



## **SIGMA**

### **Support for Improvement in Governance and Management**

A joint initiative of the OECD and the European Union, principally financed by the EU

## **SERBIA**

### **EXTERNAL AUDIT**

#### **ASSESSMENT MAY 2008**

#### **1. Legal Framework**

Currently the Supreme Audit Institution (SAI) of Serbia is still not operational and is far from being so.

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, the implementation of this text has only started, with the appointment of the president and the four other members of the SAI Board in September 2007, nearly two years after the adoption of the text. Since then, the SAI has been able to obtain a first budget (as had already been agreed in view of the expected establishment of the institution), has produced a rulebook regulating its internal functioning, and has recruited an embryonic secretariat. At the time of the assessment, the SAI was still exploring possible premises and was temporarily given shelter by the Budget and Finance Committee of the National Assembly. The dissolution of the Serbian Parliament in March, with elections called for May 2008, has of course slowed down an already lengthy process of establishment.

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. As mentioned, this only took place nearly two years afterwards. 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 barely exists other than on paper, even if its management has finally been appointed. Nevertheless, there is a keen interest on the part of other audit institutions in the region to assist the newborn SAI, and this will in due course benefit this organisation. The key Board members are aware of the necessity of moving forward in the direction of independent and professional audit.

## **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 has unfortunately been delayed in view of Serbia's heavy political agenda. This situation still casts doubts about the possibility of quickly developing this new body in the administrative landscape of Serbia.

## **4. Recommendations**

We recommend that, as soon as possible, the members of the SAI Board:

- take steps to begin 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;
- define an action plan to cover the previously mentioned actions, including deadlines and work allocations.

## **5. External Assistance**

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