



SIGMA

Support for Improvement in Governance and Management

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SERBIA

EXTERNAL AUDIT

ASSESSMENT JUNE 2006

1. Legal Framework

Currently there is no Supreme Audit Institution (SAI) in Serbia. The National Assembly established a working group in April 2001 to consider the way forward for the creation and establishment of an SAI for Serbia, but its work, supported by UNDP, was not finalised and has not led to any tangible results. The European Agency for Reconstruction (EAR) decided to support the creation and establishment of an SAI, in addition to other projects in related areas – public internal financial control (PIFC), treasury function in the MoF, and public procurement.

The SAI component was on tender, but the project was first postponed for six months and later cancelled. The EAR did not plan to restart activities before a law was adopted and a new formal request submitted.

The issue was taken over in 2004-2005 by a group set up in the framework of the Finance Committee of the National Assembly, composed of members of parliament and local experts. The group worked intensively with support from the OSCE, which made possible some foreign input, notably from Slovenia.

The Audit Act was adopted on 14 November 2005 and was published in the *Official Gazette of the Republic of Serbia* no. 101/05. It was supposed to be implemented within six months of the day of its entry into force, that is, the day following its publication. However, at the time of the assessment, no provisions of the law had yet been implemented.

The law is generally in line with the principles governing the set-up, activities and functioning of an SAI. The “State Audit Institution” is established as an independent state authority, accountable to the National Assembly of Serbia. Its audit remit is both broad and complex, including (in addition to the classical remit of a state SAI) local government, political parties and, to a degree, even private persons. This wide scope immediately raises the issue of the physical capacity of the institution to come to terms with such a huge number of possible auditees. At the same time, the SAI has to carry out the mandatory annual audit of the execution of the budget and this is by nature a very resource-consuming task.

Serbia has opted for a collegial type of SAI, which is quite common in the region, with a Council of five comprising a president, vice-president and three members. Council members are all appointed by the National Assembly of Serbia upon the proposal of its competent working body (which is in fact the Finance Committee). The tenure of five years is amongst the shortest for an SAI, and only one renewal is possible.

In addition to Council members and normal audit staff, the category of Supreme State Auditor has been established by law. These auditors are appointed for six years by the Council with a possibility of reappointment and are first of all responsible for conducting the auditing departments. The practicality of such an uncommon arrangement remains to be seen.

Audits are to be conducted in accordance with internationally recognised standards, and the audit programme is independently decided by the SAI within the framework defined by the law. The law describes in detail the auditing procedure and quite extensively the conclusion of the process, which appears to be rather complex and legalistic. The SAI reports to the National Assembly. In terms of deadline, the legal objectives are ambitious, as it is foreseen that the SAI will report by 31 March on the audits performed during the previous year.

The law otherwise provides for the financial independence of the SAI as well as the status of its personnel.

The selection of members of the Council, meant to be the triggering point for the practical process of establishment of the SAI, was due to be completed within the six months following the entry into force of the law, i.e. by 15 May 2006. At the time of writing of the assessment, posterior to this deadline, the members had still not been designated, and in fact there were still no candidacies. Similarly, the tender for contracting an audit firm to carry out the first audit work in the period before the SAI becomes operational was cancelled.

2. Reform Agenda and Capacities

At this stage, it would be misleading to talk of an agenda for reform as the institution only exists on paper, and its management has still not been appointed. Nevertheless, the mere fact that consideration is being given to the establishment of an SAI is a step in the right direction.

3. Assessment

The adoption of the Audit Act was a long-awaited first step, and the text that has been adopted is of an overall good quality. Its implementation risks to be further delayed in view of the heavy political agenda of Serbia.

4. Recommendations

We recommend that, as soon as possible:

- the board of the SAI be appointed and receive support in the form of a first secretariat;
- once the board is in place, its members take steps to:
 - start with the practical implementation of the Audit Act;
 - define working relations with the private auditors who will be in charge of the audit of the state budget in the near future and for the years that were not covered by audit arrangements;
 - draft a strategic document and embryos of policy documents in the main areas of work and support functions;
 - prepare the required rulebooks and other secondary legislation;
 - define an action plan to cover the previously mentioned actions, including deadlines and work allocations.

5. External Assistance

The European Agency for Reconstruction (EAR) is now planning to relaunch its substantial assistance project, presumably in the form of a twinning. However, large-scale support is questionable as long as there is still no institution in place, and it would certainly benefit more if an appropriate time lapse is allowed for the SAI to start building up and developing its primary capacity as well as the working relations with its environment. It would be much preferable to have started a minimum level of operational activity in order to be able to interact efficiently with an assistance partner.