end.

Based on the analysis and supporting evidence, the score for the present dimension is B.

27.2 Suspense accounts

The Treasury Administration reported that there are no government suspense accounts.

Based on the available information, the score for the present dimension is not applicable (NA).

27.3. Advance accounts

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

Based on the available information, the score for the present dimension is A.

[125] Article 11, BSL.
[126] For themselves and any IBBs who are beneficiaries of the funds.
[127] These reports in turn are generated from Record of Loan Inflows and Outflows which are prepared by Project Implementation Units at DBBs/IBBs which must be accompanied, inter alia, by a bank statement.

27.4. Financial data integrity processes

There are clear procedures integrated into the SAP software which is used to run the TML. There is a strict access hierarchy in place embedded into the system, restricting any unauthorized access. The system generates a comprehensive audit trail of user activities.

Within the Treasury Administration, there is an operational team involving representatives of multiple sectors which is in charge of verifying financial data integrity. Data consistency is controlled on a daily basis. Other control procedures include verification whether all the necessary data is available in the system and data validation to ensure that the data is valid, functional, reasonable, and secure.

Hence, the score for the present dimension is A.

PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. Assessment coverage is the BCG and the scope is 2019, the last completed FY.

Indicator/Dimension	Score
PI-28. In-year budget reports (M1)	**C+**
28.1. Coverage and comparability of reports	B
28.2. Timing of in-year budget reports	C
28.3. Accuracy of in-year budget reports	B

All the in-year budget execution reports are cash-based. In practice, it is possible to distinguish between three categories of in-year budget execution reports:

- ad-hoc reports (daily, weekly, monthly) generated by the Treasury Administration, with no legally designated recipient
- reports by DBBs (including coverage of their associated IBBs) and mandatory social insurance organizations, submitted to the Treasury Administration within 20 days from the end of the respective quarter
- MoF reports on budget execution in the course of the budget year, submitted to the Government and the National Assembly[128] 15 days after the end of the second and third quarters.[129]

The assessment describes all the in-year budget execution reports. The rating for the indicator is assigned for the in-year budget execution reports officially produced by the Government for decision-making purposes. Main attributes of the in-year reporting practices are summarized in the table below:

[128] Article 7 and 93, BSL.
[129] Article 76, BSL. Reporting for first quarter is not legally requested.

Table 28.1: Presentation of In-Year Budget Execution Reports – Responsibilities and Timing

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

Source: PEFA assessment team, as of September 2020

28.1. Coverage and comparability of reports

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

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

For MoF in-year budget reports (see table above), the approved budget and the in-year execution are consistently reported only by the economic classification. The reports include aggregated information on revenue and expenditure execution, which is presented in the same format as Article 1 of the approved annual Budget Law. The Budget System Law requires these reports to contain information about the discrepancies between the adopted budget and that executed, with an explanation of substantial discrepancies (though this last requirement was absent from the report for 2019).

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

Based on the available information, the score for the present dimension is B.

28.2. Timing of in-year budget reports

IBBs are required to submit to their line DBB a quarterly budget execution report within 10 days from the end of the period. DBBs reconcile these reports with the data contained in the Treasury Main Ledger and their records, consolidate the data and submit them to the MoF within 20 days from the end of the quarter. The consolidated periodic reports are to be accompanied with explanation of any substantial discrepancies.[130] Similar in-year reporting requirements are in place for the SSFs, all of which are required to report to the Treasury Administration within 20 days from the end of the quarter.[131] No evidence has been found of the existence of systematic or recurring delays in the presentation of the in-year reports against the prescribed deadlines.

Although MoF reports on budget execution in the course of the budget year, submitted to the Government and the National Assembly[132] are issued 15 days after the end of the second and third quarters, no such report is produced for the first quarter. In 2019, the Government met the statutory deadlines for submitting the six-month and nine-month budget execution reports to the National Assembly.

Based on the analysis and supporting evidence, the score for the present dimension is C.

28.3. Accuracy of in-year budget reports

From the perspective of accuracy of data on revenue and expenditure execution to date in the MoF in-year reports, there is no evidence suggesting that the data in the Treasury Main Ledger contain inaccuracies or omissions (see also PI-27 above). Expenditure in the Treasury Administration BES is captured for all registered commitments (but not all possibly assumed BCG commitments, because of the possible lag in reporting of all commitments assumed and because registered commitments may be changed subsequently) and payments. Only the information on payments is included in the reports considered for scoring of this indicator.

Based on the available information, the score for the present dimension is B.

PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. Assessment coverage is the BCG and the scope is 2019, the last completed FY, for dimensions 29.1 and 29.2 and the last three completed FYs for dimensions 29.3.

Indicator/Dimension	Score
PI-29. Annual financial reports (M1)	**D+**
29.1. Completeness of annual financial reports	B
29.2. Submission of reports for external audit	C
29.3. Accounting standards	D

The Decree on Budget Accounting specifies the cash basis as the foundation of budget accounting and requires the preparation of financial statements following the cash-basis principles of the International Public Sector Accounting Standards (IPSAS).[133]

The Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Institutions

[130] Article 8, Decree on Budget Accounting.
[131] In this case, the Republican Health Insurance Fund submits a consolidated report based on quarterly periodic reports sent by users of its funds within 10 day from the end of the quarter.
[132] Article 7 and 93, BSL.
[133] Article 5, Decree on Budget Accounting.

distinguishes four types of financial statements: (i) Final account,[134] (ii) Annual financial statement, (iii) Periodic financial statement, and (iv) Consolidated annual and consolidated periodic report. The Final Account includes the full Balance Sheet, where the requirements exceed those for cash-basis of accounting. Standardized reporting templates are used by the Budget of the Republic of Serbia, SSFs and local government budgets.[135]

Financial information for preparation of financial statements is the Treasury Main Ledger (see PI-27). It should contain the accounting records for each DBB and IBB and mandatory SSFs.[136] DBBs and IBBs that do not conduct their operations through their own account maintain only auxiliary ledgers and records.[137] They submit their financial statements on Template 1 – Balance Sheet and Template 5 – Budget Execution Report of the Rulebook. The data in the Treasury Main Ledger contains the data from the main ledgers of DBBs and IBBs, based on periodic reports and final accounts.[138]

The MoF prepares the financial statements for the BCG public accounts as a draft Law on Final Account of the Budget of the Republic of Serbia. The Government is responsible for submitting the proposal of the Law to the National Assembly, per the calendar set down in the Budget System Law.[139]

Consolidated Statement of the Republic of Serbia is the consolidated statement of the Final Account of the Republic of Serbia, final accounts of the SSFs, consolidated statement of the Republican Health Insurance Fund, final accounts of the budgets of autonomous provinces, final accounts of the budgets of municipalities and consolidated statements of cities and the City of Belgrade. The Consolidated Statement is not assessed under this PI which focuses on the BCG.

29.1. Completeness of annual financial reports

Annual financial statements of the Budget of the Republic of Serbia are based on the consolidated financial data from the TML and data from the final accounts of DBBs and of mandatory social insurance organizations. Final accounts of DBBs and mandatory social insurance organizations, in turn, represent consolidated financial statements, which include data from their own bookkeeping records and data from the reports of final accounts of their respective IBBs.[140]

Statutory contents of the Public Final Account of the Republic are: (i) annual financial report on budget execution, with notes and explanations, (ii) annual financial report of mandatory social insurance organizations and annual consolidated financial report of the Health Insurance Fund, and (iii) external audit report. The annual financial statements must be in accordance with the contents and classification of the budget and the financial results therein must be determined in accordance with cash-basis IPSAS.[141]

[134] On five prescribed templates: 1) Balance Sheet; 2) Income Statement; 3) Statement of Capital Expenses and Receipts; 4) Cash Flow Statement; and 5) Budget Execution Statement.
[135] This requirement is also foreseen for all the DBBs that maintain their own General Ledger (i.e. operate their own accounts). In practice, there are currently no such DBBs as all are covered by the Treasury-managed TML.
[136] Article 11, Decree on Budget Accounting.
[137] Article 12, Decree on Budget Accounting.
[138] Article 12, Decree on Budget Accounting
[139] Article 78, BSL.
[140] Article 6, Decree on Budget Accounting.
[141] Article 79, BSL.

Table 29.1: Consolidated BCG financial reports

Financial report	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
	Expenditures and revenues by classifications presented in the budget proposal	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
Final Account of the Budget of the Republic	Y	Y*	Y	Y

* While presented as a part of the Balance Sheet, information on non-financial assets is considered partial (see PI-12).
Source: PEFA assessment team, based on 2018 BCG financial statements (2019 financial statements not available at the time of the assessment)

Based on the available evidence, the score for the present dimension is B.

29.2. Submission of reports for external audit

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

Table 29.2: Financial Reporting Calendar for CG

Date	Date annual report submitted for external audit
February 28	IBBs of the Budget of the Republic prepare their annual financial statements for the previous year and submit them to the competent DBBs of the Budget of the Republic. Users of funds of the Republican Health Insurance Fund prepare the annual financial statement for the previous year and submit it to the Republican Health Insurance Fund.
	Other users of public funds included in the TSA that are established by the Republic prepare annual financial statement for the previous year and submit them to the competent body of the Republic of Serbia.
March 31	DBBs of the Budget of the Republic prepare the annual report and submit it to the Treasury Administration, and DBBs of the Budget of the Republic who have IBBs of the Budget of the Republic in their competence control, reconcile the data from the annual budget execution reports and prepare a consolidated annual budget execution report, which they submit to the Treasury Administration.
April 30	SSFs adopt decisions on their final accounts, adopt reports on execution of the financial plans and submit them to the Treasury Administration. Republican Health Insurance Fund controls, reconciles data from the annual reports on execution of the financial plan of users within their scope of competence, consolidates the data and prepares the consolidated annual report on execution of the financial plan, which is submitted to the Treasury Administration.
June 20	Ministry of Finance prepares the draft Law on the Final Account of the Budget of the Republic and, together with decisions on the final accounts of the mandatory social insurance organizations, submits it to the Government.
July 15	Government submits to the National Assembly the proposal of the Law on Final Account of the Budget of the Republic and decisions on the final accounts of the SSFs.
October 1	Ministry of Finance prepares the Consolidated Report of the Republic of Serbia and submits it to the Government.*
November 1	Government submits the Consolidated Report of the Republic of Serbia to the National Assembly, for information purposes.

Source: PEFA assessment team, based on the prevailing legislative framework
*This report was published for the first time in FY 2018.

DBBs/IBBs and SSFs adhere to the financial reporting calendar outlined in the primary legislation and submit their financial statements to the Treasury Administration for consolidation. The SAI can access the financial statements of the individual budget beneficiaries for audit from March 31 onwards.

Submission of the financial report for 2019 was delayed due to COVID and the exact date could not be ascertained. In the preceding years (2017 and 2018), the financial statements for the BCG have been consistently submitted for audit within the legally prescribed deadlines (that is, within 7 months from the end of the period).

As per PEFA Fieldguide, the score assigned to this dimension concerns the practices followed in 2018 and is C.

29.3. Accounting standards

Under the Decree on Application of International Public Sector Accounting Standards (IPSAS), the officially prescribed accounting standards for DBBs and IBBs, users of funds of the SSFs, and budgetary funds of the Republic are the cash-based IPSAS. The Decree foresees direct application of the original text of the standards, without additional national accounting regulations.

However, since there are by-laws issued by the Ministry of Finance which prescribe specific accounting policies and reporting templates, the implication is that IPSAS implementation continues to be indirect (i.e. applied within the limits imposed by the national framework). The SAI confirmed that the accounting used for the purposes of financial reporting is in line with the national accounting framework.

Financial reports have been presented in a consistent format over the last three years on the forms prescribed in the Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Organizations. In adhering to this Rulebook, the financial reports do not disclose the accounting standards used as the prescribed templates to this Rulebook do not foresee that the accounting standards should be disclosed.

Based on the available information, the score for this dimension is D.

PILLAR SEVEN: External scrutiny and audit

What does Pillar VII measure? Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance: key strengths and weaknesses

External audit and scrutiny in the Republic of Serbia are discharged by the SAI and the National Assembly. A financially and organizationally independent SAI that is accountable to the parliament is operational and has the necessary rights to fully discharge its constitutional and legal remit. Despite resource constraints, the SAI is annually conducting a broad range of financial, regularity and performance audits. Methodologies are progressively refined to further align with the revised INTOSAI ISSAI framework. The audit reports on the final account of the budget (BCG financial statements) and final accounts of the SFFs have been consistently submitted within 6 months from the receipts of the financial statements by the SAI (the 2018 turnover was shorter with the span of 3-5 months). An effective system for follow-up of audit recommendations by the auditees is foreseen in the legislation and followed in practice. In 2019, the SAI audited the consolidated the Consolidated Final Account of the Republic (produced for the first time in 2018).

With a dedicated parliamentary sub-committee specialized in the scrutiny of audit reports (established 2015) and formal procedures for deliberating and acting upon the audit reports (established 2017) in place, the National Assembly has issued conclusions that reinforce the obligation to implement SAI recommendations. The practice of hearings of the executive in the National Assembly was being developed in the period under assessment.

Analysis of key strengths and weaknesses indicates that necessary preconditions for increased effectiveness of the legislative scrutiny of public finance is in place**.** The National Assembly and the SAI have further institutionalized relevant functions for appropriate discharge of their mandate and operationalized their interactions through additional procedures. In addition to statutory audits, risk-based audit planning enables the SAI to prioritize among its 11,000 potential auditees. Lack of adequate premises continues to adversely affect the SAI's capacity. Audit hearings could be more systematic (as per PEFA criteria) and used to hold the government to account on systemic issues identified in the SAI reports.

PI-30. External audit

This indicator examines the characteristics of external audit. The coverage for this indicator is the CG and the scope is the last three completed years for dimensions 30.1, 30.2 and 30.3, while dimension 30.4 is assessed at the time of the assessment.

Indicator/Dimension	Score
PI-30. External audit (M1)	**B+**
30.1. Audit coverage and standards	A
30.2. Submission of audit reports to the legislature	B
30.3. External audit follow-up	A
30.4. Supreme Audit Institution independence	A

There is a comprehensive constitutional and legislative framework in place which regulates the functioning of the State Audit Institution in Serbia as the supreme audit institution. The Constitution identifies the SAI as the highest national audit authority, which is independent and accountable only to the National Assembly[142] which appoints and removes the SAI management in line with Article 19 of the SAI. The Constitution also assigns the responsibility for the audit of the execution of all budgets to the SAI.[143] The BSL reinforces this arrangement by prescribing that the final account of the budget of the Republic of Serbia and final accounts of the mandatory social insurance organizations are to be audited by the SAI, in effect making them statutory audits.[144]

The scope of work, competencies, organization and manner of work of the SAI are elaborated in the Law on State Audit Institution and the Institution's own Rules of Procedure. The Law on SAI provides a sufficiently broad mandate for the SAI to perform financial, regularity and performance audits of state and EU funds. Further standardization of audit practices and efficiency gains are expected in 2021 once the integrated Audit Management Software is introduced.

At the time of assessment, development of the Serbian SAI was guided by its Strategic Development Plan 2019-2023. The SAI was extensively reorganized with the appointment of new Auditor General in 2018. The Serbian SAI actively participates in regional and international development initiatives. The first-ever peer review was underway at the same time as the PEFA assessment so its results could not be used to corroborate the performance assessment below.

30.1. Audit coverage and standards

According to the statutory mandate,[145] the SAI can audit all public funds of a broad range of entities across the public sector, including DBBs and IBBs, SFFs, public enterprises, units of territorial autonomy and local self-governments, the National Bank of Serbia and all other beneficiaries of public funds (an audit universe with around 11.000 potential auditees). The SAI conducts audits of financial statements, regularity audits, and performance audits (see also PI-8.4 on performance auditing). These can be combined. The audit remit extends to revenues and expenditures in accordance with the regulations on the budget system, financial statements, financial transactions, calculations, analyses and other records and information of the auditees.[146] As a part of its audit, SAI also examines the financial management and control systems, internal control systems and internal audit. Significant issues are highlighted in each individual audit report. In addition, the SAI's Annual Activity Report singles out and discusses issues of systemic importance for the PFM system as a whole.

As an INTOSAI member, the SAI subscribes to ISSAIs and there are no national auditing standards. The SAI reported that its methodologies have been progressively updated to align with the level IV ISSAIs. Updated methodologies include: Financial Audit Manual (2019), Regularity Audit Manual (2018), and Performance Audit Manual (2019) and IT Audit Guidelines. The SAI's methodological guidance is not publicly available.

In terms of coverage, strategic audit planning is guided by multiple risk factors (one of which is the materiality of audited transactions). Actual coverage of the main CG entities (BCG and SSFs)[147] with auditor's opinion on the financial statements (financial audit) in the three years is presented in the Table below.

[142] Constitution, Article 96.
[143] Constitution, Article 92. The same Article requires the SAI to audit local government final accounts in line with the Law on the SAI.
[144] BSL, Article 92.
[145] Law on SAI, Article 10.
[146] SAI Annual Activity Report, 2013.
147 As elsewhere, EBUs expenditure is under 10 percent of and not considered material for assessment on this dimension.

Table 30.1: Audit coverage of the CG financial reports

Year	Financial reports for FY	Coverage of the Final Account of the BCG				Coverage of the Final Accounts of the SSFs			
		Exp.	Rev.	Ass.	Lia.	Exp.	Rev.	Ass.	Lia.
2017	FY 2016	100 percent				100 percent			
2018	FY 2017	100 percent				100 percent			
2019	FY 2018	100 percent				100 percent			

Source: the SAI

Considering the reported coverage, the score for the present dimension is A.

30.2. Submission of audit reports to the legislature

The law prescribes the following scope of SAI reporting to the National Assembly.[148]

- Annual Activity Report
- Individual audit reports in the course of the year
- Audit report on the Final Account of the Budget of the RoS, the final accounts of the SFFs and the consolidated financial reports of the Republic.

Audit reports for the last year's financial reports from individual audit engagements are submitted to the National Assembly throughout the year (as they are completed). As a result of the cyclical nature of external audit work, the number of submitted individual audit reports peaks in the second half of the year (in particular, in November), within 12 months after the end of period covered in the financial reports. The SAI submits the bulk of their audit reports of individual entities to the National Assembly within six months of receipt of the respective financial reports for audit.

The Law on SAI does not prescribe a deadline in which the SAI should submit the audit report on the Final Account of the Budget of Republic of Serbia. The Law foresees that the SAI reports to the National Assembly on the audit of the Final Account in the process of the adoption of the proposal of the Law on Final Account of the Budget of Republic of Serbia.[149] In practice, the SAI submits its Audit Report on the Final Account of the Budget of the Republic in December, within six months from its receipt and within 12 months after the end of the period covered in the financial reports.

Table 30.2: Timing of audit reports submission to the legislature for CG financial statements

Year	Report for FY	Dates of receipt of the financial reports by the SAI	Dates of submission of the financial audit reports to the legislature	Months from receipt to submission
2017	FY 2016	18 July 2017	29 December 2017	5.5
2018	FY 2017	18 June 2018	17 December 2018	6
2019	FY 2018	20 June 2019	25 September 2019	3

Year	Report for FY	Dates of receipt of the financial reports by the SAI				Dates of submission of the financial audit reports to the legislature				Months from receipt to submission			
		PIO	RFZO	NSZ	SOVO	PIO	RFZO	NSZ	SOVO	PIO	RFZO	NSZ	SOVO
2017	FY 2016	19 May 2017	6 June 2017	16 May 2017	26 May 2017	11 December 2017	13 December 2017	13 December 2017	11 December 2017	>7	>7	7	>7
2018	FY 2017	7 June 2018	19 June 2018	2 July 2018	23 May 2018	29 Nov. 2018	30 Nov. 2018	28 Nov. 2018	20 Nov. 2018	5.5	5	5	5.5
2019	FY 2018	25 April 2019	14 July 2019	30 April 2019	4 April 2019	22 July 2019	7 Nov. 2019	24 July 2019	24 July 2019	3	5	3	3

Source: the SAI

[148] Law on SAI, Article 43.
[149] Law on SAI, Articles 44-47.

Based on the available information on practices in the period 2017-2019 and progressive improvements in the throughput time over the assessed years, the rating assigned for the present dimension is B.

30.3. External audit follow-up

The post-audit procedure is laid down in the Law on SAI and SAI Rules of Procedure and remains unchanged relative to the last assessment. All auditees are under the statutory obligation to provide a response report to the SAI with time-bound corrective actions that will be taken to remove the identified irregularities or deficiencies within 30-90 days from the completion of the audit.[150] The deadlines have been complied with in practice. The procedure stipulates that the auditees monitor the implementation of their plan and report to the SAI in appropriate intervals with evidence of the implementation of recommendations. The information on follow-up activities of the auditees is consolidated on the level of the institution. SAI manages a comprehensive data base of the implementation status for the recommendations issued to the executive (Registry of Recommendations for 2019 was published in 2020).

The SAI checks the credibility of each response report and respective evidence. If the response report and evidence are not found to be credible, the SAI Council may decide to take further action over the Response Report, including audit of the Response Report. Over the past years, SAI verified management's follow-up through approximately 20 audits of response reports annually. Review of the response report includes documentary check of evidence that confirms the corrective actions taken to implement audit recommendations.

For all the audits conducted in the last three completed fiscal years,[151] the information on the status of implementation of recommendations from the response reports is summarized in the SAI's Annual Activity Report. Since 2019, all response reports - matched to the post-audit report where possible - can be accessed by interested parties on the SAI web page. In case of failure of auditees to act in line with the SAI recommendations, the SAI may file misdemeanor/criminal charges or initiate the procedure to replace the head of the non-compliant auditee.[152] Response reports on the Final Accounts have been found credible in the last three completed fiscal years, with implementation for the BCG Final Account of 20/25 (80%) of recommendations from the Audit Report for FY 2017), 21/31 (68%) from the Audit Report for FY 2018, and 9/20 (45%) from the Audit Report for FY 2019. For all three years, none of the recommendations are past implementation deadline and the outstanding ones are reported as "underway."

Based on the supporting evidence, the score for the present dimension is A.

[150] Law on SAI, Article 40.
[151] These covered the central government, local government and public enterprises.
[152] For example, eight such requests have been filed for breach of "good governance" principles.

30.4. Supreme Audit Institution independence

Overview of the SAI independence requirements met is presented in the table below.

Table 30.2: Timing of audit reports submission to the legislature for CG financial statements

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1.The SAI operates independently from the executive with respect to:		
- procedures for appointment and removal of the head of the SAI	Y	The procedures foreseen in the Law on the SAI have been observed in April 2018 when the new SAI management was appointed. There were no cases of removal of the Head of the SAI to date.
- the planning of audit engagements	Y	The Council approves the (Annual) Audit Program. The Head of the SAI approves the (Annual) Work Plan. ISSAI requirements apply for planning of individual audit engagements.
- arrangements for publicizing reports	Y	All audit reports are published immediately upon completion of the audit and are readily available from the SAI web page.
- the approval and execution of the SAI's budget.	Y	Nearly 90 percent of the SAI funding is secured through the annual budget. The issue of financial independence, with corresponding measures, is raised in sub-objective 3.1 of the SAI Strategic Plan.[153]
2. This independence is assured by law.	Y	Constitution, Law on the SAI
3. The SAI has unrestricted and timely access to all records, documentation and information for all audited entities.	Y	There are no restrictions of access in practice. The auditors are certified to access information which is regulated under the Law on Data Confidentiality (2014).

Based on the analysis of requirements met, the score for the present dimension is A.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (i) they are required by law to submit audit reports to the legislature or (ii) their parent or controlling unit must answer questions and take action on their behalf. The coverage is CG and the scope includes the last three completed fiscal years.

Indicator/Dimension	Score
PI-31. Legislative scrutiny of audit reports (M2)	**B+**
31.1. Timing of audit report scrutiny	A
31.2. Hearings on audit findings	C
31.3. Recommendations on audit by legislature	B
30.4. Transparency of legislative scrutiny of audit reports	A

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

Institutional and procedural preconditions for effective parliamentary scrutiny of audit reports are in place. The Law on SAI foresees deliberation of the SAI's reports by the National Assembly and these duties were discharged by the Committee on Finance, State Budget and Control of Public Spending (the Committee) in accordance with the remit defined in the National Assembly's Rules of Procedure and the 2015 Memorandum of Understanding signed between the National Assembly and the SAI. The Sub-Committee for Deliberation of the SAI Audit Reports (the Sub-Committee) was established in 2015 and carries out scrutiny of audit reports in line with its 2017 Guidelines for Deliberation of Audit Reports. The Committee Secretariat provides the technical services while the establishment of a dedicated expert team to provide advisory role to the Committee members (slated for 2019) has been postponed indefinitely.

General requirements for audit reports to be submitted to the Assembly are defined in the Law on the SAI and include:

- SAI's Annual Activity Report;
- Individual reports in the course of the year;
- Audit Report on the Final Account of the Budget of the Republic (BCG budget), final accounts of the financial plans of the SFFs and the consolidated financial reports of the Republic. (Article 43)
- Audit reports on SNGs, reported to the competent SNG with copy for the National Assembly. (Article 44)

Requirements for submission of other audit reports are likewise defined in the Law on the SAI[154] and include those which are classified as "heavy breach of duty of sound operations" or "urgent" and are reported by the SAI ahead of the submission of the SAI Annual Report.[155] The National Assembly acknowledges the SAI's Audit Report and Activity Report rather than formally approving them.

The interaction of the Committee with the outputs of SAI's activities is defined in two instances in the Rules of Procedure. The first is the deliberation and reporting of the Committee to the National Assembly of the SAI's Audit Report on the conducted audit of the Final Account.[156] The second is the deliberation of the SAI's Annual Activity Report and reporting to the Assembly with a proposal of conclusions/recommendations. The Annual Activity Report is relevant for Parliamentary scrutiny as it highlights the principal findings and recommendations from the audit of the Final Account. The National Assembly is to deliberate the SAI's Annual Activity Report alongside the report produced by the Committee. Upon concluding the deliberation, the National Assembly is to decide on the proposal of conclusions/recommendations by a majority vote.[157]

Since the last PEFA assessment, there have been 10 sessions of the sub-committee held off-premises, with representatives of the SAI in attendance. Other joint meetings have likewise been held with the SAI representatives, representatives of international organizations and civil society organizations. The sessions were also held with the representatives of the SAI and the MoF on initiatives for interventions in the legislative framework which resulted in nearly 50 proposals of amendments in the legislative framework.[158]

[154] Articles 40 and 46 of the Law on the SAI.
[155] See Item 3 of the Guidelines for Deliberation of Audit Reports.
[156] Article 177, Rules of Procedure.
[157] Article 238-241, Rules of Procedure.
[158] 27 amendments to laws and 21 amendments to by-laws.

31.1. Timing of audit report scrutiny

While the procedural steps for reviewing of audit reports by the Committee and the Sub-Committee are contained in the 2017 Guidelines, no statutory deadlines for audit report scrutiny are spelled out. In line with the Rules of Procedure (Article 177), the Audit Report of the Final Account is to be deliberated in the plenary as a part of the discussions on the proposal of the Law on the Final Account. Considering that the Government submitted proposals of the law on the final account for the period 2002-2018 in September 2019, the table below evidences deliberation of the respective audit reports as completed within 3 months.

Table 31.1: Scrutiny of the Audit Report of the Final Account

<table>
<tr><th>Year</th><th>Audit report</th><th>Dates deliberated by the Committee</th><th>Submission of the proposal of the Final Account</th><th>Dates deliberated in the plenary</th><th>Deliberated from receipt</th><th>Deliberated from end of the reporting period*</th></tr>
<tr><td rowspan="2">2019</td><td>Audit Report on the Final Account for FY 2017</td><td>30 May 2019[1] / 1 November 2019[2]</td><td rowspan="2">September 2019</td><td rowspan="2">Deliberated on 10 Dec. 2019, as part of discussions on proposals of the law on the final account for 2002-2018.</td><td rowspan="2">Under 3 months</td><td>24 months</td></tr>
<tr><td>Audit Report on the Final Account for FY 2018</td><td>1 November 2019[2]</td><td>12 months</td></tr>
<tr><td>2020**</td><td>Audit Report on the Final Account for FY 2019</td><td>7 December 2020**</td><td>November 2020**</td><td>Deliberated on 8 December 2020**</td><td>Under 1 month</td><td>Under 12 months</td></tr>
</table>

Source: National Assembly, Secretariat of the on Finance, State Budget and Control of Public Spending

[1] presented for the first time as a part of the SAI's Sector 1 report on the 76th session of the Committee

[2] presented as a part of the consolidated presentation of all audit reports on final accounts in the period 2002-2018 on the 91st session of the Committee

* from the time from the end of the reported period through the time when the respective audit report was deliberated in the plenary

** outside of the assessment cut-off date and not scored on this dimension

In light of the delay in the submission of the proposal of the laws on the final account from the previous years, the Committee could only finish the deliberation and propose the plenary to adopt the Laws on Final Accounts of the Budget for 2017 and 2018 in December 2019, within 24 and 12 months from the end of the respective periods. The Committee did consider the proposals within the 3 months from their submission for both years.

While not part of the scoring, it is noted that the Committee also deliberated the FY 2018 SAI Annual Activity Report in June 2019, and prepared and submitted a Report with a proposal of Conclusions to the National Assembly. In accordance with the Law on SAI[159] and the Rules of Procedure,[160] the National Assembly issued its conclusions based on Committee's proposal. FY 2019 SAI Annual Activity Report was submitted to the National Assembly on 31 March 2020 (within the assessment cut-off date) and deliberated on 26 December 2020 (outside of the assessment cut-off date).

Based on the available information, the score for the present dimension is A.

[159] Article 48, SAI Law.

[160] Article 238, Rules of Procedure.

31.2 Hearings on audit findings

The Rules of Procedure[161] provide for the holding of public hearings as a means for Committee members and other parliamentarians to receive the information, professional opinion or comments from stakeholders.

Table 31.2: Hearings on audit reports for CG entities

Calendar year	Characteristics of audit hearings		
	Total hearings	**Audit related**	**Attended by**
2017	1	▪ SAI sector reports*	▪ Committee and Sub-Committee members, ▪ SAI top management and senior auditors
2018	2	▪ SAI sector reports*	▪ Committee and Sub-Committee members, ▪ SAI top management and senior auditors, ▪ representatives of the Anti-Corruption Agency
2019	3	▪ SAI sector reports ▪ Financial audit reports** ▪ Final Account Audit Reports from 2002 until 2018	▪ Committee and Sub-Committee members, ▪ SAI top management and senior auditors, ▪ representatives of the MOF (Treasury Administration)

Source: National Assembly, Secretariat of the on Finance, State Budget and Control of Public Spending
* Audit reports on the final account could not be deliberated outside the procedure for deliberation of the proposal of the respective laws on the final account, formally submitted by the Government in September 2019
** 88 in total, include audit reports other than for CG institutions

The Rules of Procedure[162] foresee that SAI representative may be required to participate in sessions of the Committee and the National Assembly and this has occurred in all three calendar years covered by the assessment. At the same time, the representatives of the audited entities appeared in the hearings in only one of the three years which was conditional on availability of the proposals of the law on final account for the earlier period. Representatives of the Committee Secretariat expressed satisfaction with the level of professional support provided by the SAI. Despite strong performance in 2019, the hearings took place with the MoF officials only and not more than 75 percent of audited entities which received a qualified or adverse audit opinion or disclaimer (which is requirement for score B).

Based on the available information, the score for the present dimension is C.

31.3. Recommendations on audit by legislature

While the SAI Law foresees a procedure in which the National Assembly considers the proposed audit recommendations, measures and deadlines for their execution,[163] there is no further specification of the requirements for auditees on actions to be taken. The recommendations issued by the SAI are already legally binding on auditees. The only opportunity for the Committee and the National Assembly to come forward with conclusions and recommendations is at the deliberation on the annual SAI Activity Report.

Following the deliberation of the SAI Annual Activity Reports for 2018 and 2019 in the Sub-Committee/Committee and its proposal of conclusion, the National Assembly issued separate conclusions which confirmed that the SAI had made a thorough presentation of its activities in the report and requested the Government to undertake measures on implementing the SAI recommendations. The Assembly singled out the Government's responsibility for ensuring a sound

[161] Article 83.
[162] Article 238.
[163] Article 48, SAI Law.

internal control and internal audit system. There were no separate follow-up and reporting requirements and the Assembly ascertains the implementation of its recommendations from the subsequent audit reports.

Other means of follow-up exercised in 2019 included the Committee meeting with the SAI and MoF representatives in June 2019 on SAI recommendations and recommendations of parliament members for amendments to laws, resulting in all of the 17 proposals of the law on final account and multiple other laws and bylaws. The Committee held a session with the same counterparts in December 2020 (outside the assessment cut-off date) which resulted in further legislative amendments, indicating follow up even in the absence of formal requirement for the executive to report to the National Assembly on implementation of recommendations.

Based on the available information, the score for the present dimension is B.

31.4. Transparency of legislative scrutiny of audit reports

All Committee hearings on audit findings (which include sectors other than CG) have been conducted in public. All the hearings in the period were held in off-premises session and include deliberation of audit reports on local governments where the sessions are taking place. Representatives of local government, CSOs and interested citizens took part. The proceedings are streamed live, documented and the recordings of the hearings held in the Committee are available from the web page of the National Assembly (links available in Annex 3 below). Conclusions of the Committee with respect of deliberation of the Audit Report of the Final Account are likewise available.

Based on the available information, the score for this dimension is A.

3.Overall analysis of PFM systems

3.1. PFM strengths and weaknesses

Aggregate fiscal discipline

Aggregate fiscal discipline aims to align the levels of revenue and expenditures without creating significant fiscal deficits which could jeopardize fiscal sustainability and manage spending within the available fiscal space.

With regard to the revenue side, overall efficient revenue administration from the aspects of transparent rights and obligations of taxpayers, risk assessment, tax audits and accounting for revenue, contributes to improving fiscal discipline. However, the fact that tax arrears remain at high levels can negatively influence achieving planned levels of revenue.

With regard to expenditure management, PFM elements which relate to annual budget planning and execution register sound performance. Hard controls embedded in the budget execution system allow spending by budget beneficiaries only within approved budget allocations (at the payment stage), thus contributing to the fiscal discipline. Deviations between the budget execution and the approved budget are low to moderate, including limited in-year reallocations, which enables adequate control and management of the budget and contributes to the fiscal discipline. The budget and fiscal information are overall comprehensive and transparent which creates conditions for accountability in the use of funds and appropriate monitoring of the budget, as well as a low level of unreported operations of the central government.

However, unlike the annual budget, procedures and processes which impact the following budget year and the medium-term, demonstrate some deficiencies. Commitment control is decentralized to the level of individual budget beneficiaries and relies on their system of financial management and control, which is still underdeveloped and thus susceptible to lack of discipline and incurring commitments which exceed budget allocations. There is no centralized ex-ante control to prevent budget beneficiaries from entering into such excessive contractual commitments.

Macroeconomic and fiscal forecasting, fiscal policies and strategies, and medium-term estimates are duly prepared, nevertheless there seem to be weak considerations of those when determining annual budget activities and allocations. Operationalization of the strategic priorities to budget programs and activities is not consistent and ad-hoc priorities frequently take precedent which in the long-term could undermine the stability of public finances and environment for growth. Medium-term expenditure ceilings and estimates remain provisional and are considered and analyzed to a low extent on rolling basis.

There was no formal and fully functional mechanism for monitoring of fiscal risks in the assessed period and this function was established only in 2019 within the MoF and it is being developed at the moment. A lack of fully functioning system for monitoring of fiscal risks may result in additional unplanned budget expenditures which poses a risk to efficient fiscal management. In the previous several years a number of fiscal risks materialized, including activation of SOE loan guarantees, using the deposit insurance fund due to bankruptcy of several commercial banks, natural disasters due to floods, etc. Documented shortcomings in asset management prevent revenue maximization from renting, disposal, and overall management of assets.

Public investment management demonstrated weaknesses, which can lead to selecting projects which face implementation delays and result in underspending of the capital budget, or projects which are poorly budgeted and experience cost overruns. Finally, program budgeting and performance management which are not fully effective prevent appropriate evaluation of achieved results of specific programs, projects, and activities, and thus deprives future planning of resources of this input information for future decision making with regard to prioritizing budget allocations. Therefore, while PFM elements which contribute to the aggregate fiscal discipline at the level of the annual budget exist, those elements which would ensure fiscal discipline in the future beyond the annual perspective lag behind.

Strategic allocation of resources

Allocating resources in line with strategic priorities contributes to maximizing the impact of public spending for an efficient public sector and economic growth. There are over 200 strategies (national, sector, and to lower extent institutional) which provide an overall framework for the reform actions and strategic objectives. However, in a number of cases strategies are not costed and the linkage between strategic documents and composition and priorities of the annual budget and medium-term estimates is not always obvious.

Performance management and measurement of results of budget programs and activities are basic, which hinders effective monitoring and revising strategic priorities and their long-term impact based on performance. Available budget funds should be utilized in a strategic manner to maximize positive impacts of public spending.

Public investment management is closely linked with strategic perspective of the budget, given that strategic dimension in selection of capital projects is crucial, therefore weak public investment management is detrimental to strategic allocation of resources. Considering the long-term perspective of strategic objectives, the weak medium-term budgetary framework does not create favorable conditions for proper planning of strategic activities. Similarly, improved monitoring and management of fiscal risks and arrears would ensure that there are no additional unplanned expenditures based on materialized fiscal risks or accumulated arrears, which could shrink the fiscal space for strategic allocations in order to address these ad-hoc issues.

An effective two-way budget preparation process between the budget beneficiaries and the MoF and vital role of sector specific knowledge of budget beneficiaries in determining the budget (through preparation of their respective financial plans), supports a strategic perspective of the budget. A credible budget in terms of the level of total expenditures ensures strategic allocations are implemented as budgeted. A transparent and comprehensive budget facilitates monitoring of budgeted and executed strategic allocations.

Given that there are no material concerns about the accuracy of reported expenditures in in-year and annual reports reporting, there is reliable information about the execution of strategic allocations. Procurement management is rated well, which supports the execution of strategic allocations. Payroll controls are adequate, which enables managing the payroll cost within allocated amounts and safeguarding available funds for strategic activities. Therefore, while the system ensures that, once budgeted, the activities are duly implemented, the strategic objectives are not always operationalized through budget activities and certain ad-hoc expenditures may be prioritized instead.

Efficient service delivery

The manner in which the funds for service delivery are prioritized, budgeted, spent and evaluated, is a key success factor for efficiency of the public services which the government provides to citizens and society.

A reliable budget reduces the risk of reallocation of such allocations to other expenditure categories. A transparent and comprehensive budget and reliable data on executed expenditures, facilitate appropriate monitoring of service delivery programs. The overall well performing revenue administration ensures that planned levels of revenue are collected and made available for service delivery without unnecessary float. Likewise, predictability in resource allocation and cash management practices make the resources available on time and in line with operational plans of the service delivery units. Public procurement favors competitive practices and is not seen as a bottleneck to service delivery. In addition, the sound budget execution system and controls ensure that budget allocations intended for service delivery are executed in an orderly manner. Additional scrutiny provided by external audit, as well as the parliamentary scrutiny of the budget and to lower extent the final account, provide additional layers of monitoring the expenditures related to service delivery.

Underdeveloped program budgeting and performance management concepts and practices provided limited insights into the efficiency of service delivery. Appropriate measurement of achieved results, key performance indicators, outputs and outcomes for each budget program would be highly beneficial for more efficient service delivery in the medium to long term. Such performance information and analysis would enable corrective actions for the future budget cycles and provide valuable information for further improvements. While the performance plans are prepared for budgetary units, information on the performance achieved, resources received by service delivery units and performance evaluation, are either not prepared, are insufficient or not publicly available. Performance-based expenditure reviews are not conducted by the MoF, and there are no other government-sponsored performance evaluations of the efficiency and effectiveness of service delivery. The SAI has performed 16 performance audits during 2017-2019, however such scope still provides limited information on performance.

3.2. Effectiveness of the internal control framework

The effectiveness of the internal control framework[164] in the public sector organizations is subject to close scrutiny by the MoF and external stakeholders. MoF's Sector for Central Harmonization annually collects, consolidates and analyzes quantitative information from self-assessment of PIFC implementation status across 17 principles of the COSO Framework components,[165] following up with recently introduced targeted quality reviews of both financial management and internal audit practices on a sample of individual institutions. Budget Inspection is charged with following-up on reported irregularities and illegal proceedings. The SAI scrutinizes and reports on internal control effectiveness as required under the ISSAI framework.

As a candidate country for EU membership, progress in development of internal control is annually assessed in fulfilment of requirements under Chapter 32: Financial Control which is considered the benchmark for, among other things, development of PIFC and the external audit function. Likewise, development of internal control is monitored under the OECD SIGMA's Principles of Public Administration diagnostic assessment tool. According to a November 2020 progress assessment

164 Accross five components of the COSO framework: Control environment, risk assessment, control activities, information and communication, and monitoring and evaluation.

165 As of 2020, quantitive analyses are supplemented with qualitative (open-ended) analyses.

carried out by the EC, Serbia was moderately prepared with "good progress in the [2019] reporting period" to assume obligations which pertain to implementation of applicable standards and good practices.

Combined findings from these sources indicate progress in internal control effectiveness, supported with capacity development for relevant staff. Against this background, the degree of success in practical implementation in different spending units and across key PFM processes remains uneven. Third-party assessments indicate that "the capacities to implement internal control standards, including risk management have to be further enhanced at both central and local government and better accepted in the administrative culture of the public sector." (EC 2020)

Control of overall fiscal aggregates required the controls to focus on inputs and strict compliance with the rules. Findings on overall budget reliability signal that the MoF managed to uphold controls over budget rules for supplementary estimates and virements (see scores on PI-1 through PI-3, PI-18.4). In parallel, the drive for improved capacity for resource allocation over the medium term required that controls be optimized to support decision making by linking resources with objectives and results (see scores on PI-8, PI-14 through PI-16). Additional enabling factors for full implementation in this regard are yet to be secured through improved strategic planning and a program budgeting approach.

The overall control environment is conducive to managerial accountability for compliance and value for money, both of which have been cross-cutting concerns throughout the assessed period. Individual entities develop the institution-level internal control framework based on the Plan for Improving Management and Control. On the institutional level, however, controls appear to remain centralized and this issue stems from a lack of delegation of authority, which can be attributed to insufficiently developed accountability and reporting lines for monitoring how the authority has been exercised, resources used, and responsibilities fulfilled.

According to self-reported 2019 data, risks are documented in risk registers which have been established by 66% of ministries, 50% for other DBBs, 32% of IBBs and 100% of SSFs. On the cross-cutting PFM processes, risk management has performed reasonably well in all corresponding dimensions analyzed in section 2, except in the economic analysis of investment proposals. Incorporating a risk-based approach in revenue collecting agencies helped to promote operational efficiency in collection but not all control activities have been carried out as planned. Further development of the risk management function, including in investment and asset management, is needed in order to improve control activities in these areas in the future. Risk management practices in individual institutions are singled out as one of two internal control components which require additional development in a substantial number of public funds beneficiaries (the second component being the monitoring and evaluation described below). (CHS, 2019)

In terms of control activities, illustrative internal control failures reported by the SAI are reported as a part of the SAI's Annual Activity Reports and include missing, conflicting or incomplete internal procedures, implementation of control activities over documentation, and safeguarding of access to assets and information.

Table 3.2.1. Summary figures for irregularities in CG entities that were audited in this period

	RoS Budget Beneficiaries	SSFs and users of health care funding
Control environment	7	28
Risk management	5	7
Control activities	21	46
Information and communication	13	61
Monitoring and evaluation	3	7

Source: SAI Annual Activity Report for 2018 (the latest available)

With respect to evaluation of the internal control systems, both the audit (internal and external) and oversight functions have strengthened. Internal and external auditors have made substantial contributions to assessment of the internal control system through their individual engagement and annual reporting but their value added may, at times, be difficult to quantify. The IA function has strengthened across all relevant parameters (number of units, number of auditors, number of audits, and recommendations). The bulk of resources were committed to auditing compliance. In terms of management response to audit recommendations, practices in the assessed period have scored in the upper performance range. External audit reports were used to hold government executives to account in front of the parliament's working bodies.

The MoF's Budget Inspection Sector reported that CG entities accounted for about one quarter of the total confirmed irregularities in 2019 (2 in DBBs, 5 in SSFs and 28 in RFZO users of 111 in total from all public sector institutions). A number of irregularities are highlighted concerning the provisions of the BSL, the Annual Budget Law, procurement and salary calculation provisions. The findings (minutes), resulting from an increased number of inspections (43 in 2019, relative to 15 in 2018), are still not considered representative enough to extrapolate conclusions that could affect assessment results in Section 2.

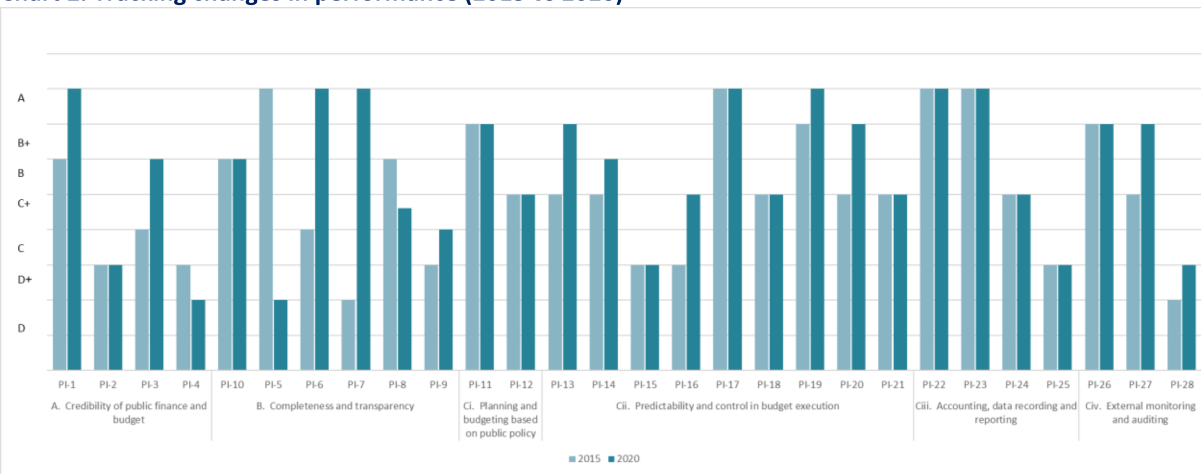
As recommended by the PEFA guidance, scores from Section 2 which pertain to internal control effectiveness are mapped against the COSO framework components in Annex 2 (and supplemented with other available information).

3.3. Performance changes from previous assessment

The PEFA report analyzes the performance changes compared to the 2015 assessment. Considering that the 2015 assessment was conducted in line with PEFA 2011 Framework, while the current assessment is using PEFA 2016 Framework, in line with the PEFA Secretariat's guidance the analysis of performance change was done by assessing the indicators under PEFA 2011 Framework using the data for the current assessment (see Annex 4 for indicators scores under the 2011 framework).

The PFM performance registered an overall improvement comparing to 2015. Out of 28 performance indicators, 13 indicators kept the same rating, 11 indicators registered improved scores due to improved performance, and only 3 indicators showed deteriorated scores. One indicator, related to unreported government operations was unrated in 2015, while it was rated with the highest score in 2020.

Chart 2. Tracking changes in performance (2015 vs 2020)



Key changes between PEFA assessments in 2015 and 2020 are summarized below:

i. Monitoring of autonomous government agencies and public enterprises registered marginal improvement from the previous assessment, however as mentioned in preceding sections, a formalized and systemic approach to monitoring fiscal risks remains an area for development.
ii. Sector strategies are prepared and costed for a higher number of sectors comparing to 2015. Nevertheless, as conclusions of the 2020 assessment explain, the strategic perspective in planning and budgeting remains underdeveloped in Serbia.
iii. Revenue administration saw an overall improvement compared to 2015. Transparency and access of tax liabilities have improved, as well as tax audits, tax appeal mechanism and effectiveness of penalties. However, management of tax arrears remained an issue and has not registered improvement.
iv. Budget execution registered comparative improvements and budget beneficiaries are able to reliably plan against payment ceilings for one month in advance, supported by an indicative spending profile for the year. In addition, comprehensiveness, relevance and understanding of internal controls, as well as applied internal controls and compliance with rules for processing and recording transactions, upgraded the score.
v. Budget preparation was rated higher in some areas comparing to 2015. Credibility of the budget improved due to lower deviations between actual and budgeted expenditure and revenue. Comprehensiveness of the budget documentation was also rated a notch higher, however this can be partly attributed to evolving interpretation of the PEFA methodology in terms of what can be considered as budget documentation. Compliance with the budget calendar improved relative to the previous assessment. Information on donor funded projects likewise improved, given that such projects were included in the budget. It should be noted that unreported central government operations remained unrated in the previous assessment, therefore no comparison was possible.
vi. Transparency and objectivity for transfers to sub-national level of the government was downgraded given that the regulation for allocation of transfers was not applied in practice since 2013 (year assessed by PEFA 2015).
vii. Coverage and quality of internal audit improved through continued implementation of Public Internal Financial Control. Management response to internal audit findings likewise registered an increase in score.
viii. Legislative scrutiny over annual budgets and external audit reports marked improvements in terms of established and applied procedures and timeliness of the parliament's actions. Also, the extent of parliamentary hearings based on audit findings improved.
ix. As the SAI has been continually strengthening its capacities, the external audit indicator saw improved performance and dimension scores between the two assessment periods but the same overall indicator score due to deadlines in which the audit reports are submitted to the National Assembly.
x. Procurement was upgraded in score due to improvements of the legal framework and enforced practices for public access to procurement information. Charging fees for filing complaints with regard to procurement processes is a downside of the complaints mechanism.
xi. Monitoring of arrears was scored for a notch lower. Data on arrears is either limited or unavailable. Complete and reliable data was not made available during the conduct of the current assessment.

Given that the performance changes had an overall upward tendency, they impacted the fiscal and budgetary outcomes in a positive way. More reliable budgeted expenditures and revenue enhance aggregate fiscal discipline. At the same time, credible budgets also ensure that allocations for strategic purposes are properly planned and executed, without the risk of poor budgeting resulting in reallocation of resources to less strategic, unplanned and ad-hoc activities. More effective internal controls contribute to a sound and reliable budget execution with room for their further improvement in support of discharge of the managerial accountability principles. Strengthened legislative scrutiny creates an accountable environment favorable to aligning budget priorities with strategic objectives. Improved efficiency of revenue administration ensures the availability of resources for undertaking strategic projects. Reliable budgets, sound budget execution, and efficient revenue administration likewise ensure that resources allocated for service delivery are properly planned, made available, and executed without disruptions such as reallocation to other priorities. Quality findings by internal audit also have a positive impact by integrating their recommendations in order to bolster efficiency of service delivery, despite the low overall rate of value for money audits conducted.

Annex 1: Performance indicator summary

COUNTRY NAME: Serbia			Current assessment	
	2020			
Pillar	Indicator/Dimension		Score	Description of requirements met
Budget Reliability	**PI-1**	**Aggregate expenditure outturn**	**A**	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
	PI-2	**Expenditure composition outturn**	**D+**	Scoring method M1 (WL).
		(i) Expenditure composition outturn by function	D	Variance in expenditure composition by program, administrative or functional classification was more than 15% in two out of the last three fiscal years.
		(ii) Expenditure composition outturn by economic type	A	Variance in expenditure composition by economic classification was more than 5% in 2019.
		(iii) Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
	PI-3	**Revenue outturn**	**B**	Scoring method M2 (AV).
		(i) Aggregate revenue outturn	B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
		(ii) Revenue composition outturn	B	Variance in revenue composition was less than 10% in two of the last three years.
Transparency of Public Finances	**PI-4**	**Budget Classification**	**D**	Budget formulation and execution are based on every level of administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards. In-year budget execution reports, however, are consistently reported only by economic classification (as assessed in PI-28)..
	PI-5	**Budget Documentation**	**B**	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
	PI-6	**Central government operations outside financial reports**	**A**	Scoring method M2 (AV).
		(i) Expenditure outside financial reports	A	Expenditure outside government financial reports is less than 1% of total BCG expenditure.
		(ii) Revenue outside financial reports	A	Revenue outside government financial reports is less than 1% of total BCG revenue.
		(iii) Financial reports of extra-budgetary units	A	Detailed financial reports of *all* extrabudgetary units are submitted to government annually within three months of the end of the fiscal year.
	PI-7	**Transfers to SNGs**	**D+**	Scoring method M2 (AV).
		(i) System for allocating Transfers	D	Although the established system for most of transfers is transparent and rule-based, it was not applied in the last completed fiscal year (2019).
		(ii) Timeliness of information on transfers	C	Information on transfers to municipalities was issued during November (i.e. before the start of next FY) although with substantial delays.
	PI-8	**Performance information for service delivery**	**C+**	Scoring method M2 (AV).
		(i) Performance plans for service delivery	A	Information is published annually on policy or program objectives, key performance indicators, outputs to be

				produced, and the outcomes planned for *most* ministries, disaggregated by program or function.
		(ii) Performance achieved for service delivery	D	Performance is less than required for a C score.
		(iii) Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded for at least two large ministries, disaggregated by source of funds. A report compiling the information is prepared at least annually.
		(iv)Performance evaluation for service delivery	D	Performance is less than required for a C score.
	PI-9	**Public access to information**	**D**	Three out of five basic elements met.
Management of assets and liabilities	**PI-10**	**Fiscal risk reporting**	**C+**	Scoring method M2 (AV).
		(i) Monitoring of public corporations	B	Audited annual financial statements are published for *most* public corporations within six months of the end of the fiscal year.
		(ii) Monitoring of sub-national government (SNG)	C	Unaudited reports on the financial position and performance of the *majority* of subnational governments are published at least annually within nine months of the end of the fiscal year.
		(iii) Contingent liabilities and other fiscal risks	C	Central government entities and agencies quantify *some* significant contingent liabilities in their financial reports.
	PI-11	**Public investment management**	**D+**	Scoring method M2 (AV).
		(i) Economic analysis of investment proposals	C	Economic analyses are conducted to assess *some* major investment projects.
		(ii) Investment project selection	D	In 2019 there was not one unified and functional mechanism for prioritizing public investment projects based on standardized and publicized criteria
		(iii) Investment project costing	D	Performance is less than required for a C score.
		(iv) Investment project monitoring	C	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.
	PI-12	**Public asset management**	**D+**	Scoring method M2 (AV).
		(i) Financial asset monitoring	C	The government maintains records of its holdings in major categories of financial assets, but the consolidated information on the performance of the portfolio of financial assets is not available.
		(ii) Nonfinancial asset monitoring	D	Based on available information, it cannot be evidenced that the registers of all material assets are complete and current.
		(iii) Transparency of asset disposal	D	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents and financial reports but does not include all the information required under the PEFA Framework.
	PI-13	**Debt management**	**A**	Scoring method M2 (AV).
		(i) Recording and reporting of debt and guarantees	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced quarterly.

		(ii) Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
		(iii) Debt management strategy	A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
Policy-based fiscal strategy and budgeting	**PI-14**	**Macroeconomic and fiscal forecasting**	**A**	Scoring method M2 (AV).
		(i) Macroeconomic forecasts	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.
		(ii) Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.
		(iii) Macro-fiscal sensitivity analysis	A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
	PI-15	**Fiscal strategy**	**B**	Scoring method M2 (AV).
		(i) Fiscal impact of policy proposals	B	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.
		(ii) Fiscal strategy adoption	A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
		(iii) Reporting on fiscal outcomes	C	The government prepares an internal report on the progress made against its fiscal strategy. Such a report has been prepared for the last completed fiscal year.
	PI-16	**Medium term perspective in expenditure budgeting**	**D+**	Scoring method M2 (AV).

		(i) Medium-term expenditure estimates	B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
		(ii) Medium-term expenditure ceilings	D	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are issued before the first budget circular is issued, but are not approved by the government.
		(iii) Alignment of strategic plans and medium-term budgets	C	Medium-term strategic plans are prepared for some ministries. Some expenditure policy proposals in the annual budget estimates align with the strategic plans.
		(iv) Consistency of budgets with previous year estimates	D	Performance is less than required for a C score.
	PI-17	**Budget preparation process**	**B**	Scoring method M2 (AV).
		(i) Budget calendar	A	A clear annual budget calendar exists and is largely adhered to. The calendar allows all budgetary units about nine weeks from receipt of the budget circular to complete their draft budget.
		(ii) Guidance on budget preparation	C	A budget circular or circulars are issued to budgetary units, including ceilings for administrative or functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by Cabinet after they have been completed in every detail by budgetary units.
		(iii) Budget submission to the legislature	C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
	PI-18	**Legislative scrutiny of budgets**	**B+**	Scoring method M1 (WL).
		(i) Scope of budget scrutiny	A	The legislature's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
		(ii) Legislative procedures for budget scrutiny	B	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as legislature committees, technical support, and negotiation procedures.
		(iii) Timing of budget approval	A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
		(iv) Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
Predictability and	**PI-19**	**Revenue administration**	**B**	Scoring method M2 (AV).
		(i) Rights and obligations for revenue measures	A	Entities collecting most revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.

		(ii) Revenue risk management	A	Entities collecting most revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue and, as a minimum for their large and medium revenue payers.
		(iii) Revenue audit and investigation	C	Entities collecting the majority of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the majority of planned audits and investigations.
		(iv) Revenue arrears monitoring	D	Performance is less than required for a C score.
	PI-20	**Accounting for revenue**	**A**	Scoring method M1 (WL).
		(i) Information on revenue collections	A	A central agency obtains revenue data at least monthly from entities collecting all central government revenue. This information is broken down by revenue type and is consolidated into a report.
		(ii) Transfer of revenue collections	A	Entities collecting most central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury and other designated agencies.
		(iii) Revenue accounts reconciliation	A	Entities collecting most central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least quarterly within four weeks of the end of quarter.
	PI-21	**Predictability of in-year resource allocation**	**B+**	Scoring method M2 (AV).
		(i) Consolidation of cash balances	A	All bank and cash balances are consolidated on a daily basis.
		(ii) Cash forecasting and monitoring	A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
		(iii) Information on commitment ceilings	C	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.
		(iv) Significance of in-year budget adjustments	A	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
	PI-22	**Expenditure arrears**	**D**	Scoring method M1 (WL).
		(i) Stock of expenditure arrears	D*	Insufficient information available.
		(ii) Expenditure arrears monitoring	D*	Information on arrears' age and composition cannot be ascertained.
	PI-23	**Payroll controls**	**C+**	Scoring method M1 (WL).
		(i) Integration of payroll and personnel records	B	The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
		(ii) Management of payroll changes	B	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the

				following month's payments but no reliable data was available to prove corrections in a maximum of 3% of salary payments.
		(iii) Internal control of payroll	A	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
		(iv) Payroll audit	C	Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years.
	PI-24	**Procurement**	**A**	Scoring method M2 (AV).
		(i) Procurement monitoring	A	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works.
		(ii) Procurement methods	A	The total value of contracts awarded through competitive methods in the last completed fiscal year represents 80% or more of total value of contracts.
		(iii) Public access to procurement information	A	Every key procurement information element is complete and reliable for government units representing all procurement operations and is made available to the public in a timely manner.
		(iv) Procurement complaints management	B	The procurement complaint system meets criterion 1 (complaints are reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions), and three of the other five criteria.
	PI-25	**Internal controls on non-salary expenditure**	**A**	Scoring method M2 (AV).
		(i) Segregation of duties	A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
		(ii) Effectiveness of expenditure commitment controls	A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
		(iii) Compliance with payment rules and procedures	A	All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified.
	PI-26	**IA effectiveness**	**B+**	Scoring method M1 (WL).
		(i)Coverage of IA	A	Internal audit is operational for all central government entities.
		(ii) Nature of audits and standards applied	A	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
		(iii) Implementation of IAs and reporting	B	Annual audit programs exist. Most programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.

		(iv) Response to IAs	B	Management provides a partial response to audit recommendations for all entities audited within twelve months of the report being produced.
Accounting and Reporting	**PI-27**	**Financial data integrity**	**A**	Scoring method M2 (AV).
		(i)Bank account reconciliation	B	Bank reconciliation for all active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
		(ii) Suspense accounts	NA	
		(iii) Advance accounts	A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. All advance accounts are cleared in a timely way.
		(iv) Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
	PI-28	**In-year budget reports**	**C+**	Scoring method M1 (WL).
		(i)Coverage and comparability of reports	B	Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
		(ii) Timing of in-year budget reports	C	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
		(iii)Accuracy of in-year budget reports	B	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
	PI-29	**Annual financial reports**	**D+**	Scoring method M1 (WL).
		(i)Completeness of annual financial reports	B	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
		(ii) Submission of reports for external audit	C	Financial statements are available for audit within 7 months.
		(iii) Accounting standards	D	Performance is less than required for a C score.
External scrutiny and audit	**PI-30**	**External audit**	**B+**	Scoring method M1 (WL).
		(i)Audit coverage and standards	A	Financial reports of central government entities representing all of total expenditures and revenues of the CG entities have been audited, using ISSAIs during the last three completed fiscal years. The audits have highlighted relevant significant and systemic issues.
		(ii) Submission of audit reports to the legislature	B	Audit reports were submitted within six months from the date of submission and the throughout has progressively improved over the years.
		(iii) External audit follow-up	A	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which

				follow-up was expected, during the last three completed fiscal years.
		(iv)Supreme Audit Institution (SAI) independence	A	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.
	PI-31	**Legislative scrutiny of audit reports**	**B+**	Scoring method M2 (AV).
		(i)Timing of audit report scrutiny	A	In 2019, scrutiny of the audit reports received to date was completed within 3 months.
		(ii) Hearings on audit findings	C	In-depth hearings on key findings of audit reports take place occasionally and with ministry of finance officials only.
		(iii) Recommendations on audit by the legislature	B	The legislature reinforced SAI recommendations through its conclusions and followed up in separate meetings with the SAI and the MoF in 2019.
		(iv)Transparency of legislative scrutiny of audit reports	A	All hearings are conducted in public. Committee sessions are streamed and recorded. The reports are published on an official website.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	A new, comprehensive chapter on preventing conflicts of interest is included in the new CSL. (SIGMA 2019) The rights and obligations of civil servants, including the integrity system are included in the civil service legislative framework. (SIGMA 2019) Based on self-reported data, Code of Conduct exists in the majority of organizations (4.38/5) and is clearly communicated (4.15/5). (MoF, CHS draft report for FY 2019)
1.2 Commitment to competence	Professional development, including performance appraisal, training, mobility and promotion are included in the civil service legislative framework. However, the promotion and termination of employment of public agencies' staff is still not governed by merit-based rules. (SIGMA 2019) The responsibility for professional development is now divided between the Ministry of Public Administration (MPALSG), the National Academy for Public Administration (NAPA) and the Human Resources Management Service (HRMS). In 2017, the HRMS conducted 267 training courses serving 4 832 participants, and in 2018 the NAPA and HRMS organised 208 training courses serving 4 081 participants. In addition, coaching and mentoring are being used as development tools to conduct training programmes. Apart from the general training programmes organised by HRMS, almost 8 300 civil servants participated in other training programmes organised by different public authorities and the Ministry of European Integration. (SIGMA 2019) Against these figures, self-reported information emphasizes lack of training in internal control in the main CG ministries reporting (3.55/5). (CHS draft report for FY 2019)
1.3 1.4 The "tone at the top" (i.e., management's philosophy and operating style)	MoF's CHS actively promotes managerial accountability, including delegation of authority and resources, but available information suggests that the decision-making and other management practices remain largely centralized.
1.5 Organizational structure	The continued weaknesses in lines of accountability between independent bodies and their parent institutions need be addressed as part of ongoing public administration reform efforts. (2020 EC Progress Report)
1.6 Human resource policies and practices	The public service and HRM legal framework remains solid and was enhanced by the 2018 amendments of the Civil Service Law. The most critical issues have yet to be corrected, especially the recruitment and appointment of senior civil servants and so-called "acting heads". Despite the clear legal distinction between political posts and senior civil service posts, two-thirds of senior civil service posts have not been selected on a competitive basis. (SIGMA, 2019) The majority of HRM units in individual institutions still operate primarily as traditional "personnel services", dealing with legal employment issues without applying modern HRM tools. (SIGMA 2019) Self-reported data rate the existence of an effective systems for performance appraisal and staff incentives provide an overall average value 3.5/5 in the entire public sector. (CHS draft report for FY 2019)
2. Risk assessment	
2.1 Risk identification 2.2 Risk assessment (significance and likelihood)	Risk identification, assessment, and monitoring are supported by generic risk management guidelines curated by the MoF CHS. According to the applicable methodology, risks are assessed for impact and likelihood to identify high risk exposure areas and to prioritize follow-up action. MoF CHS singles out risk

	assessment as one of the aspects in need of improvement, based on the analysis of self-reported information on risk management practices submitted by users of public funds. (CHS draft report for FY 2019) Dimensions that concern risk identification and assessment in horizontal PFM processes assessed in section 3 of the PEFA report, scored as follows: ➢ Economic Analysis of Investment Proposals in 11.1 is rated C. ➢ Debt Management Strategy in 13.3 is rated A. ➢ Macrofiscal sensitivity analysis in 14.3 is rated A. ➢ Revenue Risk Management in 19.2 is rated A. ➢ Cash Flow Forecasting and Monitoring in 21.2 is rated A. Practices covering different aspects of fiscal risk management, as assessed in PI-10 of the PEFA Framework, scored C+.
2.3 Risk evaluation	Risks are documented in risk registers which need to be regularly monitored and reassessed. Risk registers are reported as established by 66.67% of ministries surveyed in the CHS annual survey for 2019, signaling that capacity for risk evaluation/re-evaluation is still limited across the BCG.
2.4 Risk appetite assessment	Public sector institutions are required to formulate their risk appetite within a broader Risk Strategy, as required in the MOF CHS Rulebook on Financial Management and Control. Available information suggests that not many risks are quantified to allow for somewhat more objective setting of risk appetite.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	All four generic options are available and used in selecting and implementing cost - effective and proportionate control activities. Under the CHS RM Guidelines, every head of organization units is required to periodically update the risk assessment and follow-up the implementation of risk management measures within the scope of their authority.
3. Control activities	
3.1 Authorization and approval procedure	Authorization and approval procedures, as assessed for core payment processes in PI-25, scored in the higher range of PEFA scores. Information on authorization and approval in other horizontal processes (e.g. contract management) has not been assessed.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Among processes that assess segregation of duties, in Dimension 25.1 segregation of duties is rated A. In the BES environment, the authorization, processing, recording, and reviewing are segregated, supported by soft and hard (application) controls. Segregation of duties in payroll management in Dimension 23.3 scored A based on available evidence of data integrity in a system that is not fully centralized. Outside of BCG, the RFZO manages the payroll system for public health care institutions.
3.3 Controls over access to resources and records	Compliance with payment rules and procedures is rated A in Dimension 25.3. Financial data integrity processes are rated A in Dimension 27.4.
3.4 Verifications	Accuracy of in-year budget reports is rated B in Dimension 28.3. Effectiveness of controls over data used to verify payroll payments in Dimension 23.3 is rated A.
3.5 Reconciliations	Among MoF-operated processes, revenue accounts are regularly reconciled leading to score A in Dimension 20.3. Bank account reconciliations in Dimension 27.1 are rated B on account of practices with the accounts held with commercial banks.
3.6 Reviews of operating performance	Ministries review operating performance as a part of ongoing monitoring (see item 5.1 below), within the context of multi-annual work programs and steps taken so far in implementing the program budgeting approach.
3.7 Reviews of operations, processes and activities	There are no centralized, independent performance reviews (such as e.g. spending reviews) carried out by the Government. Efficiency, economy and effectiveness of the operations, processes and activities are audited by the SAI. While increasing substantively, performance

	audit coverage remains limited as reflected in score D in Dimension 8.4.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	No information on the topic was collected in the course of the assessment.
4. Information and communication	
	Serbia has been part of the Open Data Initiative since 2015. The National Open Data Portal, data.gov.rs, run by the Office for IT and e-Government, serves as the entry point for government data, including 132 datasets from 30 public organizations. (SIGMA 2019)
5. Monitoring	
5.1 Ongoing monitoring	Performance of internal control framework in the ongoing monitoring activities by the MoF and top management in institutions has been assessed and scored under the following dimensions in Section 3: ➢ Resources received by service delivery units in Dimension 8.3 is rated A (noting the in-year time lag with reporting of detailed information on resources used). ➢ Monitoring of public corporations in Dimension 10.1 is rated B. ➢ Monitoring of SNGs in Dimension 10.2 is rated C. ➢ Contingent liabilities and other fiscal risks in Dimension 10.3 is rated C. ➢ Investment project monitoring in Dimension 11.4 is rated C. ➢ Quality of central government financial asset monitoring in Dimension 12.1 is rated C. ➢ Quality of central government non-financial asset monitoring in Dimension 12.2 is rated D. ➢ Revenue arrears monitoring in Dimension 19.4 is rated D. ➢ Expenditure arrears monitoring in Dimension 22.2 is rated D due to lack of available information on year-end stock, age and composition of arrears. ➢ Procurement monitoring in Dimension 24.1 is rated A. As per COSO principles, internal audit is an integral part of the monitoring component of the internal control framework. Implementation of internal audits and reporting is rated B in Dimension 26.3. The timely implementation of internal audit recommendations needs to be improved and the quality assurance of internal audit further developed. (2020 EC Progress Report)
5.2 Evaluations	Performance evaluation for service delivery in Dimension 8.4 is rated D. Ex-ante evaluation practices by implementing agencies for investment project selection in Dimension 11.2 are rated D.
5.3 Management responses	Response to IA recommendations in Dimension 26.4 is rated B, monitored against registers of agreed recommendations held at the level of each institution. External audit follow-up in Dimension 30.3 is rated A. Beyond the recommendations assessed as a part of the CG final accounts, the timely implementation of external audit recommendations in individual audit reports needs to be further improved. (2020 EC Progress Report)

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	World Bank	Regular Economic Report Western Balkans	September 2020	https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report
2	IMF	Policy Coordination Instrument (fifth review)	January 2021	n/a
3	European Commission	Serbia 2020 Report	October 2020	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_report_2020.pdf
4	World Bank	Public Expenditure and Financial Accountability (PEFA)	June 2015	https://www.pefa.org/sites/pefa/files/2020-10/RS-Jun15-PFMPR-Public.pdf

Annex 3B: List of people interviewed

No	Institution	Department	Person	Position
1	Ministry of Finance	Sector for International Cooperation	Verica Ignjatović	Assistant Minister
2	Ministry of Finance	Budget Department	Miroslav Bunčić	Independent Advisor
3	Ministry of Finance	Budget Department	Milesa Marjanović	Head of Unit
4	Ministry of Finance	Fiscal Risk Monitoring Department	Branimir Gajić	Assistant Minister
5	Ministry of Finance	Fiscal Risk Monitoring Department	Djordje Bajović	Head of Unit
6	Ministry of Finance	Fiscal Risk Monitoring Department	Sanda Budjić	Head of Unit
7	Ministry of Finance	Fiscal Risk Monitoring Department	Tamara Bosilj	Advisor to the Minister
8	Ministry of Finance	Macro-Fiscal Analysis Department	Milica Jovanović	Assistant Minister
9	Ministry of Finance	Central Harmonization Unit	Spomenka Wurzburger	Head of the Sector
10	Ministry of Finance	Central Harmonization Unit	Zoran Živojinović	Head of Unit
11	Ministry of Finance	Central Harmonization Unit	Danijela Ranković	Head of Unit
12	Ministry of Finance	Macro-fiscal Monitoring Department	Ljubica Matić	Head of Unit
13	Tax Administration		Mira Stanojev	Assistant to Director
14	Tax Administration		Miroslav Djinović	Assistant to Director
15	Tax Administration		Snežana Veličković	Assistant to Director
16	Tax Administration		Nenad Krtolica	Assistant to Director
17	Tax Administration		Nada Novosel	Assistant to Director
18	Customs Administration	Sector for Financial, Investment and Legal Affairs	Sofija Radulović	Deputy Director
19	Customs Administration	Revenue Collection Department	Violeta Buturović Stojiljković	Head of Department
20	Customs Administration	Department for Budget Planning and Analysis	Aleksandar Glumac	Advisor
21	Customs Administration	Department for Budget Planning and Analysis	Jana Ilić	Advisor
22	Customs Administration	Customs Procedures Department	Milena Zogović Jovanović	Advisor

No	Institution	Department	Person	Position
23	Customs Administration	TARIS Department	Dragana Dubajić	Advisor
24	Customs Administration	Department for Origin and Customs Value of Goods	Nataša Nenadić	Advisor
25	Customs Administration	Ex-post Control Department	Milica Pešić	Advisor
26	Customs Administration	Customs Investigation Department	Milica Gajić	Head of Department
27	Customs Administration	Department for Analyses and Risk Management	Jelena Španović	Lead Analyst
28	Public Debt Administration		Ana Tripović	Acting Director
29	Public Debt Administration	Department for Strategic Planning, Analyses of the Public Debt, Financial Risk Management and Reporting	Oliver Minić	Head
30	Public Debt Administration	Group at the Department for Strategic Planning, Analyses of the Public Debt, Financial Risk Management and Reporting	Mirjana Milićević	Head
31	Public Debt Administration	Department for Project Loans	Dragana Dejanović	Independent Adviser
32	Treasury Administration	Sector for Budget Execution	Gordana Pulja	Assistant Director
33	Treasury Administration	Sector for Budget Execution	Vesna Jerinić	Representative of Treasury Administration
34	Treasury Administration	Sector for Budget Execution	Radosav Božović	Representative of Treasury Administration
35	Treasury Administration	Budget Accounting and Reporting Sector	Olga Kostić	Representative of Treasury Administration
36	Treasury Administration	Budget Accounting and Reporting Sector	Nevenka Čolakov	Representative of Treasury Administration
37	Treasury Administration	Payroll Processing Sector	Dragica Jovanović	Representative of Treasury Administration
38	Treasury Administration	Payroll Processing Sector	Svetlana Vladić	Representative of Treasury Administration
39	Treasury Administration	Sector for Normative and Legal Affairs and Control of Business Procedures	Milenko Djuričić	Representative of Treasury Administration
40	Ministry of Education	Finance Department	Marina Markuljević	Advisor
41	Ministry of Economy	Monitoring of Public Enterprises	Dubravka Drakulić	Assistant Minister
42	Ministry of Economy	Monitoring of Public Enterprises	Vesna Kopanja	Advisor
43	Public Property Directorate		Dragana Godjevac Obradović	Assistant Director
44	Public Procurement Administration		Sandra Damcević	Director
45	Public Procurement Administration	Group for Public Procurement Analysis and International Cooperation	Stefan Otašević	Head
46	Public Procurement Administration		Milos Stanković	Project Manager and Independent Adviser

No	Institution	Department	Person	Position
47	Statistical Office	Sector for National Accounts, Prices and Agriculture	Dušan Gavrilović	Assistant Director
48	Statistical Office	Sector for National Accounts, Prices and Agriculture	Vesna Simonović	Head of the Public Finance Statistics Group
49	Business Registers Agency		Milan Lučić	Director
50	State Audit Institution		Duško Pejović	President of the SAI
51	State Audit Institution		Stojanka Milovanović	Supreme State Auditor
52	State Audit Institution		Ivica Gavrilović	Supreme State Auditor
53	State Audit Institution		Miloš Mandušić	Senior Advisor for Quality Control
5	State Audit Institution		Milena Milinković	Secretary
54	State Audit Institution	Department for International Cooperation and Public Relations	Iva Vasilić Miljić	Head
55	State Audit Institution		Danimir Vulinović	Supreme State Auditor
56	State Audit Institution		Mirjana Gačević	Certified State Auditor
57	Standing Conference of Towns and Municipalities		Djordje Staničić	President
58	Standing Conference of Towns and Municipalities		Nedeljko Ćurić	Advisor
59	Standing Conference of Towns and Municipalities		Pavle Tmušić	Advisor
60	Standing Conference of Towns and Municipalities		Aleksandar Marinković	Advisor
61	Standing Conference of Towns and Municipalities		Ivan Milivojević	Advisor
62	Standing Conference of Towns and Municipalities		Nikola Tarbuk	Advisor
63	Standing Conference of Towns and Municipalities		Milena Radomirović	Advisor
64	National Assembly	Board for Budget, Finance and Control of Public Spending	Aleksandra Tomić	President of the Board for Budget, Finance and Control of Public Spending
65	National Assembly	Board for Budget, Finance and Control of Public Spending	Tijana Ignjatović	General Secretary of the Board for Budget, Finance and Control of Public Spending

Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn	Annual Budget Laws for 2017 (Official Gazette 99/2016), 2018 (Official Gazette 113/2017) and 2019 (Official Gazette 95/2018 and 72/2019) Laws on Final Account for 2017 (Official Gazette 95/2019), 2018 (Official Gazette 95/2019) and 2019 (Official Gazette 149/2019) Budget System Law (Official Gazette 72/2019)
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function 2.2. Expenditure composition outturn by economic type 2.3. Expenditure from contingency reserves	Annual Budget Laws for 2017 (Official Gazette 99/2016), 2018 (Official Gazette 113/2017) and 2019 (Official Gazette 95/2018 and 72/2019) Laws on Final Account for 2017 (Official Gazette 95/2019), 2018 (Official Gazette 95/2019) and 2019 (Official Gazette 149/2019) Budget System Law (Official Gazette 72/2019)
PI-3. Revenue outturn 3.1. Aggregate revenue outturn 3.2. Revenue composition outturn	Annual Budget Laws for 2017 (Official Gazette 99/2016), 2018 (Official Gazette 113/2017) and 2019 (Official Gazette 95/2018 and 72/2019) Laws on Final Account for 2017 (Official Gazette 95/2019), 2018 (Official Gazette 95/2019) and 2019 (Official Gazette 149/2019) Budget System Law (Official Gazette 72/2019)
Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	Rulebook on Standard Classification Framework and Chart of Accounts for Budgetary System (Official Gazette 16/2016) Rulebook on Determining and Maintaining the Registry of Public Funds Users and on Conditions and Procedures for Opening and Closure of TSA Accounts held at Treasury Administration (Official Gazette 99/18) Instructions for Preparation of the Program Budget (published on MoF website)
PI-5. Budget documentation 5.1 Budget documentation	2020 Budget Proposal (published on the Parliament website) Budget Explanatory Note accompanying the 2020 Budget proposal Budget Law for 2020 (Official Gazette 84/2019) Revised Fiscal Strategy for 2020 with projections for 2021 and 2022 (published on MoF website)
PI-6. Central government operations outside financial reports 6.1. Expenditure outside financial reports 6.2. Revenue outside financial reports 6.3. Financial reports of extra-budgetary units	Laws on Final Account for 2019 (Official Gazette 149/2019) List of General Government institutions Government Finance Statistics Manual 2014 2019 financial statements and Laws of incorporations of SSFs, regulatory agencies and Development Fund
PI-7. Transfers to subnational governments 7.1. System for allocating transfers	Budget System Law (Official Gazette 72/2019)

7.2. Timeliness of information on transfers	Law on Financing Local Self-Governments (Official Gazette 62/2006) Revised Fiscal Strategy for 2020with projections for 2021 and 2022 (published on MoF website) Laws on Final Account for 2019 (Official Gazette 149/2019) Supplementary budget execution data obtained from the MoF
PI-8. Performance information for service delivery 8.1. Performance plans for service delivery 8.2. Performance achieved for service delivery 8.3. Resources received by service delivery units 8.4. Performance evaluation for service delivery	Budget System Law (Official Gazette 72/2019) Instructions for Preparation of Program Budget (published on MoF website) Law on Planning System (Official Gazette, 30/2018) Decree on Methodology for Medium-Term Plans Development (Official Gazette, 8/2019) Instructions for Performance Monitoring and Reporting (published on MoF website) Methodology for Performance Measurement developed by SAI (published on SAI website)
PI- 9. Public access to fiscal information 9.1. Public access to fiscal information	Budget System Law (Official Gazette 72/2019) 2020 Budget Proposal (published on the Parliament website) Annual Budget Law for 2020 ((Official Gazette 84/2019) Public Finance Bulletin (published on MoF website) Citizens Budget ("Citizens Guide through Budget") for 2020 (published on MoF website) Laws on Final Account for 2018 (Official Gazette 95/2019) and 2019 (Official Gazette 149/2019) Budget Circular for 2020 Budget Explanatory Note accompanying the 2020 Budget proposal
Management of assets and liabilities	
PI-10. Fiscal risk reporting 10.1. Monitoring of public corporations 10.2. Monitoring of sub-national government 10.3. Contingent liabilities and other fiscal risks	Budget System Law (Official Gazette 72/2019) Law on Financing Local Self-Governments (Official Gazette 62/2006) Law on Public Enterprises (Official Gazette 15/2016, amended 88/2019)
PI- 11. Public investment management 11.1. Economic analysis of investment proposals 11.2. Investment project selection 11.3. Investment project costing 11.4. Investment project monitoring	Order on Capital Projects Management (Official Gazette 51/2019) Order on Content, Manner of Preparation and Appraisal, and Monitoring of Capital Projects (Official Gazette 63/2017)
PI-12. Public asset management 12.1. Financial asset monitoring 12.2. Nonfinancial asset monitoring 12.3. Transparency of asset disposal.	- Law on Public Property Assets (Official Gazette 72/2011, latest amended 153/2020) - Rulebook on the Contents and Value of Non-financial Assets of the RoS

PI-13. Debt management 13.1. Recording and reporting of debt and guarantees 13.2. Approval of debt and guarantees 13.3. Debt management strategy	Loan record procedures Instructions on public debt reporting Law on conclusion and execution of international agreement (Official Gazette 32/2013) Procedure for negotiation and conclusion of the loan and guarantee agreement Public Debt Report to the Government of the Republic of Serbia (2019) Fiscal Strategy 2018 – 2020 Fiscal Strategy 2019 – 2021 Public Debt Law (Official Gazette 61/2005, 107/2009, 78/2011 and 68/2015) Public Finance Bulletin (Apr2020) Public Debt Quarterly Report (Jun2020) PDA Monthly Update (Dec2019) Revised Public Financial Management Reform Program 2016-2020 Law on Budget 2020 (Official Gazette 84/2019) Budget System Law (Official Gazette 72/2019)
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting 14.1. Macroeconomic forecasts 14.2. Fiscal forecasts 14.3. Macro-fiscal sensitivity analysis	Fiscal Strategy 2018-2020, 2019-2021, 2020-2022 Law on Budget 2020 (Official Gazette 84/2019) Law on Budget 2019 (Official Gazette 95/2018) Law on Budget 2018 (Official Gazette 113/2017)
PI-15. Fiscal strategy 15.1. Fiscal impact of policy proposals 15.2. Fiscal strategy adoption 15.3. Reporting on fiscal outcomes	Fiscal Strategy 2018-2020, 2019-2021, 2020-2022
PI-16. Medium-term perspective in expenditure budgeting 16.1. Medium-term expenditure estimates 16.2. Medium-term expenditure ceilings 16.3. Alignment of strategic plans and medium-term budgets 16.4 Consistency of budgets with previous year's estimates	Budget System Law (Official Gazette 72/2019) Fiscal Strategy 2020-2022
PI-17. Budget preparation process 17.1. Budget calendar 17.2. Guidance on budget preparation 17.3. Budget submission to the legislature	Budget System Law (Official Gazette 72/2019) Annual Budget Law for 2020 ((Official Gazette 84/2019) Budget Circular for 2020 and Budget preparation limits Budget Explanatory Note accompanying the 2020 Budget proposal Revised Fiscal Strategy for 2020 with projections for 2021 and 2022 (published on MoF website)
PI-18. Legislative scrutiny of budgets 18.1. Scope of budget scrutiny 18.2. Legislative procedures for budget scrutiny 18.3. Timing of budget approval	- Law on the National Assembly - National Assembly Rules of Procedure

18.4. Rules for budget adjustments by the executive	- Minutes from the 93rd and 94th sessions of the Budget and Finance Committee and minutes from the 6th session of the National Assembly (18.1) - Proposal of the Law on the Final Account of the Budget of the RoS, 2017, 2018, 2019 - Law on Amendments to the Law on the Budget of the RoS - Analysis of Budget Proposal produced by the Fiscal Council
Predictability and control in budget execution	
PI-19. Revenue administration	- The Information Booklets on the work of Customs Administration - The Information Booklets on the work of Tax Administration - Development Plan of Customs Administration 2017 - 2020 Customs Administration Risk Management Improvement Plan 2020 – 2024 - Tax Administration Annual Audit Plan for 2019 and its implementation report - Tax Compliance Improvement Plan 2019-2020 - Reports on revenue collection and arrears from the Customs and Tax Administration
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
PI-20. Accounting for revenues	- Rulebook on conditions and manner for maintaining public revenue accounts and allocation of funds on those accounts - Decision on form, content and mode of usage of payment order templates in RSD
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	- Rulebook on Budget Execution System (last amended RoS Official Gazette, 72/19) - SAI reports for FY 2017 and 2018 (latest available)
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	- Law on Payment Deadlines in Commercial Transactions (last amended 2019) - Public reports on stock of arrears (accessed in Q2 2020)
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	- Law on Civil Service - Law on Salaries of Civil Servants and Employees - MoF, Central Harmonization Sector, Annual Report (2017, 2018, draft 2019) - SAI, Audit Report on the Final Account
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	-Public Procurement Law (Official Gazette 91/2019) - Public procurement implementing regulations
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	- Budget System Law - Rulebook on Budget Execution - MoF, Central Harmonization Sector, Annual Report (2017, 2018, draft 2019) - MoF, Budget Inspection Sector, Annual Report, 2019
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	

	- Strategy for Development of Public Internal Financial Control, 2017-2020
PI-26. Internal audit 26.1. Coverage of internal audit 26.2. Nature of audits and standards applied 26.3. Implementation of internal audits and reporting 26.4. Response to internal audits	- Rulebook on Common Criteria and Standards for Organization, and Standards for Methodological Instructions for Operations and Reporting of Internal Audit - MoF CHS Annual Report (2017, 2018, 2019) - Internal Audit Manual
Accounting and reporting	
PI-27. Financial data integrity 27.1. Bank account reconciliation 27.2. Suspense accounts 27.3. Advance accounts 27.4. Financial data integrity processes	- MoF, Budget Inspection Sector, Annual Report, 2019
PI-28. In-year budget reports 28.1. Coverage and comparability of reports 28.2. Timing of in-year budget reports 28.3. Accuracy of in-year budget reports	- Budget Execution Report, six- and nine-month, 2017, 2018, 2019 MoF Public Financial Bulletin
PI-29. Annual financial reports 29.1. Completeness of annual financial reports 29.2. Submission of the reports for external audit 29.3. Accounting standards	- Proposal of the Law on the Final Account - Decree on Budget Accounting - Decree on Application of International Public Sector Accounting Standards (IPSAS) - Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Institutions
External scrutiny and audit	
PI-30. External audit 30.1. Audit coverage and standards 30.2. Submission of audit reports to the legislature 30.3. External audit follow up 30.4. Supreme Audit Institution independence	- Constitution - Law on the SAI - SAI Rules of Procedure - SAI Annual Activity Report (2018) - SAI Audit Report of the Final Account of the Budget of the RoS (for FY 2017, 2018) - Evidence of the dates financial statements received/audit reports delivered to the National Assembly - SAI Strategic Plan, 2019–2023
PI-31. Legislative scrutiny of audit reports 31.1. Timing of audit report scrutiny 31.2. Hearings on audit findings 31.3. Recommendations on audit by the legislature 31.4. Transparency of legislative scrutiny of audit reports	- Law on the National Assembly - National Assembly Rules of Procedure - National Assembly, Committee on Finance, State Budget and Control of Public Spending, documents from official proceedings

Annex 4: Tracking change in performance based on previous versions of PEFA

Indicator/Dimension	2015 score	2020 score	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1 Aggregate expenditure out-turn compared to original approved budget	**B**	**A**	Expenditure outturn was between 99.1% and 103.6% of the budgeted expenditure in the observed period.	Performance improved. The range of expenditure deviation was reduced.
PI-2 Composition of expenditure out-turn compared to original approved budget	**D+**	**D+**		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Expenditure composition variance remained out of 15% limit in two out of three years.	Performance remained unchanged.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Aggregate funds charged against the contingency reserve in 2017, 2018 and 2019 was at the level of 0.17, 0.25 and 0.19 %.	Performance remained unchanged.
PI-3 Aggregate revenue out-turn compared to original approved budget	**C**	**B**	Actual revenue was between 105.8% and 108.2% of budgeted revenue.	Performance improved.
PI-4 Stock and monitoring of expenditure payment arrears	**D+**	**D**		
(i) Stock of expenditure payment arrears and a recent change in the stock	C	NR	It was not possible to ascertain the year-end stock of arrears at end of the last three completed FYs.	Not scored due to lack of information. Underlying performance trends not evident.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	Routine procedures for generating the data needed to score this dimension are reported to be in place, but the actual reports were not made available for assessment.	Reported improvements in performance but not sufficiently evidenced to result in a change of score.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	**A**	**D**	The budget and accounts classifications are based	No change in performance. Score changed due to

			on international standards (COFOG/GFS) or can produce consistent documentation comparable with those standards.	difference in interpretation of available evidence.
PI-6 Comprehensiveness of information included in budget documentation	**C**	**A**	Serbia fulfills 8 out of 9 elements, with the exception of summarized budget data for revenue and expenditures presented according to the main heads of classification.	Score improved due to different interpretation of requirements but no underlying change in performance.
PI-7 Extent of unreported government operations	**NR**	**A**		
(i) Level of unreported government operations	NR	A	All expenditure is duly reported in the final accounts of CG entities.	The dimension was not rated in 2015 assessment.
(ii) Income/expenditure information on donor-funded projects	B	A	Donor funded projects are included in the budget and are regularly reported about through budget execution reporting procedure.	Performance improved.
PI-8 Transparency of inter-governmental fiscal relations	**B**	**C**		
(i) Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	A	D	The system for determining allocations is rule-based and transparent for majority of transfers. However, it was not implemented in practice. The allocations are kept at 2013 levels.	Performance deteriorated since authorities abandoned the practice of updating and refreshing the allocation system with new data. They were instead kept at levels set in 2013 in absolute terms.
(ii) Timeliness and reliable information to SN Governments on their allocations	D	C	SNGs were officially notified of their transfer levels through Draft CG Budget Law published on November 2nd 2019.	Score improved due to slightly changed circumstances. However, the overall performance remained unchanged with regard to this dimension.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Fiscal data is collected and consolidated for all SNGs in a timely and consistent manner.	Performance remained unchanged.
PI-9 Oversight of aggregate fiscal risk from other public sector entities	**D+**	**C**		
(i) Extent of central government monitoring of autonomous	D	C	Government, through the Business Registry Agency or directly the Treasury Administration, receives	Monitoring of AGAs/PEs was marginally improved.

entities and public enterprises			financial reports from most major AGAs/PEs within nine months of the end of the fiscal year. No consolidated fiscal risk report is prepared.	
(ii) Extent of central government monitoring of SN government's fiscal position	A	C	The net fiscal position is monitored annually for the provincial and local self-government level, but a consolidated overview is missing.	No change in performance, difference in interpretation of score requirements met between the two assessments.
PI-10 Public access to key fiscal information	**B**	**B**	Four out of six elements prescribed by the methodology are prepared and published. All except budget execution reports (in-year and year-end).	Performance remained unchanged.
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	**B+**	**B+**		
(i) Existence of, and adherence to, a fixed budget calendar	C	A	Budget calendar is generally respected although there are frequent delays. Budget users were allowed 9 weeks to prepare their financial estimates.	Performance improved since the delays were not substantial in 2019, while users were given between 9th of July and 1st of September to formulate their budget requests.
(ii) Guidance on the preparation of budget submissions	A	C	There is a clear and comprehensive budget circular but it is not approved by the Government before issued to the spending units.	No change in performance. Score changed due to difference in interpretation of available evidence.
(iii) Timely budget approval by the legislature	A	A	The legislature approved the budget before the start of the fiscal year for all years covered by the assessment.	No change in score and underlying performance.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C+**	**C+**		
(i) Multiyear fiscal forecasts and functional allocations	C	C	Forecasts of fiscal aggregates by main economic and program categories are prepared for three years on a rolling basis but differences between estimates and between estimates and	No change in performance and score.

				annual budget ceilings are not clearly explained.	
(ii)	Scope and frequency of debt sustainability analysis	A	A	Debt sustainability analysis of domestic and external debt is undertaken annually.	No change in performance and score.
(iii)	Existence of costed sector strategies	D	C	Costed sector strategies exist for most major sectors, but costing is not in all cases complete and consistency with fiscal forecasts cannot be determined.	Compared to previous assessment, a sampling of sector strategies for major sectors shows that they are costed.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	C	Many investment decisions have weak links to sector strategies, however their recurrent costs are included in forward budget estimates.	There is some improvement in including recurrent cost in forward estimates, however not sufficient for an upgrade in score.
C(ii) Predictability and Control in Budget Execution					
PI-13 Transparency of taxpayer obligations and liabilities		**C+**	**B+**		
(i)	Clarity and comprehensiveness of tax liabilities	C	B	Legislation and procedures for most major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.	Based on the publicly available public opinion surveys, misuse of discretionary powers by the revenue agencies seems to be reduced since the 2015 assessment.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	A	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	Improved access to tax liabilities and administrative procedures.
(iii)	Existence and functioning of a tax appeal mechanism	C	B	A tax appeals system of transparent administrative procedures is completely set up and functional, but some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.	Administrative appeal against assessments made by the STA and the CAS was moved in 2017 from respective revenue agencies to the MoF. Given that the appeals system in the MoF that was established in 2017, was completely set up and functional by 2020, score B was awarded because it was

				too early to assess effectiveness.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**C+**	**B**		
(i) Controls in the taxpayer registration system	B	B	Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	No change.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	B	Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	Effectiveness of penalties for non-compliance improved due to increased effort by the STA, which resulted in higher tax to GDP ratio rose from 33.9 to 36.8 percent
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	B	Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment	STA improved the quality of its risk management processes
PI-15 Effectiveness in collection of tax payments	**D+**	**D+**		
(i) Collection ratio for gross tax arrears	D	D	The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	No change in performance and score.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	No change in performance and score.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and	A	A	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.	No change in performance and score.

receipts by the Treasury				
PI-16 Predictability in the availability of funds for commitment of expenditures	**D+**	**C+**		
(i) Extent to which cash flows are forecasted and monitored	A	A	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.	No change in score and underlying performance.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	D	C	Budget beneficiaries are able to reliably plan against payment ceilings for one month in advance.	Improvement in score. Performance improved as a result of changes to the legislative framework.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	Existing rules limit the in-year adjustments to budget allocations above the level of budget beneficiaries and carried out transparently and as expected.	No change in score and underlying performance.
PI-17 Recording and management of cash balances, debt and guarantees	**A**	**A**		
(i) Quality of debt data recording and reporting	A	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced quarterly.	No change in score and underlying performance.
(ii) Extent of consolidation of the government's cash balances	A	A	All CG cash balances are calculated daily and consolidated though the Treasury Account.	No change in score and underlying performance.
(iii) Systems for contracting loans and issuance of guarantees	A	A	Ministry of Finance is the single authority to borrow and issue guarantees, in line with transparent criteria and fiscal targets	No change in score and underlying performance
PI-18 Effectiveness of payroll controls	**C+**	**C+**		
(i) Degree of integration and	B	B	The payroll is supported by full documentation for	No change in score and underlying performance. The

	reconciliation between personnel records and payroll data			all changes made to personnel records and checked against the previous month's payroll data but the information is kept in two systems that are not directly linked.	comprehensive HR registry is still under development.
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Changes to payroll and personnel records are made without delay within the same month, and retroactive adjustments are reported as rare.	No change in score and underlying performance.
(iii)	Internal controls of changes to personnel records and the payroll	A	B	Authority to change records in the personnel database and payroll in the Treasury Administration is restricted to authorized staff whose access the system requires a unique password and who are entitled to make changes only on the basis of documentary proof.	No change in underlying performance. Information on the low rate of retroactive adjustments collected from interviews not admissible as evidence this time.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	C	C	In spite of ever-increasing coverage of internal and external audit, it is not possible to ascertain that all CG entities have been covered by payroll audit.	Apparent improvements in underlying performance (more auditors and more audits) have not resulted in score increase.
PI-19 Competition, value for money and controls in procurement		**B+**	**A**		
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	A	The legal framework meets all six of the listed requirements.	The new PPL mandates the use of the electronic procurement portal and improves public access to procurement information.
(ii)	Use of competitive procurement methods	A	A	When contracts are awarded by methods other than open competition, they are justified according to the legal requirements.	No change.
(iii)	Public access to complete, reliable and timely procurement information	B	A	All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner	The PPO website publishes all bylaws as well as all annual and semi-annual reports about public procurement in Serbia. The procurement portal, managed by the PPO, publishes procurement notices and contract awards. The new PPL, through the electronic procurement portal, provides

			through appropriate means.	for electronic bidding which requires no fee to access.
(iv) Existence of an independent administrative procurement complaints system	A	B	The procurement complaints system meets criteria (i), (ii) and three of the other five criteria.	A fee is charged when a complaint is filed although the cost is not prohibitive.
PI-20 Effectiveness of internal controls for non-salary expenditure	**C+**	**B+**		
(i) Effectiveness of expenditure commitment controls	A	A	Expenditure commitment controls in place on the level of the Treasury Administration effectively limit commitments to available budget appropriation and to actual cash availability. For health care institutions, commitments are controlled against the annual contract with the RFZO. Across the CG, ex-ante commitment controls are decentralized to heads of the spending units.	No change in score or underlying performance.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	B	Comprehensiveness and understanding of internal control may have improved beyond score B, but it was not possible to assess their relevance and cost/effectiveness (which is a score A requirement).	Improvement in score and performance. Progress has been made in line with Serbia's commitments to align with international standards and good practices in the area of internal control.
(iii) Degree of compliance with rules for processing and recording transactions	C	A	The rules for processing and recording of transactions are complied with on the level of the Treasury Administration and audit findings on non-compliance outside of the BES are not as numerous as in the previous assessment.	Change in score as a result of apparent improvements in compliance outside of the BES (FMIS) environment that can be attributed to the work of the SAI and the MoF Budget Inspection.
PI-21 Effectiveness of internal audit	**C+**	**C+**		
(i) Coverage and quality of the internal audit function	C	A	Internal audit coverage has increased to encompass all CG entities and professional standards are generally met as evidenced by CHU quality reviews and available external assessment reports.	Change in score resulting from increased audit resources and increased focus on audit quality (which checks for systemic-focus of internal audit efforts).

(ii) Frequency and distribution of reports	C	C	Reports are issued in accordance with the annual audit plan and distributed to the audited entity and to the MoF and the SAI upon request.	No change in score but ongoing improvements in underlying performance.
(iii) Extent of management response to internal audit function.	B	A	Within the sample, the reported average implementation rate for recommendations was close to 75% of recommendations issued (on average, across 3 years), signifying prompt and comprehensive action by management. Comparable percentage for all CG entities stands at around 71%.	Score improvement as a result of improved performance (while there may be issues with data comparability, response rate for overall CG appears to have increased by about 10 percent).
C(iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	**A**	**A**		
(i) Regularity of bank reconciliation	A	A	Statements for Treasury-managed bank accounts are generated daily and made available for reconciliation with spending units' auxiliary records and foreign currency accounts are reconciled within 4 weeks to meet the requirements of monthly execution reporting to the Treasury.	No change in performance and score.
(ii) Regularity and clearance of suspense accounts and advances	A	A	Reconciliation and clearance of advances take place within the same period and no balances are brought forward.	No change in performance and score.
PI-23 Availability of information on resources received by service delivery units	**A**	**A**	Reliable information on resources received by primary schools and primary health clinics is received in the scope of quarterly budget execution reports, and consolidated by the Treasury Administration into in-year and annual budget execution reports.	No change in performance and score.
PI-24 Quality and timeliness of in-year budget reports	**C+**	**C+**		

(i)	Scope of reports in terms of coverage and compatibility with budget estimates	B	C	The expenditure is recorded in the FMIS system at the registration of the assumed commitments and at the payment stage, but only payments are reported. The comparison to the original approved budget is limited to aggregate level of economic classification.	Lower score as a result of reinterpretation of the available evidence against the scoring criteria (commitments have not been reported in 2015 and this is still not the case). No underlying change in performance.
(ii)	Timeliness of the issue of reports	C	C	Reports are not produced for the first quarter, but are prepared within 15 days from the end of the covered period for second and third quarters.	No change in performance and score.
(iii)	Quality of information	A	A	Records on budget execution, which serve as the basis for preparation of the in-year budget execution reports, provide information with no material concerns regarding accuracy.	No change in performance and score.
PI-25 Quality and timeliness of annual financial statements		**D+**	**D+**		
(i)	Completeness of the financial statements	A	A	The Final Public Account of the Budget of the Republic of Serbia is prepared annually and contains full information on revenue, expenditure and financial assets/ liabilities.	No change in performance and score.
(ii)	Timeliness of submissions of the financial statements	B	NR	NR due to lack of data	-
(iii)	Accounting standards used	D	D	While the national accounting framework is applied for all financial statements and the statements have been submitted in a consistent format, the conflicting by-laws effectively prevent disclosure of the accounting standards used.	No change in performance and score.
C(iv) External Scrutiny and Audit					
PI-26 Scope, nature and follow-up of external audit		**B+**	**B+**		
(i)	Scope/nature of audit performed	B	A	Coverage has progressively increased	Performance improved, resulting in higher score.

	(including adherence to auditing standards)			(including performance auditing) as a result of increased capacity.	
(ii)	Timeliness of submission of audit reports to the Legislature	B	B	In practice, the SAI submits its Audit Reports on the Final Accounts of the main CG entities in December, within six from its receipt and within 12 months after the end of the period covered in the financial reports.	No change in score. Performance has progressively improved over time and the SAI throughout time has decreased.
(iii)	Evidence of follow up on audit recommendations	A	A	Response reports on the Final Accounts have been found authentic in last three completed fiscal years, with implementation for the BCG Final Account of 20/25 (80%) of recommendations from the Audit Report for FY 2017), 21/31 (68%) from the Audit Report for FY 2018, and 9/20 (45%) from the Audit Report for FY 2019. For all three years, none of the recommendations are past implementation deadline and the outstanding ones are reported as "underway."	No change in performance and score.
PI-27 Legislative scrutiny of the annual budget law		**C+**	**B+**		
(i)	Scope of the legislature scrutiny	A	A	Legislative review includes medium-term fiscal framework and medium-term priorities contained in the Fiscal Strategy and details of expenditure and revenue in the annual budget proposal.	No change in score and underlying performance.
(ii)	Extent to which the legislature's procedures are well established and respected	C	B	Budget review procedures are in place and respected, including a dedicated Parliamentary Budget Office.	Score improved, performance improvements resulting from establishment of the PBO and in recognition of the fact that the final accounts have been deliberated.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where	C	B	The time for review of the initial annual budget proposal was statutory 45 days in the last completed period considered for this assessment.	No change in underlying performance, higher score assigned in line with score B for dimension (ii) within this indicator (reference Clarification 27-b, PEFA Fieldguide).

	applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)				
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	Existing rules effectively limit in-year budget amendments by the executive and are enforced.	Improvement in score and performance.
PI-28 Legislative scrutiny of external audit reports		**D**	**D+**		
(i)	Timeliness of examination of audit reports by the legislature	D	D	Examination of audit reports took more than 12 months to complete in two of the three years of the reference period.	No improvement in score but performance has improved with the ex-post deliberation and adoption of the Final Account (albeit with a delay).
(ii)	Extent of hearing on key findings undertaken by the legislature	D	C	In-depth hearings are taking place but are considered occasional (both in terms of frequency and coverage).	Improvement in score and performance (made possible by establishment of additional structures and processes for deliberation of audit reports).
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	D	C	The National Assembly does not issue separate recommended actions to the executive. Its conclusions call upon the executive to implement (the already binding) SAI recommendations. Rate of implementation of recommendations has been decreasing in the period as visible from write-up on PI-26(iii) above.	Improvement in score, performance has improved inasmuch as the legislature currently reinforces the SAI recommendations. The only effective follow up is done by the SAI and the results reported to the National Assembly.

Annex 5 - Calculations for PI-1, PI-2 and PI-3 (2016 Framework)

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					
Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	344,063,149,000	318,636,285,469	344,301,817,876	-25,665,532,407	25,665,532,407	7.5%
2	146,481,510,000	164,932,524,141	146,583,120,932	18,349,403,209	18,349,403,209	12.5%
3	58,897,229,000	66,221,017,255	58,938,084,684	7,282,932,570	7,282,932,570	12.4%
4	111,255,378,000	114,477,124,513	111,332,553,356	3,144,571,157	3,144,571,157	2.8%
5	162,200,249,000	139,118,796,894	162,312,763,668	-23,193,966,774	23,193,966,774	14.3%
6	5,027,320,000	4,138,132,659	5,030,807,339	-892,674,680	892,674,680	17.7%
7	3,877,666,000	3,885,781,257	3,880,355,850	5,425,407	5,425,407	0.1%
8	15,361,239,000	17,326,855,765	15,371,894,746	1,954,961,019	1,954,961,019	12.7%
9	17,830,783,000	18,313,431,967	17,843,151,814	470,280,153	470,280,153	2.6%
10	161,022,608,000	179,678,906,110	161,134,305,765	18,544,600,345	18,544,600,345	11.5%
allocated expenditure	1,026,017,131,000	1,026,728,856,030	1,026,728,856,030	0	99,504,347,721	
interests	133,966,373,000	118,249,635,117				
contingency	2,000,000,000	2,000,000,000				
total expenditure	1,161,983,504,000	1,146,978,491,147				
aggregate outturn (PI-1)						98.7%
composition (PI-2) variance						9.7%
contingency share of budget						0.2%
Table 3						
Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	94,667,433,000	92,938,817,534	96,305,816,092	-3,366,998,558	3,366,998,558	3.5%
2	153,693,662,000	233,745,241,074	156,353,595,719	77,391,645,355	77,391,645,355	49.5%
3	70,530,404,000	85,725,192,721	71,751,054,203	13,974,138,518	13,974,138,518	19.5%
4	126,526,400,000	128,340,186,782	128,716,157,426	-375,970,644	375,970,644	0.3%
5	167,966,006,000	158,612,158,558	170,872,947,231	-12,260,788,673	12,260,788,673	7.2%
6	5,858,551,000	4,425,893,917	5,959,943,323	-1,534,049,406	1,534,049,406	25.7%
7	5,453,478,000	5,039,213,839	5,547,859,836	-508,645,997	508,645,997	9.2%
8	76,149,257,000	65,067,310,012	77,467,151,139	-12,399,841,127	12,399,841,127	16.0%

9	19,179,533,000	19,546,830,962	19,511,467,875	35,363,087	35,363,087	0.2%
10	366,003,107,000	311,382,569,034	372,337,421,589	-60,954,852,555	60,954,852,555	16.4%
allocated expenditure	1,086,027,831,000	1,104,823,414,432	1,104,823,414,432	0	182,802,293,919	
interests	117,820,524,000	106,520,936,103				
contingency	3,000,000,000	2,999,894,000				
total expenditure	1,206,848,355,000	1,214,344,244,535				
aggregate outturn (PI-1)						100.6%
composition (PI-2) variance						16.5%
contingency share of budget						0.2%
Table 4						
Data for year =	2019					
administrative or functional head	Budget	Actual	adjusted budget	deviation	absolute deviation	percent
1	334,626,241,000	203,381,566,434	346,774,635,673	-143,393,069,240	143,393,069,240	41.4%
2	157,287,402,000	192,227,381,642	162,997,621,949	29,229,759,694	29,229,759,694	17.9%
3	95,118,172,000	100,554,250,965	98,571,377,256	1,982,873,709	1,982,873,709	2.0%
4	140,872,932,000	144,496,163,022	145,987,234,966	-1,491,071,944	1,491,071,944	1.0%
5	188,186,094,000	253,761,300,413	195,018,071,478	58,743,228,936	58,743,228,936	30.1%
6	6,796,853,000	6,376,038,725	7,043,608,462	-667,569,737	667,569,737	9.5%
7	6,056,535,000	6,446,828,812	6,276,413,684	170,415,128	170,415,128	2.7%
8	22,879,021,000	77,822,856,330	23,709,629,431	54,113,226,899	54,113,226,899	228.2%
9	20,495,370,000	16,040,355,536	21,239,441,484	-5,199,085,948	5,199,085,948	24.5%
10	191,138,846,000	204,589,313,780	198,078,021,277	6,511,292,503	6,511,292,503	3.3%
allocated expenditure	1,163,457,466,000	1,205,696,055,659	1,205,696,055,659	0	301,501,593,737	
interests	103,133,871,000	106,833,027,517				
contingency	2,500,000,000	2,433,818,000				
total expenditure	1,269,091,337,000	1,314,962,901,176				
aggregate outturn (PI-1)						103.6%
composition (PI-2) variance						25.0%
contingency share of budget						0.2%
Table 5 - Results Matrix						
	for PI-1.1		for PI-2.1		for PI-2.3	
year	total exp. Outturn		composition variance		contingency share	
2017	98.7%		9.7%		0.2%	
2018	100.6%		16.5%			
2019	103.6%		24.5%			
Calculation sheets for calculation of expenditure variance by economic classification (PI-2.2)						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					

Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percen t
Compensation of employees	253,663,372,000	260,574,881,846	247,650,035,355	12,924,846,491	12,924,846,491	5.2%
Use of goods and services	97,112,789,650	103,588,417,658	94,810,636,635	8,777,781,023	8,777,781,023	9.3%
Consumption of fixed capital	94,208,839,000	89,443,160,716	91,975,526,956	-2,532,366,240	2,532,366,240	2.8%
Interest	133,966,373,000	118,249,635,117	130,790,569,991	- 12,540,934,874	12,540,934,874	9.6%
Subsidies	84,413,655,000	87,829,782,933	82,412,547,308	5,417,235,625	5,417,235,625	6.6%
Grants	3,397,412,000	3,560,434,579	3,316,873,048	243,561,531	243,561,531	7.3%
Social benefits	115,571,403,000	111,975,468,104	112,831,670,624	-856,202,520	856,202,520	0.8%
Other expenses	513,616,033,350	490,006,345,311	501,440,266,346	- 11,433,921,036	11,433,921,036	2.3%
Total expenditure	1,295,949,877,000	1,265,228,126,26 4	1,265,228,126,26 4	0	54,726,849,341	
composition variance						4.3%
Table 3						
Data for year =	2018					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percen t
Compensation of employees	272,308,387,000	282,019,582,854	274,003,968,046	8,015,614,808	8,015,614,808	2.9%
Use of goods and services	108,847,817,040	106,470,725,313	109,525,579,108	-3,054,853,795	3,054,853,795	2.8%
Consumption of fixed capital	127,228,974,000	146,886,840,273	128,021,189,911	18,865,650,362	18,865,650,362	14.7%
Interest	117,820,524,000	106,520,936,103	118,554,156,370	- 12,033,220,267	12,033,220,267	10.1%
Subsidies	89,346,101,000	89,588,710,668	89,902,431,846	-313,721,178	313,721,178	0.3%
Grants	4,048,262,000	4,187,651,266	4,073,469,289	114,181,977	114,181,977	2.8%
Social benefits	114,943,352,000	112,574,171,747	115,659,069,100	-3,084,897,353	3,084,897,353	2.7%
Other expenses	369,304,937,960	363,095,732,311	371,604,486,865	-8,508,754,554	8,508,754,554	2.3%
Total expenditure	1,203,848,355,000	1,211,344,350,53 5	1,211,344,350,53 5	0	53,990,894,293	
composition variance						4.5%
Table 4						
Data for year =	2019					
Economic head	Budget	Actual	adjusted budget	deviation	absolute deviation	percen t
Compensation of employees	296,259,099,000	302,349,397,013	307,004,060,610	-4,654,663,597	4,654,663,597	1.5%
Use of goods and services	119,659,582,190	116,122,969,047	123,999,491,483	-7,876,522,436	7,876,522,436	6.4%
Consumption of fixed capital	135,166,562,000	187,118,007,673	140,068,890,822	47,049,116,851	47,049,116,851	33.6%
Interest	103,133,871,000	106,833,027,517	106,874,412,601	-41,385,084	41,385,084	0.0%
Subsidies	114,458,246,000	111,776,342,415	118,609,509,078	-6,833,166,663	6,833,166,663	5.8%
Grants	5,387,527,000	5,496,520,979	5,582,926,132	-86,405,153	86,405,153	1.5%

Social benefits	119,992,174,000	119,827,049,690	124,344,145,999	-4,517,096,309	4,517,096,309	3.6%
Other expenses	372,534,275,810	363,005,768,842	386,045,646,450	- 23,039,877,608	23,039,877,608	6.0%
Total expenditure	1.266.591.337.000	1.312.529.083.17 6	1.312.529.083.17 6	0	94,098,233,703	
composition variance						7.2%
Table 5 - Results Matrix						
year	composition variance					
2017	4.3%					
2018	4.5%					
2019	7.2%					
Calculation sheets for calculation revenue composition outturn (PI-3) (in thousand RSD)						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					
Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
Economic head	Budget	Actual	adjusted budget	deviation	absolute deviation	percen t
Tax revenues						
Taxes on income, profit and capital gains	130,400,000	158,880,341	141,110,280	17,770,061	17,770,061	12.6%
Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	737,400,000	759,200,790	797,965,647	-38,764,857	38,764,857	4.9%
Taxes on exports	38,600,000	39,707,882	41,770,374	-2,062,492	2,062,492	4.9%
Other taxes	10,400,000	11,313,677	11,254,194	59,483	59,483	0.5%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						
Grants from other government units	13,477,039	9,288,725	14,583,963	-5,295,238	5,295,238	36.3%
Other revenue						
Property income	12,900,000	13,263,141	13,959,529	-696,388	696,388	5.0%
Sales of goods and services	29,100,000	30,860,373	31,490,101	-629,728	629,728	2.0%
Fines, penalties and forfeits	21,500,000	20,611,151	23,265,882	-2,654,731	2,654,731	11.4%

Tansers not elsewhere classified	13,800,000	16,172,805	14,933,450	1,239,355	1,239,355	8.3%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	85,106,465	123,131,138	92,096,603	31,034,535	31,034,535	33.7%
Total revenue	1,092,683,504	1,182,430,023	1,182,430,023	0	100,206,868	
Overall variance						108.2 %
Composition variance						8.5%
Table 3						
Data for year =	2018					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	144,700,000	161,415,524	153,146,382	8,269,142	8,269,142	5.4%
Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	789,700,000	789,867,632	835,796,116	-45,928,484	45,928,484	5.5%
Taxes on exports	42,900,000	43,649,585	45,404,145	-1,754,560	1,754,560	3.9%
Other taxes	11,300,000	11,946,700	11,959,600	-12,900	12,900	0.1%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						
Grants from other government units	14,239,246	15,897,123	15,070,415	826,708	826,708	5.5%
Other revenue						
Property income	13,600,000	15,909,498	14,393,855	1,515,643	1,515,643	10.5%
Sales of goods and services	30,100,000	28,829,768	31,856,988	-3,027,220	3,027,220	9.5%
Fines, penalties and forfeits	20,600,000	23,320,449	21,802,457	1,517,992	1,517,992	7.0%
Tansers not elsewhere classified	16,200,000	17,491,544	17,145,621	345,923	345,923	2.0%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	95,109,109	138,908,543	100,660,788	38,247,755	38,247,755	38.0%

Total revenue	1,178,448,355	1,247,236,366	1,247,236,366	0	101,446,328	
Overall variance						105.8 %
Composition variance						8.1%
Table 4						
Data for year =	2019					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percen t
Tax revenues						
Taxes on income, profit and capital gains	170,000,000	185,035,317	181,209,088	3,826,229	3,826,229	2.1%
Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	830,500,000	857,109,464	885,259,691	-28,150,227	28,150,227	3.2%
Taxes on exports	47,100,000	48,093,087	50,205,577	-2,112,490	2,112,490	4.2%
Other taxes	12,300,000	13,434,909	13,111,010	323,899	323,899	2.5%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						
Grants from other government units	13,914,280	15,344,601	14,831,729	512,872	512,872	3.5%
Other revenue						
Property income	13,600,000	15,894,808	14,496,727	1,398,081	1,398,081	9.6%
Sales of goods and services	27,300,000	53,094,192	29,100,048	23,994,144	23,994,144	82.5%
Fines, penalties and forfeits	23,050,000	23,910,125	24,569,820	-659,695	659,695	2.7%
Transfers not elsewhere classified	16,950,000	18,137,946	18,067,612	70,334	70,334	0.4%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	91,477,057	98,305,524	97,508,671	796,853	796,853	0.8%
Total revenue	1,246,191,337	1,328,359,973	1,328,359,973	0	61,844,824	
Overall variance						106.6 %
Composition variance						4.7%
Table 5 - Results Matrix						
year	total revenue deviation	composition variance				

2017	108.2%	8.5%				
2018	105.8%	8.1%				
2019	106.6%	4.7%				

Annex 5a - Calculations for PI-1, PI-2 and PI-3 (2011 Framework)

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					
Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	344,063,149,000	318,636,285,469	345,748,579,952	-27,112,294,483	27,112,294,483	7.8%
2	146,481,510,000	164,932,524,141	147,199,065,691	17,733,458,449	17,733,458,449	12.0%
3	58,897,229,000	66,221,017,255	59,185,743,515	7,035,273,739	7,035,273,739	11.9%
4	97,778,339,000	105,248,398,824	98,257,316,884	6,991,081,940	6,991,081,940	7.1%
5	162,200,249,000	139,118,796,894	162,994,804,653	-23,876,007,759	23,876,007,759	14.6%
6	5,027,320,000	4,138,132,659	5,051,946,877	-913,814,217	913,814,217	18.1%
7	3,877,666,000	3,885,781,257	3,896,661,171	-10,879,914	10,879,914	0.3%
8	15,361,239,000	17,326,855,765	15,436,487,709	1,890,368,056	1,890,368,056	12.2%
9	17,830,783,000	18,313,431,967	17,918,129,040	395,302,927	395,302,927	2.2%
10	161,022,608,000	179,678,906,110	161,811,394,850	17,867,511,261	17,867,511,261	11.0%
allocated expenditure	1,012,540,092,000	1,017,500,130,341	1,017,500,130,341		103,825,992,745	
interests	133,966,373,000	118,249,635,117				
contingency	2,000,000,000	2,000,000,000				
total expenditure	1,148,506,465,000	1,137,749,765,458				
aggregate outturn (PI-1)						99.1%
composition (PI-2) variance						10.2%
contingency share of budget						0.2%
Table 3						
Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	94,667,433,000	92,938,817,534	96,181,148,135	-3,242,330,601	3,242,330,601	3.4%
2	153,693,662,000	233,745,241,074	156,151,195,863	77,594,045,210	77,594,045,210	49.7%
3	70,530,404,000	85,725,192,721	71,658,172,406	14,067,020,315	14,067,020,315	19.6%
4	112,287,154,000	112,443,063,015	114,082,605,288	-1,639,542,273	1,639,542,273	1.4%
5	167,966,006,000	158,612,158,558	170,651,752,063	-12,039,593,505	12,039,593,505	7.1%
6	5,858,551,000	4,425,893,917	5,952,228,171	-1,526,334,254	1,526,334,254	25.6%
7	5,453,478,000	5,039,213,839	5,540,678,127	-501,464,288	501,464,288	9.1%
8	76,149,257,000	65,067,310,012	77,366,869,850	-12,299,559,838	12,299,559,838	15.9%
9	19,179,533,000	19,546,830,962	19,486,210,264	60,620,698	60,620,698	0.3%
10	366,003,107,000	311,382,569,034	371,855,430,497	-60,472,861,463	60,472,861,463	16.3%
allocated expenditure	1,071,788,585,000	1,088,926,290,665	1,088,926,290,665		183,443,372,447	
interests	117,820,524,000	106,520,936,103				
contingency	3,000,000,000	2,999,894,000				

total expenditure	1,192,609,109,000	1,198,447,120,768				
aggregate outturn (PI-1)						100.5%
composition (PI-2) variance						16.8%
contingency share of budget						0.3%
Table 4						
Data for year =	2019					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	334,626,241,000	203,381,566,434	346,774,633,188	-143.393.066.754	143,393,066,754	41.4%
2	157,287,402,000	192,227,381,642	162,997,620,780	29,229,760,862	29,229,760,862	17.9%
3	95,118,172,000	100,554,250,965	98,571,376,549	1,982,874,415	1,982,874,415	2.0%
4	126,065,731,000	129,151,387,395	130,642,466,934	-1,491,079,539	1,491,079,539	1.1%
5	188,186,094,000	253,761,300,413	195,018,070,080	58,743,230,333	58,743,230,333	30.1%
6	6,796,853,000	6,376,038,725	7,043,608,412	-667,569,686	667,569,686	9.5%
7	6,056,535,000	6,446,828,812	6,276,413,639	170,415,173	170,415,173	2.7%
8	22,879,021,000	77,822,856,330	23,709,629,261	54,113,227,069	54,113,227,069	228.2%
9	20,495,370,000	16,040,355,536	21,239,441,332	-5,199,085,796	5,199,085,796	24.5%
10	191,138,846,000	204,589,313,780	198,078,019,857	6,511,293,923	6,511,293,923	3.3%
allocated expenditure	1,148,650,265,000	1,190,351,280,032	1,190,351,280,032		301,501,603,552	
interests	103,133,871,000	106,833,027,517				
contingency	2,500,000,000	2,433,818,000				
total expenditure	1,254,284,136,000	1,299,618,125,549				
aggregate outturn (PI-1)						103.6%
composition (PI-2) variance						25.3%
contingency share of budget						0.2%
Table 5 - Results Matrix						
	for PI-1.1		for PI-2.1		for PI-2.3	
year	total exp. Outturn		composition variance		contingency share	
2017	99.1%		10.2%		0.2%	
2018	100.5%		16.8%			
2019	103.6%		25.3%			
Calculation sheets for calculation of expenditure variance by economic classification (PI-2.2)						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					
Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	253,663,372,000	260,574,881,846	251,287,607,683	9,287,274,163	9,287,274,163	3.7%

Use of goods and services	97,112,789,650	103,588,417,658	96,203,249,189	7,385,168,469	7,385,168,469	7.7%
Consumption of fixed capital	94,208,839,000	89,443,160,716	93,326,496,404	-3,883,335,688	3,883,335,688	4.2%
Interest	133,966,373,000	118,249,635,117	132,711,668,680	-14,462,033,563	14,462,033,563	10.9%
Subsidies	84,413,655,000	87,829,782,933	83,623,052,290	4,206,730,643	4,206,730,643	5.0%
Grants	3,397,412,000	3,560,434,579	3,365,592,466	194,842,113	194,842,113	5.8%
Social benefits	115,571,403,000	111,975,468,104	114,488,982,573	-2,513,514,469	2,513,514,469	2.2%
Other expenses	366,172,621,350	362,527,984,505	362,743,116,172	-215,131,667	215,131,667	0.1%
Total expenditure	1,148,506,465,000	1,137,749,765,458	1,137,749,765,458	0	42,148,030,777	
composition variance						3.7%
Table 3						
Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	272,308,387,000	282,019,582,854	273,641,379,978	8,378,202,876	8,378,202,876	3.1%
Use of goods and services	108,847,817,040	106,470,725,313	109,380,644,462	-2,909,919,149	2,909,919,149	2.7%
Consumption of fixed capital	127,228,974,000	146,886,840,273	127,851,780,116	19,035,060,157	19,035,060,157	14.9%
Interest	117,820,524,000	106,520,936,103	118,397,274,253	-11,876,338,150	11,876,338,150	10.0%
Subsidies	89,346,101,000	89,588,710,668	89,783,464,412	-194,753,744	194,753,744	0.2%
Grants	4,048,262,000	4,187,651,266	4,068,078,888	119,572,378	119,572,378	2.9%
Social benefits	114,943,352,000	112,574,171,747	115,506,018,037	-2,931,846,290	2,931,846,290	2.5%
Other expenses	358,065,691,960	350,198,502,544	359,818,480,621	-9,619,978,077	9,619,978,077	2.7%
Total expenditure	1,192,609,109,000	1,198,447,120,768	1,198,447,120,768	0	55,065,670,821	
composition variance						4.6%
Table 4						
Data for year =	2019					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	296,259,099,000	302,349,397,013	308,813,748,893	-6,464,351,880	6,464,351,880	2.1%
Use of goods and services	119,659,582,190	116,122,969,047	124,730,427,831	-8,607,458,784	8,607,458,784	6.9%
Consumption of fixed capital	135,166,562,000	187,118,007,673	140,894,551,010	46,223,456,663	46,223,456,663	32.8%
Interest	103,133,871,000	106,833,027,517	107,504,402,224	-671,374,707	671,374,707	0.6%
Subsidies	114,458,246,000	111,776,342,415	119,308,673,247	-7,532,330,832	7,532,330,832	6.3%
Grants	5,387,527,000	5,496,520,979	5,615,835,651	-119,314,672	119,314,672	2.1%
Social benefits	119,992,174,000	119,827,049,690	125,077,113,972	-5,250,064,282	5,250,064,282	4.2%
Other expenses	352,725,817,810	350,094,811,215	367,673,372,723	-17,578,561,508	17,578,561,508	4.8%
Total expenditure	1,246,782,879,000	1,299,618,125,549	1,299,618,125,549	0	92,446,913,327	
composition variance						7.1%
Table 5 - Results Matrix						
year	composition variance					
2017	3.7%					
2018	4.6%					
2019	7.1%					

Calculation sheets for calculation revenue composition outturn (PI-3) (in thousand RSD)						
Table 1 - Fiscal years for assessment						
Year 1 =	2017					
Year 2 =	2018					
Year 3 =	2019					
Table 2						
Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	130,400,000	158,880,341	141,110,280	17,770,061	17,770,061	12.6%
Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	737,400,000	759,200,790	797,965,647	-38,764,857	38,764,857	4.9%
Taxes on exports	38,600,000	39,707,882	41,770,374	-2,062,492	2,062,492	4.9%
Other taxes	10,400,000	11,313,677	11,254,194	59,483	59,483	0.5%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						
Grants from other government units	13,477,039	9,288,725	14,583,963	-5,295,238	5,295,238	36.3%
Other revenue						
Property income	12,900,000	13,263,141	13,959,529	-696,388	696,388	5.0%
Sales of goods and services	29,100,000	30,860,373	31,490,101	-629,728	629,728	2.0%
Fines, penalties and forfeits	21,500,000	20,611,151	23,265,882	-2,654,731	2,654,731	11.4%
Transfers not elsewhere classified	13,800,000	16,172,805	14,933,450	1,239,355	1,239,355	8.3%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	85,106,465	123,131,138	92,096,603	31,034,535	31,034,535	33.7%
Total revenue	1,092,683,504	1,182,430,023	1,182,430,023	0	100,206,868	
Overall variance						108.2%
Composition variance						8.5%
Table 3						
Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	144,700,000	161,415,524	153,146,382	8,269,142	8,269,142	5.4%

Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	789,700,000	789,867,632	835,796,116	-45,928,484	45,928,484	5.5%
Taxes on exports	42,900,000	43,649,585	45,404,145	-1,754,560	1,754,560	3.9%
Other taxes	11,300,000	11,946,700	11,959,600	-12,900	12,900	0.1%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						
Grants from other government units	14,239,246	15,897,123	15,070,415	826,708	826,708	5.5%
Other revenue						
Property income	13,600,000	15,909,498	14,393,855	1,515,643	1,515,643	10.5%
Sales of goods and services	30,100,000	28,829,768	31,856,988	-3,027,220	3,027,220	9.5%
Fines, penalties and forfeits	20,600,000	23,320,449	21,802,457	1,517,992	1,517,992	7.0%
Transfers not elsewhere classified	16,200,000	17,491,544	17,145,621	345,923	345,923	2.0%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	95,109,109	138,908,543	100,660,788	38,247,755	38,247,755	38.0%
Total revenue	1,178,448,355	1,247,236,366	1,247,236,366	0	101,446,328	
Overall variance						105.8%
Composition variance						8.1%
Table 4						
Data for year =	2019					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	170,000,000	185,035,317	181,209,088	3,826,229	3,826,229	2.1%
Taxes on payroll and workforce						
Taxes on property						
Taxes on goods and services	830,500,000	857,109,464	885,259,691	-28,150,227	28,150,227	3.2%
Taxes on exports	47,100,000	48,093,087	50,205,577	-2,112,490	2,112,490	4.2%
Other taxes	12,300,000	13,434,909	13,111,010	323,899	323,899	2.5%
Social contributions						
Social security contributions						
Other social contributions						
Grants						
Grants from foreign governments						
Grants from international organizations						

Grants from other government units	13,914,280	15,344,601	14,831,729	512,872	512,872	3.5%
Other revenue						
Property income	13,600,000	15,894,808	14,496,727	1,398,081	1,398,081	9.6%
Sales of goods and services	27,300,000	53,094,192	29,100,048	23,994,144	23,994,144	82.5%
Fines, penalties and forfeits	23,050,000	23,910,125	24,569,820	-659,695	659,695	2.7%
Transfers not elsewhere classified	16,950,000	18,137,946	18,067,612	70,334	70,334	0.4%
Premiums, fees and claims related to nonlife insurance and standardized guarantee schemes						
Sum of rest	91,477,057	98,305,524	97,508,671	796,853	796,853	0.8%
Total revenue	1,246,191,337	1,328,359,973	1,328,359,973	0	61,844,824	
Overall variance						106.6%
Composition variance						4.7%
Table 5 - Results Matrix						
year	total revenue deviation	composition variance				
2017	108.2%	8.5%				
2018	105.8%	8.1%				
2019	106.6%	4.7%				