



Monitoring Report:

The Principles of Public Administration

SERBIA

May
2016

Authorised for publication by Karen Hill, Head of the SIGMA Programme.

SIGMA is a joint initiative of the OECD and the EU, principally financed by the EU.

This document has been produced with the financial assistance of the European Union. It should not be reported as representing the official views of the EU, the OECD or its member countries, or of beneficiaries participating in the SIGMA Programme. The opinions expressed and arguments employed are those of the authors.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS	2
INTRODUCTION.....	3
PUBLIC SERVICE AND HUMAN RESOURCE MANAGEMENT	5
1. State of play and main developments: May 2015-April 2016.....	5
2. Analysis.....	7
PUBLIC FINANCIAL MANAGEMENT	28
1. State of play and main developments: May 2015-April 2016.....	28
2. Analysis.....	30

LIST OF ABBREVIATIONS AND ACRONYMS

AI	Administrative Inspection
BI	budget inspection
BPF	Beneficiaries of Public Funds
BSL	Budget System Law
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPD	continuous professional development
CSL	Civil Service Law
EC	European Commission
EU	European Union
FMC	financial management and control
FMIS	Treasury IT system (Serbia)
HCSC	High Civil Service Council
HR	human resources
HRM	human resource management
HRMS	Human Resource Management Service
HRMIS	Human Resource Management Information System
IA	internal audit
IIA	Institute of Internal Auditors
IPA	Instrument for Pre-accession Assistance
IT	information technology
LPE	Law on Public Enterprises
MEST	Ministry of Education, Science and Technology
MoE	Ministry of Economy
MoF	Ministry of Finance
MoH	Ministry of Health
Mol	Ministry of Interior
MPALSG	Ministry of Public Administration and Local Self-Government
PAR	public administration reform
PFMRP	Public Financial Management Reform Programme
ReSPA	Regional School of Public Administration
SAI	State Audit Institution
SOE	state-owned enterprise
UNDP	United Nations Development Programme
WEF	World Economic Forum

INTRODUCTION

Following the comprehensive *Baseline Measurement Reports*¹ prepared by SIGMA in May 2015 for all European Union (EU) Enlargement countries against *The Principles of Public Administration*², SIGMA has continued to monitor the progress of public administration reform in each country. The focus of the specific topics within the Principles for assessment by SIGMA in 2016 was selected in co-operation with the European Commission (EC).

This report covers four Principles for the public service and human resource management area and four Principles for the public financial management area.

The public service and human resource management chapter analyses the scope of the public service and legal framework, and the professionalism of the public service in recruitment.

The public financial management chapter analyses the operational framework for financial management and control (FMC) and internal audit (IA) and the implementation of FMC and IA within individual budget organisations.

Both areas are highly relevant for a more focused analysis. The public service and human resource management chapter is relevant because of the implementation and monitoring of the key priorities for the public administration identified in the EC's Serbia 2015 Report, as well as the ongoing efforts to change civil service legislation in Serbia. The public financial management chapter is relevant because negotiations on Chapter 32 (Financial Control) were opened in December 2015 and also because the Strategy for the Development of Public Internal Financial Control 2016-2020 is being drafted.

This report covers the period from May 2015 to April 2016, highlighting the main developments, and providing updated values for the indicators relevant to the Principles analysed as well as short- and medium-term recommendations for reform.

¹ SIGMA (2015), [Baseline Measurement Reports](#), OECD Publishing, Paris.

² SIGMA (2014), [The Principles of Public Administration](#), OECD Publishing, Paris.

A large teal folder graphic with a light blue tab on the left side. The folder is tilted slightly to the right. The text "Public Service and Human Resource Management" is centered on the front of the folder in white.

Public Service and
Human Resource
Management

PUBLIC SERVICE AND HUMAN RESOURCE MANAGEMENT

1. STATE OF PLAY AND MAIN DEVELOPMENTS: MAY 2015-APRIL 2016

1.1. State of play

The scope of the civil service has been improved with the adoption of two important pieces of legislation: the Law on the Salary System in the Public Sector and the Law on the Police. The Law on the Salary System in the Public Sector introduces a general salary framework for all public sector employees. The Law on the Police applies the Civil Service Law (CSL) to the majority of staff of the Ministry of Interior (MoI) who carry out horizontal administrative functions, and introduces modern human resource management (HRM) principles to police officers. However, there are still weaknesses, namely the restricted application of the CSL recruitment and selection provisions for all civil service positions, and a lack of a clear, practical distinction between political and senior civil service posts, the majority of which have still not been filled on the basis of merit.

The legal framework, policies and institutional set-up are in place, but implementation remains an important challenge. The central co-ordination unit, the Human Resource Management Service (HRMS), lacks the authority to ensure the implementation of the legislation in a coherent manner across the public service, as it shares its HRM responsibilities with all civil service institutions. The Human Resource Management Information System (HRMIS) is not regularly updated and linked to other databases.

The CSL establishes a solid foundation for a merit-based, coherent and transparent system for civil service recruitment, promotion and termination of employment. However, legislation on its own is not sufficient to safeguard the merit principle, especially as certain parts of the civil service have their own recruitment rules.

The difference between political appointees and senior civil servants is well defined legally, as are the grounds for internal and external recruitment and selection based on merit, equal opportunities and open competition. However, direct and indirect political influence on hiring for senior managerial positions in the civil service still happens in practice.

1.2. Main developments

In February 2016, the Parliament adopted the Law on the Salary System in the Public Service³, which is a very comprehensive Law covering all public sector employees (509 943⁴). The Law increases the transparency of the pay system and addresses considerable variations in pay for similar jobs throughout the public service.

In January 2016, the Parliament adopted the Law on the Police⁵, under which a large number of administrative personnel of the MoI (up to 10 000 employees) will become part of the civil service. As a result, the civil service staff of the MoI will no longer be exempt from the general civil service framework. The Law also sets out modern HRM principles for police officers (around 32 000 employees). The Law will become fully effective after adoption of the secondary legislation supporting its implementation, which needs to be passed within a year of the Law being enacted⁶ (January 2017).

³ Official Gazette No. 18/16.

⁴ Data provided by the Ministry of Public Administration and Local Self-Government (MPALSG); includes employees on permanent and temporary contracts but excludes those employed in public enterprises.

⁵ Official Gazette No. 6/2016.

⁶ Law on the Police, Article 251, Official Gazette No. 6/2016.

Serbia
Public Service and Human Resource Management

The new Law on the Maximum Number of Employees in the Public Sector was adopted in July 2015⁷, followed by the Government Decision on the Maximum Number of Employees in the Public Sector⁸ in December 2015, which sets personnel ceilings for each public administration body. Implementation of this new rightsizing framework started in early 2016.

The SIGMA 2015 *Baseline Measurement Report* recommendations have been partly acted upon during the reporting period. The High Civil Service Council (HCSC)⁹, with the support of the HRMS, has made a significant effort to ensure merit-based recruitment for senior positions and resolve the problem of acting senior civil servants by carrying out 256 competitions for all vacant senior civil service posts. However, a large number of competitions were not successful for various reasons (e.g. no candidates applied; candidates did not meet the conditions or pass the selection process) and the Government had appointed only 30 persons to senior managerial positions as of mid-April 2016.

The Government did not reform the institutional set-up in charge of civil service management to clarify the roles and competencies of the Ministry of Public Administration and Local Self-Government (MPALSG). There has been no co-ordinated action among the HRMS, the MPALSG, the Ministry of Finance (MoF) and the Administrative Inspection (AI)¹⁰ to require public authorities to update information in the Civil Service Registry. The capacity of the AI remains weak, and its personnel has been reduced due to natural attrition and the ongoing rightsizing efforts.

⁷ Official Gazette No. 68/2015.

⁸ Decision on the Maximum Number of Permanent Employees in the State Administration System, System of Public Services, System of Autonomous Province of Vojvodina and Local Self-Government System for 2015, Official Gazette No. 101/2015.

⁹ The 11-member HCSC, established by the Government, prescribes methods for assessing professional qualifications, knowledge and skills in the selection procedure for state administration organisations and Government services, prescribes criteria for the appointment of civil servants, adopts the code of ethics for civil servants and performs other tasks determined by the CSL, Articles 164-169.

¹⁰ The Administrative Inspection (AI) is an internal body within the MPALSG.

2. ANALYSIS

This analysis covers four Principles for the public service and human resource management area, grouped under two key requirements: scope of the public service and legal framework, and professionalism of the public service in recruitment. It includes a short analysis of the indicators of the Principles and a systematic analysis of the first four Principles of public service and human resource management.

Key requirement¹¹: The scope of public service is clearly defined and applied in practice so that the policy and legal framework and institutional set-up for professional public service is in place.

Indicator values

The scope of the public service is examined through three qualitative indicators that refer to the scope covered by legislation, the coherence and professionalism of the policy and legal framework, and the institutional set-up enabling consistent HRM practices across organisations.

There have been noticeable improvements in the scope of the civil service during the reporting period. The main challenges identified in the SIGMA 2015 *Baseline Measurement Report*, such as the fragmentation of the civil service caused by exempting large parts of the civil service (police, tax and customs administration) from the general civil service framework have started to be addressed.

Key challenges remain in the implementation of the CSL and the institutional set-up for a professional public service. In particular, two thirds of senior civil servants have still not been appointed on the basis of competition; the central co-ordination body has limited authority to ensure the implementation of the legislation in a coherent manner across the public service; and the central Civil Service Registry is not fully operational to support strategic workforce planning, management and monitoring of HRM practices in the public service.

¹¹ SIGMA (2014), [The Principles of Public Administration](#), OECD Publishing, Paris, p. 45.

Serbia
Public Service and Human Resource Management

	Principle no.	Indicator	Baseline year	Baseline value	Assessment year	Indicator value
Qualitative	1	Extent to which the scope of public service is adequate, clearly defined and applied in practice.	2014	3	2015	3
	2	Extent to which the policy and legal framework for professional and coherent public service is established and implemented.	2014	4	2015	4
	2	Extent to which the institutional set-up enables consistent HRM practices across the public service.	2014	2	2015	2

Analysis of Principles

Principle 1: The scope of public service is adequate, clearly defined and applied in practice.

Serbia has a solid legal basis establishing the horizontal¹² and vertical¹³ scope of the civil service. Key pieces of legislation which govern the scope of the civil service are: the Law on State Administration¹⁴, the CSL¹⁵ and the Law on the Salaries of Civil Servants and Employees¹⁶ (which is to be aligned with the new Law on the Salary System in the Public Sector by the end of 2017). There are also several Decrees supporting the implementation of the CSL: the Decree on the Classification of Posts and Criteria for Job Descriptions¹⁷; the Decree on Carrying out Internal and Open Competitions for Filling Posts in State Bodies¹⁸; the Decree on Preparation of the Personnel Plan in State Bodies¹⁹; the Decree on Performance Appraisal²⁰; the Decree on the Programme and Manner of Passing the State Professional

¹² According to the SIGMA Principles of Public Administration, the **horizontal scope** should contain at least the positions with public authority to exercise powers conferred by public law and with responsibility for safeguarding the general interests of the state or other public bodies in a range of institutions. SIGMA (2014), *The Principles of Public Administration*, OECD Publishing, Paris, p. 44

¹³ According to the SIGMA Principles of Public Administration, the **vertical scope** should clearly determine the upper and lower division lines among political appointees, public servants and support staff. SIGMA (2014), *The Principles of Public Administration*, OECD Publishing, Paris, p. 44.

¹⁴ Official Gazette Nos. 79/2005, 101/2007, 95/2010 and 99/2014.

¹⁵ Official Gazette Nos. 79/2005, 81/2005, 83/2005, 64/2007, 67/2007, 116/2008, 104/2009 and 99/2014.

¹⁶ Official Gazette Nos. 62/2006, 63/2006, 115/2006, 101/2007, 99/2010, 208/2013 and 99/2014.

¹⁷ Official Gazette Nos. 117/2005, 108/2008, 109/2009, 95/2010, 117/2012, 84/2014, 132/2014, 28/2015 and 102/2015.

¹⁸ Official Gazette Nos. 41/2007, clean text, and 109/2009.

¹⁹ Official Gazette No. 8/2006.

²⁰ Official Gazette Nos. 11/2006 and 109/2009.

Exam²¹; the Decree on Compensation and Severance Pay of Civil Servants and Employees²²; and the Decree on Professional Development of Civil Servants²³.

The horizontal scope of the civil service includes: the structure of the core executive (ministries, internal bodies of ministries, bodies reporting to ministries [i.e. special organisations], and support structures to the President of the Republic); the judiciary services; the support structures of the Parliament; and independent constitutional bodies reporting directly to the Parliament. This corresponds to the definitions of the public service as set out in *The Principles of Public Administration*²⁴.

The scope of the civil service legislation has been restricted, however, as several important parts of the civil service have special HRM legislation for recruitment and selection²⁵. These are the Tax Administration, the Customs Administration and the Administration for Execution of Criminal Sanctions, which are part of the civil service but have specific legislation for recruitment and selection procedures. The Customs Administration has never been part of the general civil service framework for recruitment and selection; it is governed instead by a special Customs Law adopted in 2003²⁶, before adoption of the CSL. The Tax Administration and the Administration for Execution of Criminal Sanctions were initially included within the remit of the CSL, but have subsequently excluded themselves by the adoption of special sectoral legislation²⁷ which regulates recruitment and selection in a particular manner. As the number of employees in the Tax Administration²⁸, the Customs Administration²⁹ and the Administration of the Execution of Criminal Sanctions³⁰ is high, and constitutes around one-third of overall civil servants, there is an obvious fragmentation in the civil service system regarding recruitment and selection. The scope of fragmentation of the general civil service framework with respect to recruitment and selection is shown in Figure 1.

²¹ Official Gazette Nos. 16/09 and 84/2014.

²² Official Gazette Nos. 97/07 and 84/2014.

²³ Official Gazette Nos. 25-27/2015.

²⁴ SIGMA (2014), [The Principles of Public Administration](#), OECD Publishing, Paris, p. 43.

²⁵ The Tax Administration and Administration for Execution of Criminal Sanctions also have separate salary systems, but this problem is currently being addressed by the new Law on the System of Salaries in the Public Sector.

²⁶ Official Gazette Nos. 73/2003, 61/2005, 85/2005, 62/2006 and 63/2006.

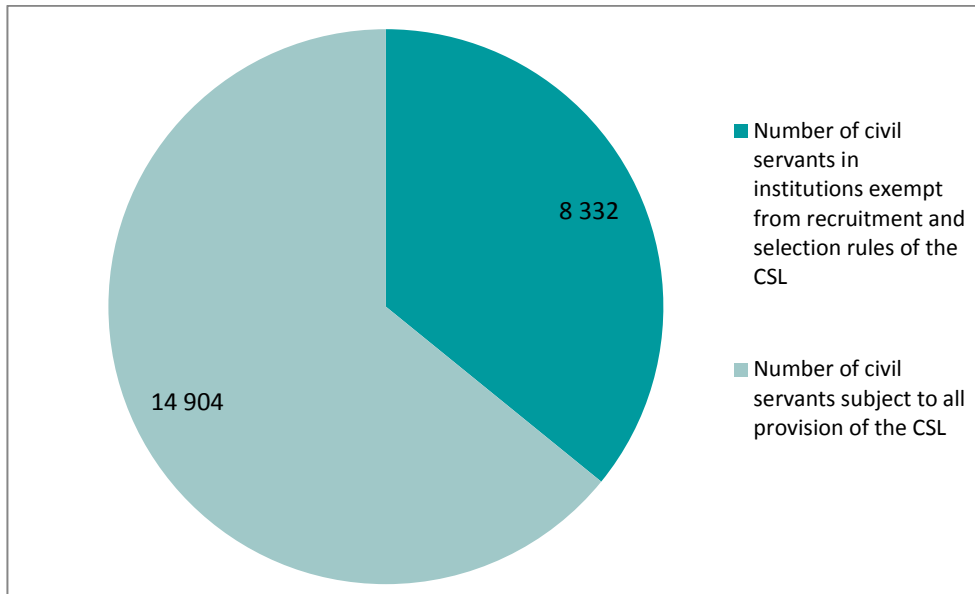
²⁷ Law on Amendments of the Law on Tax Procedure and Tax Administration, Official Gazette No. 20/2009; Law on Execution of Criminal Sanctions, Official Gazette No. 55/2014.

²⁸ 5 372 employees in 2015; information provided by MPALSG.

²⁹ 2 772 employees in 2015; information provided by MPALSG.

³⁰ 188 employees in 2015; information provided by MPALSG.

Figure 1. Fragmentation of the scope of the civil service regarding recruitment and selection in practice



Source: Ministry of Public Administration and Local Self-Government.

The Tax Administration and the Administration for Execution of Criminal Sanctions have also opted for separate salary systems by adopting their own legislation for remuneration³¹. This problem is being addressed by the recently adopted Law on the Salary System in the Public Sector, which will require all public sector institutions to align their remuneration systems with the overall public sector remuneration framework. The new Law on the Salary System in the Public Sector envisages all public sector employees being classified within 13 pay grades (which will be multiplied by a unique base coefficient determined by the annual Budget Law) on the basis of a common job evaluation system. The coherence and transparency of both the public sector and the civil service remuneration framework will improve significantly if remuneration alignment is successfully implemented in practice.

The administrative staff of the MoI, traditionally excluded from the scope of the civil service, are now being integrated into it. The MoI (with around 42 850 staff in total) has been the biggest exception to the civil service system, as the CSL rules have never been applicable even to those personnel who perform classical administrative functions. The recently adopted Law on the Police, however, introduces important distinctions among civil servants, employees and police officers in the MoI. The Law requires the Ministry to adopt the new Rulebook on Internal Organisation and Systematisation in the coming months, through which a significant number of positions will become civil service positions³² to which the CSL will be fully applicable. The new Law on the Police also introduces modern HRM principles (such as mandatory competition for recruitment, a competency framework and performance appraisal) for police officers (around 32 000 staff). Finally, the staff of the MoI are also subject to the new Law on the Salary System in the Public Sector, which will align the remuneration system of police officers with other public sector employees. This will be an important improvement if fully implemented in practice.

The vertical scope of the civil service is well defined by law, as the Law on State Administration and the CSL determine a clear distinction between civil servants who carry out administrative functions and state employees who perform technical functions. Special legal protection is provided only to civil servants, while auxiliary functions fall under the general employment regime.

³¹ Amendments of the Law on Tax Procedure and Tax Administration, Official Gazette Nos. 20/2009 and 72/2009; Law on the Execution of Criminal Sanctions, Official Gazette No. 55/2014.

³² The MPALSG estimates that more than 10 000 employees of the Ministry of Interior will become civil servants.

There is also a clear legal distinction between political posts and senior civil service posts. The positions of minister and state secretary are purely political posts. A state secretary in a ministry is appointed and dismissed by the Government on a minister's proposal and his/her mandate terminates with the termination of the minister's mandate³³. The position of secretary general of the ministry and assistant minister posts (heads of sectors/departments) are senior civil service posts. Senior civil servants do not have a permanent position, but are appointed by the Government for a period of five years³⁴, which goes beyond the mandate of any individual Government and thus reduces the risk of politicisation. To allow ministers to get "political advice", the Law on State Administration allows ministers to appoint up to three special advisors³⁵, who are part of the ministerial cabinet. In spite of the clear legal distinction between political posts and senior civil service posts, in reality two-thirds of senior civil service posts have still not been filled on the basis of a competition, as will be elaborated in more detail under Principle 4.

The material scope³⁶ of the civil service is well defined and encompasses all the employment relations of public servants and the management of public service. The CSL and supporting secondary legislation regulate all necessary HRM aspects, such as: the scope and principles of the civil service; classification; recruitment and selection of civil servants, including those in senior managerial positions; rights and obligations of civil servants, including the integrity system; remuneration (the main principles and components of the salary system); professional development, including performance appraisal, training, mobility and promotion; disciplinary procedures, including suspension from the civil service; termination of employment, including demotion and redundancy; and central co-ordination of the civil service.

There has been significant progress in the legislative area with the adoption of two key laws reducing the fragmentation of the public service. Nevertheless, the value of the qualitative indicator on the scope of the public service still remains at 3 because it is too early to assess how these changes are being implemented in practice.

The scope of the civil service has improved with the adoption of two important pieces of legislation: the Law on the Salary System in the Public Sector and the Law on the Police. The Law on the Salary System in the Public Sector introduces a general salary framework for all public sector employees, and hence enhances the coherence of the remuneration framework for all civil servants. The Law on the Police enables the application of the CSL to the great majority of staff of the MoI who carry out horizontal administrative functions and introduces modern HRM principles to the police. Fragmented application of the CSL exists with respect to recruitment and selection for civil service positions. There is still a lack of a clear, practical distinction between political and senior civil service posts as the majority of them are still not being filled on the basis of merit.

³³ Law on State Administration, Article 24.

³⁴ Law on State Administration, Article 25, paragraph 3, and Article 26, paragraph 3.

³⁵ Law on State Administration, Article 27.

³⁶ According to the SIGMA Principles of Public Administration, the **material scope** should clearly establish all general provisions relevant to the employment relations of public servants and management of public service. SIGMA (2014), [The Principles of Public Administration](#), OECD Publishing, Paris, p. 44.

Principle 2: The policy and legal framework for a professional and coherent public service is established and applied in practice; the institutional set-up enables consistent and effective human resource management practices across the public service.

The policy for civil service development has been defined primarily through the Public Administration Reform (PAR) Strategy adopted in January 2014³⁷, followed by an Action Plan for PAR Strategy Implementation 2015-2017³⁸, and the Strategy on Professional Development of Civil Servants³⁹ and the Action Plan for 2013-2015 which expired at the end of 2015. Both Strategies and Action Plans set out clear and coherent measures to support their implementation. The PAR Strategy and the Action Plan emphasise the need to align the legal status of other public sector employees with that of civil servants (with the initial focus on the salary system). The objectives for 2015 included: preparation of the public sector salary framework; a gap analysis of the civil service system; and preparation of amendments to the CSL to bridge the immediate gaps in the system. These were to prepare for the introduction of modern HRM techniques to the civil service in 2016-2017, such as the development of incentives to attract and retain high-quality personnel, a competency framework and career development models. The Strategy on the Professional Development of Civil Servants envisages the MPALSG acquiring responsibility for the preparation and monitoring of the civil servants' general training programme (which was under the competence of the HRMS), followed by it taking responsibility for the personnel in charge of these activities from the HRMS. The Strategy also envisages the creation of a new National Training Institution, which would take over civil service training. The Action Plan for the implementation of the Strategy on Professional Development expired at the end of 2015 and the new Action Plan has still not been drafted. However, some of the measures from the Action Plan for 2013-15 (for example, creation of the National Training Institution) have been supported through the general PAR Strategy and are expected to be implemented in 2016.

In accordance with the Action Plan for PAR Strategy Implementation 2015-2017, the key activities undertaken during the reporting period regarding the civil service were, first, the preparation of the Law on the Salary System in the Public Sector and, second, the preparation of a gap analysis of the current CSL and drafting the new CSL amendments⁴⁰. As the Law on the Salary System was prepared and adopted in February 2016, the MPALSG has started preparing the catalogue of all posts in the public sector to facilitate the job classification process throughout the public sector and implementation of the new Law. The gap analysis of the current civil service system was also completed, on the basis of which the MPALSG prepared amendments of the CSL to address existing weaknesses. The proposed amendments, however, did not receive positive feedback from all institutions in the Government's consultation process⁴¹, and following the announcement of elections in 2016, they were withdrawn. The planned activities within the Strategy on Professional Development of Civil Servants were only partly implemented. The MPALSG has acquired responsibility for the preparation and monitoring of the civil servants' general training programme, but has not taken over the personnel in charge of these activities from the HRMS, as envisaged by the Strategy.

³⁷ PAR Strategy, adopted by the Government on 24 January 2014.

³⁸ Action Plan for the Implementation of the PAR Strategy for the period 2015-2017, adopted by the Government on 15 March 2015.

³⁹ Strategy of Professional Development of Civil Servants, Official Gazette Nos. 56/11 and 51/2013. The Strategy on Professional Development of Civil Servants does not impose any deadlines for its implementation.

⁴⁰ MPALSG, the six-month report on Action Plan activities carried out to implement the PAR Strategy for the period 2015-17, August 2015.

⁴¹ Opinion of the Commissioner for Protection of Equality of Serbia on the draft amendments of the CSL. To overcome this problem, the HRMS has prepared general civil service training programmes for 2015 and 2016 and submitted them to MPALSG, which has adopted them.

Serbia
Public Service and Human Resource Management

Primary and secondary civil service legislation is generally in line with administrative law⁴² and merit principles, and the degree of regulation in primary and secondary legislation is adequately balanced.

There have been no changes in political responsibility of the central co-ordination unit for the civil service during the reporting period. The MPALSG is the institution politically responsible for the public service and it is in charge of policy design in the area of civil service and public administration. The monitoring of CSL implementation is the responsibility of the AI, which is subordinate to the MPALSG. The HRMS, on the other hand, has an important role as facilitator of HRM processes. Its competencies include: advertising vacancies for internal competition and supporting and monitoring competition procedures for expert-level staff; preparation of the Annual Human Resources Plan for the Government; maintaining the Civil Service Registry; conducting training programmes; and assisting the HCSC and the Government Appeals Commission.

Although the HRMS, as a central co-ordination unit, is also responsible for supporting and monitoring the implementation of the values, policy and legal framework of the civil service, it does not have sufficient oversight competencies for the implementation of the CSL. The HRMS is a service of the Government, which reports to the Secretary General of the Government and does not directly participate at the Government sessions. Furthermore, the important oversight competencies for the implementation of the CSL are placed with the AI body reporting to the MPALSG, while the HRMS, which has the most insight into the problems of the CSL implementation, has only a consulting role in the interpretation and enforcement of the CSL. For these reasons, it is important to consider the recommendation of the SIGMA 2015 *Baseline Measurement Report* to strengthen the synergy between the HRMS and the MPALSG, to ensure the smooth implementation of the CSL.

The HRMS operates the HRMIS, which should support the strategic workforce planning, management and monitoring of HRM practices in the civil service. The system contains administrative personnel data (including classification, career development, performance ratings and training) and basic payroll indicators (pay coefficients, applicable incentives and bonuses, benefits and allowances, taxable income, index for pension contributions, index for contributions to the Health Insurance Fund). One of the objectives of the HRMIS is to create an internal labour database that provides a basis for the development of effective strategic and medium-term career planning in the civil service.

The data in the HRMIS register is not, however, regularly updated and there is no connection with other national databases. Although the CSL envisages a Government decree to regulate insertion of data in the HRMIS⁴³, such a decree has never been passed. Also, the CSL does not envisage any sanctions for bodies which do not update HRMIS data. The HRMS does not have authority to ensure the accuracy of the HRMIS register, and the AI did not check it during 2015, as this was not among the priorities of the Government. Furthermore, the HRMIS does not interact electronically with other national databases to avoid duplication in gathering data. A parallel payroll database of the Treasury is in place in order to ease the payment process. This has led to the personnel services of line ministries and other institutions operating with, and entering, data in two parallel information systems, with the consequent risks of data inconsistency and information gaps.

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 such as strategic planning, competency-based selection or career development. There is an ongoing UK Government-funded project which is assessing the capacities of the HRM units in civil service institutions and proposing recommendations for their enhancement. There have also been proposals to move the existing human resources (HR) units out of legal and financial services departments and

⁴² According to SIGMA’s Principles of Public Administration, administrative law principles are: reliability and predictability (legal certainty), openness and transparency, accountability, efficiency and effectiveness (SIGMA [2014], [The Principles of Public Administration](#), OECD Publishing, Paris, p. 45).

⁴³ CSL, Article 160, paragraph 3.

link them directly to the manager of the institution in order to increase their strategic potential, but these have still not been implemented.

The AI, the Government Appeals Commission and the Administrative Court carry out oversight of the public service. The work of the Ombudsman's office, which receives only a small number of complaints regarding the civil service system, also ensures there is independent oversight.

The AI lacks the capacity to carry out effective civil service oversight, due to a low headcount and the high number of institutions within its remit (40 000 organisations, at local as well as at central level). The number of inspectors decreased from 24 in 2014 to 22 in 2015, which is not in line with SIGMA's 2015 *Baseline Measurement Report* recommendations that proposed increasing the inspection capacity. Inspections are carried out in accordance with the Annual Inspection Plan and on the basis of complaints received. For the upcoming year, the planned areas of inspection included implementation of the Law on the Maximum Number of Employees in the Public Sector and control of the voters' register (due to the impending [at the time] elections). The number of inspections carried out regarding the civil service has been relatively stable in recent years⁴⁴. The Administrative Inspection does not have sufficient political authority to inspect senior civil service appointments, as this issue has not been identified as one of the priorities of the Government. Furthermore, in the case of senior civil service appointments, the CSL only allows the AI the right to note non-compliance with the CSL, not to impose sanctions. This further reduces the effectiveness of its work.

Considering the factors analysed above, the values for the qualitative indicators on the policy and legal framework, and on the institutional set-up for 2015, remain at 4 and 2.

The legal framework, policies and institutional set-up are in place, but important challenges remain, especially with regard to implementation. The HRMS, the central co-ordination unit, lacks the authority to ensure the implementation of the legislation in a coherent manner across the public service. The HRMIS system is not regularly updated or linked to other databases. The AI is not effective in ensuring the smooth implementation of civil service legislation.

Key requirement⁴⁵: Professionalism of public service is ensured by good managerial standards and human resource management practices.

Indicator values

Professionalism is examined through three qualitative and eight quantitative indicators that refer to merit-based recruitment and termination of employment in the public service, including senior public servants.

In spite of a solid legal framework for recruitment and selection, a culture of open, transparent and competitive recruitment and HRM systems does not prevail in practice. This is reflected in a relatively low average number of candidates per vacancy in the civil service (11.09) and a significantly lower number of candidates per vacancy for senior managerial positions (only 2.64). Two-thirds of senior civil servants have been appointed as acting officials, without a merit-based competitive procedure, for a period of more than nine months. This constitutes an obvious breach of the CSL and raises questions about the legality of decisions made by acting senior officials, undermining the legal certainty. Other remaining challenges are: an overly bureaucratic application procedure; insufficient capacity of competition committees; discretion of the head of an institution to select candidates from closed lists; and exceptions from merit-based recruitment in the case of temporary personnel, which constitute around 10% of personnel in the civil service.

⁴⁴ The number of inspections conducted regarding the civil service system: 1 183 in 2015; 1 400 in 2014; and 1 106 in 2013.

⁴⁵ SIGMA (2014), [The Principles of Public Administration](#), OECD Publishing, Paris, p. 49.

Serbia
Public Service and Human Resource Management

	Principle no.	Indicator	Baseline year	Baseline value	Assessment year	Indicator value
Qualitative	3	Extent to which recruitment of public servants is based on the merit principle in all its phases.	2014	3	2015	3
	3	Extent to which the termination of employment of public servants is based on merit.	2014	3	2015	3
	4	Extent to which political influence on the recruitment and dismissal of senior managerial positions in the public service is prevented.	2014	2	2015	2
Quantitative	3	Annual turnover of civil servants at the level of the central administration.	2014	3.56%	2015	2.08% ⁴⁶
	3	Number of candidates per vacancy at the level of central administration	2014	10.21	2015	11.09 ⁴⁷
	4	Number of candidates per senior civil service vacancy at the level of central administration	2014	5.47	2015	2.64 ⁴⁸
	3	Percentage of women in the civil service at the level of central administration.	2014	Not available ⁴⁹	2015	62.24% ⁵⁰
	3	Percentage of women in senior managerial positions in the civil	2014	26.80	2015	44.74 ⁵¹

⁴⁶ MPALSG.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Here and hereafter, "Not available" means that the respective data were not provided by the administration upon SIGMA's request.

⁵⁰ Ibid.

⁵¹ Ibid.

Serbia
Public Service and Human Resource Management

	Principle no.	Indicator	Baseline year	Baseline value	Assessment year	Indicator value
		service at the level of central administration.				
	3	Percentage of civil servants at the level of central administration by different ethnic origin in relation to the general ethnic division in the country based on the latest census.	2014	Not available	2015	Not available
	4	Annual turnover of senior managerial civil servants at the level of the central administration.	2014	7.88	2015	6.76 ⁵²
	4	Turnover of senior managerial civil servants at the level of central administration within six months of a change of government.	2014	Not available	2015	Not applicable

Principle 3: The recruitment of public servants is based on merit and equal treatment in all its phases; the criteria for demotion and termination of public servants are explicit.

Serbia has a solid legal framework governing recruitment and selection in the civil service. Although the Constitution does not contain provisions directly concerning the civil service, its Article 53 states that “Citizens shall have the right to take part in the management of public affairs and to assume public service and functions under equal conditions”, which provides the basis for a competitive and merit-based recruitment system. Primary and secondary legislation⁵³ concerning recruitment for civil service and senior civil service positions in general establish a coherent merit-based recruitment system, although there are certain deficiencies in practice.

A vacancy may be filled by open competition only after transferring a civil servant within the same state organisation or from another state organisation has not proved possible and after an internal competition has not been successful. General eligibility criteria for expert civil service posts are provided in the CSL⁵⁴ and are also strengthened by secondary legislation⁵⁵.

The key issue in the initial stage of the recruitment process is an overly bureaucratic and costly application procedure, which requires candidates to submit a number of certified documents in

⁵² Ibid.

⁵³ CSL, Articles 49-74; Decree on the Conducting of Internal and Public Competition for Fulfilment of Vacant Work Positions in State Bodies, Official Gazette No. 41 of 9 May 2007 – revised text, No. 109 of 25 December 2009; Rulebook on Professional Qualifications, Knowledge and Skills Evaluated in the Selection Procedure, Their Evaluation Methods and Selection Criteria for Employment, Official Gazette Nos. 64/2006 and 81/2006.

⁵⁴ CSL, Articles 35-43.

⁵⁵ Decree on Classification of Posts and Criteria for Job Descriptions; Decree on Carrying out Internal and Open Competition for Filling Posts in State Bodies; Decree on Preparation of Personnel Plan in State Bodies.

support of their application. Failure to provide a single document (properly stamped and certified) causes immediate exclusion from the recruitment procedure, as required by the CSL⁵⁶. The whole process is also costly for the candidates and carried out under a short deadline⁵⁷. This results in a reduction in the number of potentially good quality candidates, especially for senior managerial positions for which the number of candidates per vacancy is rather low (2.64). The MPALSG tried to address this issue through amendments to the CSL in 2015, but the amendments were not supported in the Government consultation process and were withdrawn.

For expert-level civil servants, the competition procedure is carried out by an *ad hoc* competition committee, composed of two representatives from the institution with the vacancy and a representative of the HRMS. The task of the HRMS representative is to ensure legality and transparency of the procedure and provide advice to other members of the competition committee if needed.

In the expert-level staff selection process, a final-stage interview, which does not take account of the outcomes of tests from earlier in the process, is usually the main selection method used and does not sufficiently guarantee unbiased recruitment decisions. The set of tools used for the examination of knowledge and/or competencies is entirely at the discretion of selection committees and can include written exams, standardised competency tests or interviews⁵⁸. The usual practice is that candidates undergo standardised testing of behavioural competencies, carried out by the HRMS, and an interview, without taking a written exam⁵⁹. Competency tests examine candidates' analytical skills (such as analytical thinking, drawing logical conclusions, organisational skills), and leadership skills for middle management positions, which is fully in line with modern HRM practices. Negative assessment disqualifies a candidate, while positive assessment brings him/her to the next stage of the selection process, which is an interview. The results of the competency tests, however, are not taken into account in the final scoring of candidates, but serve only as an elimination step in the selection process. The overall assessment of the candidate therefore depends largely on the results of a personal interview, which can be subject to discretionary assessment by the competition committee members.

The most concerning aspect of the organisation of competition committees is the low level of professional preparation of its members (apart from the HRMS representative) for running a recruitment procedure, as they receive no real training in this area. This is especially important given that a personal interview is the key selection method, requiring a high level of preparation by the committee members. According to the HRMS report on training provided in 2015, there was only one training session on selection methods, with 15 participants. The target group consisted of civil servants from HR units and members of selection panels, as well as other civil servants. Although the HRMS member of the committee provides guidance to other members on how to conduct the selection process when a competition committee is established, this does not sufficiently prepare competition committee members for their roles, nor does it transform the organisational administrative culture into a merit-based one.

At the end of the selection process, the committee proposes to the head of the institution a shortlist with a maximum of three candidates from which to choose. This is not fully in line with merit principles because the head of the institution does not need to justify why a higher-ranking candidate was not chosen. Even though candidates are ranked according to performance, there is no requirement for the head of the institution to select the highest-ranked candidate, which undermines the credibility of the recruitment process and opens it to the possibility of political interference. In the case of expert-level

⁵⁶ CSL, Article 55, paragraph 3.

⁵⁷ CSL, Article 55 states that the deadline for application should not be less than eight days after announcement, but eight days after public announcement is used as the usual application deadline.

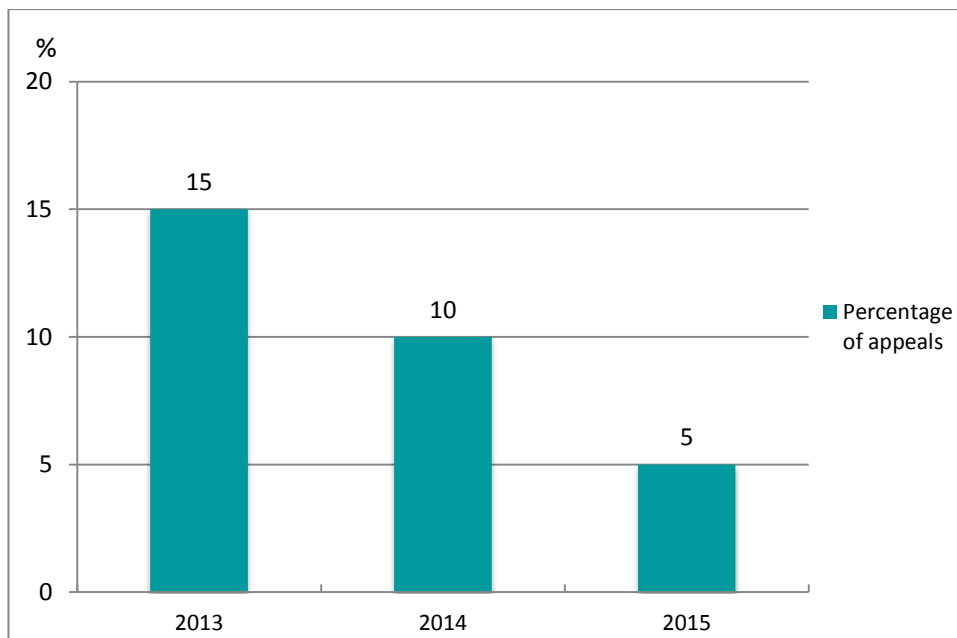
⁵⁸ Rulebook on Expert Abilities, Knowledge and Skills which are Tested in the Selection Process, Manner of Their Testing and Selection Criteria, Article 4, Official Gazette Nos. 64/2006, 81/2006, 43/2009 and 35/2010.

⁵⁹ Recruitment and selection documents for expert-level staff received from the Ministry of Economy (MoE).

staff, the CSL obliges the head of an institution to make a selection from the list of best-suited candidates presented to him/her. The CSL, however, does not prescribe a deadline for this selection, which delays the selection process. In some cases, a delay in selecting a shortlisted candidate can result in the whole recruitment and selection process being called off, if the staffing plan is changed in the meantime. The situation differs for senior managerial positions, for which the head of an institution can even reject the list of three and request a new competition within the prescribed period of 30 days from the submission of the list. Candidates who are not appointed have the right to appeal recruitment decisions to the Government Appeals Commission, which is a permanent government body responsible for the appeals arising from civil service employment issues. The Commission operates in three-member committees⁶⁰.

The number of recruitment and selection appeals in 2015 was lower than in previous years, accounting for only 5.09%⁶¹ of the total number of appeals. This is significantly lower than in 2013 and 2014, when the recruitment and selection cases constituted 14.81% and 10.17% of all appeals respectively (Figure 2). This downward trend may, however, be the consequence of the employment freeze imposed in early 2014. Nevertheless, both the AI and the Ombudsman's office acknowledge that most complaints concerning the implementation of the CSL are associated with recruitment, but that their number is quite low.

Figure 2. Recruitment and selection appeals by percentage, 2013-2015



Source: Ministry of Public Administration and Local Self-Government.

Finally, another important recruitment and selection issue is the filling of civil service positions on a temporary employment basis, which is not subject to merit-based recruitment. The reasons for temporary employment are listed in the CSL and include increased scope of work of the institution (up to six months) and replacement of a civil servant on an authorised leave of absence⁶². In such cases, there is no legal requirement to publicly advertise vacancies, selection commissions are not formed and candidates have to pass neither a written nor an oral examination. Although the system of temporary employment provides flexibility, the main drawback is that candidates with prior experience in temporary employment have an advantage in the examination process, as they are more familiar

⁶⁰ CSL, Article 145, paragraph 1.

⁶¹ Data provided by MPALSG.

⁶² CSL, Article 63.

with the requirements of the job⁶³. Several respondents to the online survey of personnel managers carried out under the auspices of the Regional School of Public Administration (ReSPA) have claimed that in Serbia “access to the civil service through contracts of temporary employment and without merit-based assessment cancels all efforts to implement the selection procedure fairly and objectively”⁶⁴. The Law on the Maximum Number of Employees in the Public Sector requires all institutions to keep the number of temporary employees below 10% of the total number of employees. This is not fully respected in practice⁶⁵, and also indicates the widespread use of temporary employment throughout the civil service.

The legal framework and procedures for performance appraisal, promotion, dismissal and termination of employment are also regulated by the CSL⁶⁶. The CSL provisions for these HRM aspects are applicable throughout the civil service (excluding the Tax Office, Customs Administration, and Administration for Execution of Criminal Sanctions, which have their own specific legislation covering recruitment and selection procedures).

Objective criteria for demotion of civil servants and termination of employment are explicitly established in the CSL⁶⁷, and include the expiry of the period of appointment on agreement, resignation and the force of law or if otherwise determined by special legislation⁶⁸. The reasons for termination of employment for senior civil service positions include: written notice of resignation, appointment to an office-holder position in a State Institution or to an Organisation of an Autonomous Province or Local Self-Government, the abolition of the managing post, retirement or dismissal⁶⁹. For both groups of civil servants – in expert and managerial positions – unsatisfactory performance appraisal followed by a subsequent negative appraisal (carried out 30 days after obtaining unsatisfactory performance at an “extraordinary appraisal”) can be a valid cause for dismissal⁷⁰.

The CSL establishes disciplinary liability for employment offences⁷¹ as well as material liability for damage caused to a state organisation⁷². Disciplinary measures differ between minor offences that can be punished with a fine of up to 20% of monthly salary and serious offences punished with a range of possible measures, from a fine of 20% to 30% of monthly salary, to a transfer to a lower pay rank, prohibition of promotion for up to two years, and termination of employment. A disciplinary procedure is held by a three-member disciplinary committee appointed *ad hoc* by the head of the state organisation. The disciplinary committee is required to hold a hearing in which the civil servant has the right of defence. Disciplinary procedures against appointed civil servants are conducted by the HCSC. The right to appeal to the Government Appeals Commission is granted, but for disciplinary decisions for managerial posts, an appeal is not permitted but the decision might be disputed before the Administrative Court.

⁶³ Sahling, J.H.M. et al. (2015), Improving the implementation of merit recruitment procedures in the Western Balkans: Analysis and recommendations, a report presented at a ReSPA conference, Danilovgrad, Montenegro, 12-13 November 2015.

⁶⁴ Ibid, p. 15.

⁶⁵ In Customs Administration the number of temporary employees is 11% of the total number of employees; in the Ministry of Foreign Affairs the number of temporary employees is 13% of the total number of employees; in the Ministry of Economic Affairs it is 12.5%.

⁶⁶ Official Gazette Nos. 79/2005; 81/2005; 83/2005; 64/2007; 67/2007; 116/2008; 104/2009; and 99/2014, as well as supporting Decrees: Decree on Classification of Posts and Criteria for Job Descriptions; Decree on Carrying out Internal and Open Competition for Filling Posts in State Bodies; Decree on Preparation of Personnel Plan in State Bodies; and Decree on Performance Appraisal.

⁶⁷ CSL, Article 76 on senior civil servant positions and Article 126 on expert-level civil servants.

⁶⁸ CSL, Article 126 on expert-level civil servants.

⁶⁹ CSL, Article 76 on senior civil servant positions.

⁷⁰ CSL, Article 84, and Regulation on Appraisal of Civil Servants, Official Gazette No. 11/2006.

⁷¹ CSL, Articles 107-120.

⁷² CSL, Articles 121-125.

Serbia
Public Service and Human Resource Management

The right to appeal against unfair termination or demotion, as well as an unsatisfactory appraisal, to the Government Appeals Commission is established⁷³. The number of appeals concerning unlawful termination of employment in 2015 was only 1.86% of all filed appeals⁷⁴. Data on the criteria used in the cases of termination of employment are not available. This is due in part to the limited functioning of the Civil Service Register – a problem which applies to all key institutions (AI, MPALSG, HRMS, HCSC) but has not been solved.

The adoption of the Law on the Maximum Number of Employees in the Public Sector⁷⁵ in July 2015 initiated the public sector rightsizing process. The adoption of the Law was followed by the adoption of the Government Decree⁷⁶ defining the maximum number of employees in specific public institutions, aiming to rationalise public employment. The rightsizing exercise will be done in two steps: in the first phase, departures will be voluntary, with termination of employment due to early retirement eligibility, payment of financial compensation or severance pay. The second phase will entail the adoption of new Rulebooks on the systemisation of jobs, which will be prepared by each public institution in line with the Government Decree, and the number of staff will be reduced in accordance with the new staffing plans. An outstanding legal issue is that the CSL does not set out clear rules for redundancy, but prescribes that the employment of a civil servant who has lost a position (“non-transferred civil servants”) shall terminate in two months if not transferred to another state organisation⁷⁷, which could result in a large number of legal disputes. Once new staffing plans (rulebooks on internal organisation and systematisation) are adopted in 2016, employees who lose their positions will enter the internal labour market operated by HRMS and, if not transferred to another post, will be made redundant. In the course of this process, special attention will be paid to performance appraisal results and social welfare criteria, as envisaged by the Collective Agreement for State Organisations.

Although parliamentary and local elections took place in late April 2016, which was just before the planned start of employment terminations, these dismissals have not yet started. It will be important to ensure that decisions are made according to the legislation in force and without political influence.

The annual turnover of civil servants according to the HRMS was 2.08% in 2015. Given the unemployment rate in Serbia, however, very low turnover rates would be expected, together with a small rise in interest in vacancies. In fact, the average number of candidates per advertised vacancy has risen from 10.21 in 2014 to 11.09 in 2015⁷⁸, which may indicate improved public confidence in the merit-based selection procedure for the civil service.

The principles of equality and non-discrimination are embedded in the CSL⁷⁹. Data on the ethnic composition of the civil service is not available.

Women make up the majority of civil servants, at 62.24% of the Serbian administration. The percentage of women in the Serbian senior civil service is somewhat lower, but almost equals the number of men. In 2015, 44.74% of civil servants in managerial positions were women, a significant increase from 26.8% the previous year.

⁷³ Regulation on Appraisal of Civil Servants, Article 37.

⁷⁴ Data provided by MPALSG.

⁷⁵ Official Gazette No. 68/15.

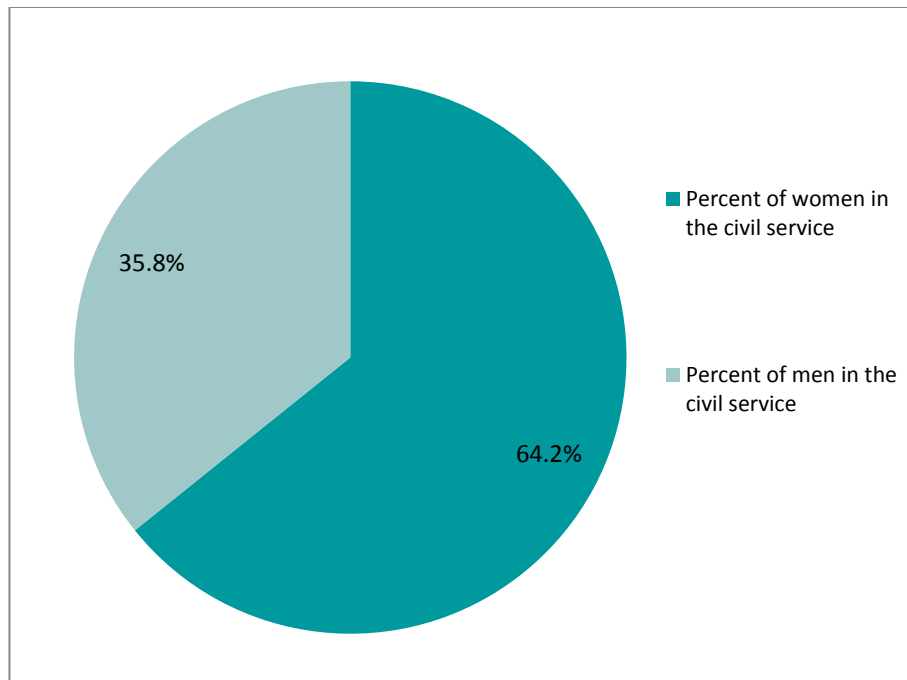
⁷⁶ Decision on the Maximum Number of Permanent Employees in the State Administration System, System of Public Services, System of Autonomous Province of Vojvodina and Local Self-Government System for 2015, Official Gazette No. 101/2015.

⁷⁷ CSL, Article 138.

⁷⁸ As the unemployment rate has fallen in 2015 compared with 2014.

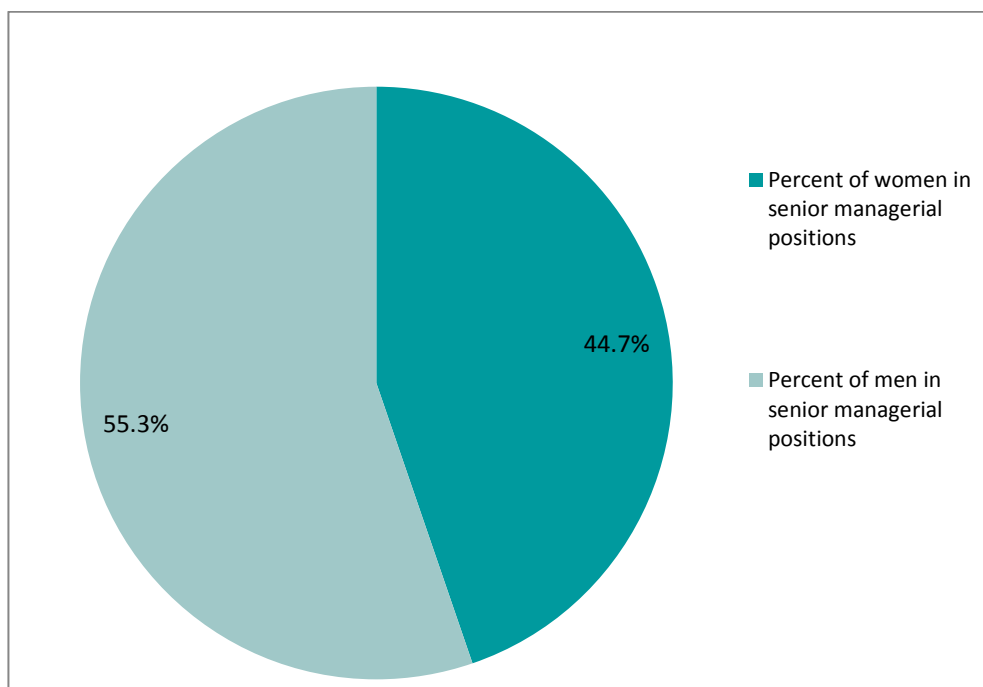
⁷⁹ CSL, Article 11.

Figure 3. Percentage of women and men in the civil service, 2015



Source: Ministry of Public Administration and Local Self-Government.

Figure 4. Percentage of men and women in senior managerial positions, 2015



Source: Ministry of Public Administration and Local Self-Government.

Considering all the factors analysed above, the values for the qualitative indicators on the recruitment and termination of employment of public servants remain at 3.

The CSL establishes a solid foundation for a merit-based, coherent and transparent system for civil service recruitment, demotion and termination of employment. However, legislation on its own is not sufficient to safeguard the merit principle, especially as certain parts of the civil service have

their own recruitment rules, the application procedure is overly bureaucratic and the capacities of the competition committees are weak. The merit principle is undermined by the discretion of the head of an institution to select one of the candidates from a closed list, and the exemption from the normal recruitment and selection processes for temporary personnel, who constitute around 10% of the civil service.

Principle 4: Direct or indirect political influence on senior managerial positions in the public service is prevented.

The civil service legislation clearly incorporates senior managerial posts within the scope of the civil service. Senior managerial civil servants comprise the following positions: heads of subordinate bodies of ministries (special organisations and internal bodies of ministries) and their deputies and assistants; heads of services of the Government and their deputies and assistants; deputies and assistants of the Secretary General of the Government; heads of sectors within ministries (assistant ministers) and secretary generals of ministries; and the Republic Public Attorney and the Deputy Republic Public Attorney⁸⁰. The CSL refers to this category of personnel as “appointed positions” (“*položaji*”). The number of senior managerial positions has been relatively stable over the past three years, at 365 in 2015, 355 in 2014 and 368 in 2013.

Primary and secondary legislation require that senior managerial positions be filled on the basis of a competition⁸¹ and provide a detailed legal framework for the overall process. Internal competition must precede external (public) competition when the senior civil service post is filled for the first time on the basis of a competition. Internal competition is open only to civil servants from the public administration bodies and government services who meet any of the following requirements: have received the grade “exceptional” in the two preceding years’ performance appraisals; are already in an appointed position; are in a position for which the appointment period has expired; or have filed a resignation from an appointed position or have had the position revoked⁸². It is also possible for a senior civil servant to be reappointed to his/her position without a competition after his/her mandate expires⁸³. The CSL also establishes professional requirements that potential candidates have to meet in order to apply for senior civil service posts: university education and at least nine years of relevant work experience.

In spite of a well-defined recruitment process, a large number of senior civil service posts have never been filled on the basis of a competition since the CSL was adopted in 2005⁸⁴.

To overcome this perennial issue, amendments to the CSL in 2014 allowed the appointment of an “acting head” to a senior managerial position for a limited period of time without a competition procedure⁸⁵. The CSL amendments prescribe that acting heads may be appointed for a period of six months, which may be extended for an additional three months provided a competition procedure has been initiated (within a period of 30 days after the acting head has been appointed). The 2016 deadline for filling senior managerial positions on the basis of a competition, which was 24 March, was not respected.

In 2015, major efforts were invested in carrying out competitions for all vacant senior civil service posts to meet the requirements of the CSL amendments. Overall, 256 competitions were initiated (172 internal and 84 external) for merit-based recruitment for senior positions.

⁸⁰ CSL, Article 34.

⁸¹ CSL, Article 76.

⁸² CSL, Article 69.

⁸³ CSL, Article 67.

⁸⁴ Meyer-Sahling, J. (2012), “[Civil service professionalisation in the Western Balkans](#)”, SIGMA Papers, No. 48, OECD Publishing, Paris, p. 46.

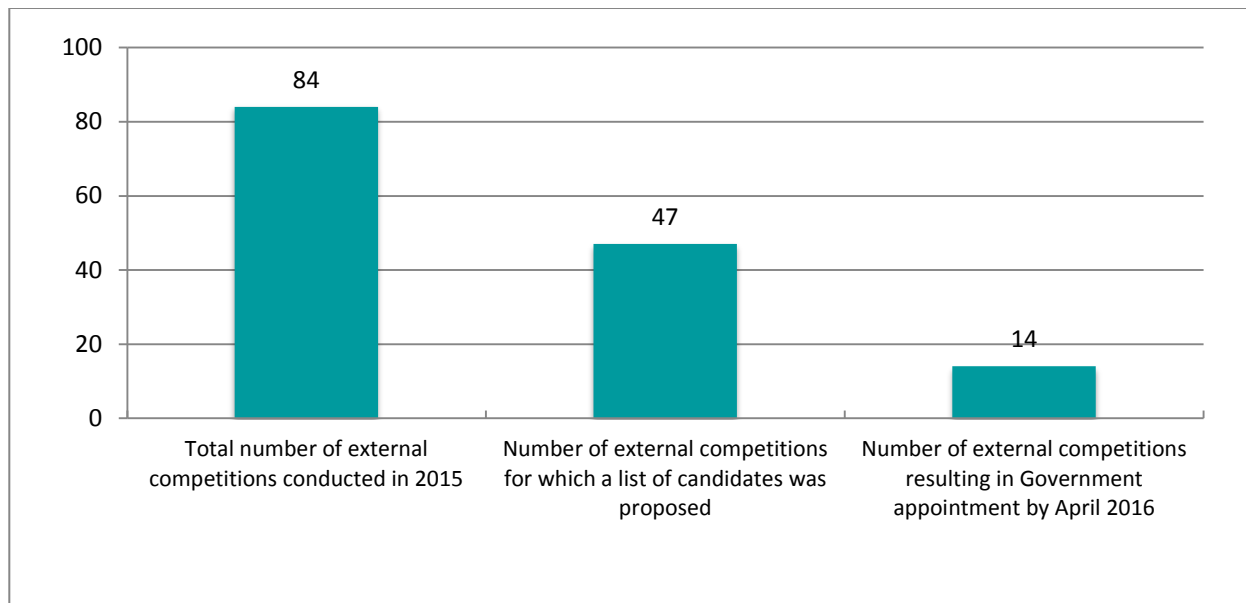
⁸⁵ CSL, Article 67a.

Serbia
Public Service and Human Resource Management

One of the greatest problems encountered during the initial phase of the recruitment process was the very low number of applications received. In 30% of internal competition procedures (52 out of 172 internal cases) no application was received at all. In 17.5% (45 out of 256 internal and external cases) none of the candidates fulfilled the formal conditions; in 2.7% (7 out of 256 internal and external cases) no candidates attended the subsequent stages in the competitive selection process and 33% of cases ended with no candidate chosen by the selection committees⁸⁶.

As of mid-April 2016, only 9.3% (16 out of 172) of internal competitions and only 16.6% (14 out of 84) of external competitions resulted in Government appointments (Figures 5 and 6)⁸⁷. This, combined with the low number of candidates per position (an average of 1.5 in internal and 5 in external competitions), shows the difficulty of applying the merit principle to recruitment for senior civil service positions.

Figure 5. Number of external competitions conducted for senior managerial positions, 2015

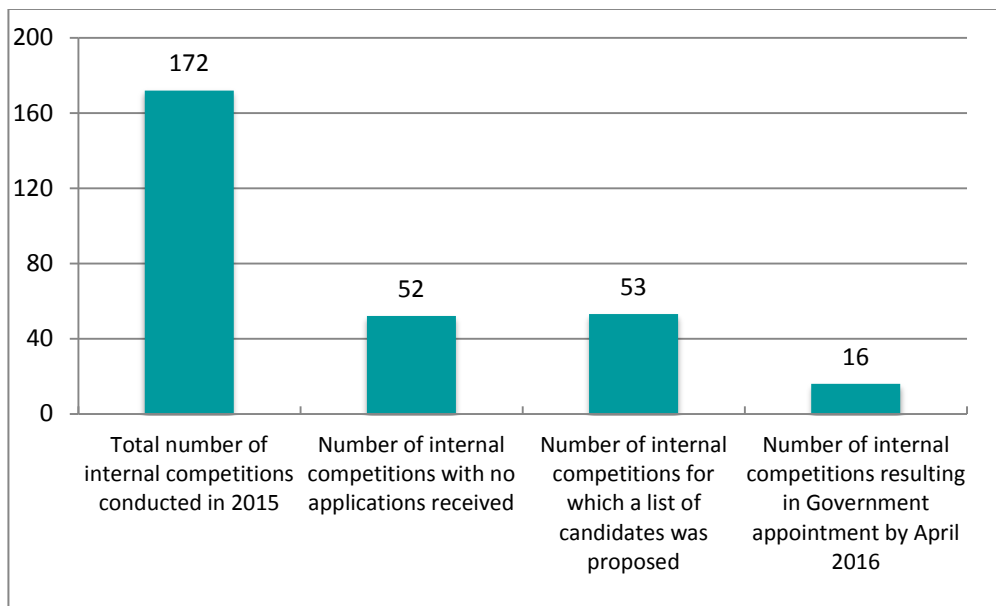


Source: Ministry of Public Administration and Local Self-Government.

⁸⁶ Data provided by MPALSG and HCSC in February 2016.

⁸⁷ Data provided by MPALSG in April 2016.

Figure 6. Number of internal competitions conducted for senior managerial positions, 2015



Source: Ministry of Public Administration and Local Self-Government.

As required by the CSL, the competition procedures were conducted by competition committees appointed by the HCSC. The HCSC is a special body of the Government with 11 expert members (6 senior managerial civil servants and 5 nominated by the Government from other experts in the public administration)⁸⁸, in charge of determining professional standards and criteria for the recruitment process. The competition committees always include one representative of the HCSC, who is usually the chair of the committee, and one external expert with specialist knowledge of the sector for which the candidate is applying (for example, a university professor of agriculture for a post in the Ministry of Agriculture). The CSL allows for the third member of the committee to be an employee from the body seeking to fill the senior managerial vacancy, but does not require this. In most cases, the HCSC appoints two of its representatives to the committee (plus one expert) to reduce possible political pressures from the institution seeking to fill the vacancy, and to ensure impartiality in the recruitment process. The HRMS provides technical and expert assistance to the members of the HCSC throughout the recruitment process. Both institutions have made significant efforts to carry out all competition procedures initiated in 2015, while trying to maintain high professional recruitment standards.

Once the selection process is completed, the competition committee sends a list of the top three ranked candidates to the minister/head of the institution, in line with the requirements of the CSL. The practice is that the chosen candidates are then recommended to the Government, which makes a formal appointment decision.

Although competition procedures were completed on time, the Government has appointed only 55% of the recommended candidates, 46 out of 84. This is made possible by the CSL provisions which allow a minister to decline selecting any candidate from the list. The CSL requires a minister/head of institution to provide to the HCSC and HRMS the reason for not recommending any of the candidates for appointment to the Government within 30 days⁸⁹. However, on a number of occasions, the HRMS and/or the HCSC were not notified of the reason. Also, in cases where the HCSC had given a recommendation for appointment, it was not informed of the appointment of the candidate for a senior managerial position by the Government; instead, it came by this information via the Official Journal.

⁸⁸ Currently functioning with eight members only; three not appointed.

⁸⁹ CSL, Article 71.

The appointment process was stopped completely when the elections were announced in early 2016. This poses a threat to the sustainable operation of the Government in the European Union accession process. Although there have been some attempts by the MPALSG to ensure appointment of the senior civil service candidates who passed the competition procedure, these efforts have not been successful. There have been concerns also about the process of re-appointing people to positions they held previously.

As already stated, objective criteria for the demotion and termination of employment of civil servants are explicitly established in the CSL, but one unique feature merits attention: the CSL makes it possible to suspend a civil servant managing a state organisation if the organisation or body in charge of his/her appointment determines “that a serious disturbance has occurred during his/her mandate”⁹⁰, with the term “serious disturbance” not being defined. This is a breach in the otherwise objective system for terminating the employment of senior civil servants because it leaves room for possible political influence.

For senior managerial positions, the right to appeal unfair dismissal to the Government Appeals Commission is not allowed⁹¹, but the decision may be disputed before the Administrative Court.

Although significant efforts have been made to fill all senior managerial positions on the basis of merit, serious concerns of direct and indirect political influence arise from the current situation regarding recruitment as well as the termination of employment of senior civil servants. Therefore, the value for this indicator remains at 2.

The vertical scope of the civil service is legally well defined, and the grounds for internal and external recruitment and selection based on merit, equal opportunity and open competition have been formally granted. However, direct and indirect political influence on filling senior managerial positions in the civil service is not prevented in practice. Around two-thirds of senior civil servants working for the Government are still political appointees; the high number of recruitment competitions has not resulted in a high number of appointments by the Government. The transparency and fairness of the termination procedure for senior managerial positions is jeopardised by the legal provision for terminating senior managerial employment due to “serious disturbance” in the institution, which is not formally defined.

⁹⁰ CSL, Article 78.

⁹¹ CSL, Article 79.

Key recommendations

Short-term (1-2 years)

- 1) The MPALSG, in co-operation with the HCSC, HRMS and AI, should ensure merit-based recruitment of senior managerial positions.
- 2) The MPALSG should consider and prepare proposals for amending the CSL, such that: CSL rules on recruitment and selection are made fully applicable to the staff of the Tax Administration, the Customs Administration and the Administration for Execution of Criminal Sanctions; the recruitment application process is simplified; temporary positions are filled on the basis of competition; and a clear definition is given of “serious disturbance” in relation to the termination procedure for senior managerial positions
- 3) The Ministry of Interior (MoI), in co-operation with the MPALSG and HRMS, should ensure implementation of the Law on the Police, especially with regard to defining civil service positions in the MoI and developing and implementing secondary HRM legislation for police officers based on merit principles.
- 4) The MPALSG should closely monitor and ensure implementation of the Law on the Salary System in the Public Sector.
- 5) The HRMS, in co-ordination with the MPALSG, MoF and AI, should ensure that public authorities regularly update information in the Civil Service Registry (HRMIS).

Medium-term (3-5 years)

- 6) The Government should review and reform the current institutional set-up in charge of civil service management by clarifying the roles and competencies of the MPALSG and the HRMS, and ensure synergy in their operations to enhance the Government’s capacity to manage and consistently implement civil service legislation.
- 7) The Government (MPALSG and MoF) should ensure the Civil Service Registry (HRMIS) is linked to the new salary registry and with other relevant registries, to improve accuracy and avoid duplication of data.



Public Financial
Management

PUBLIC FINANCIAL MANAGEMENT

1. STATE OF PLAY AND MAIN DEVELOPMENTS: MAY 2015-APRIL 2016

1.1. State of play

The operational framework for financial management and control (FMC) and internal audit (IA) is partially complete with the following key elements in place: the Budget System Law (BSL)⁹², the FMC Rulebook⁹³, and the IA Rulebook⁹⁴. This framework requires FMC and IA to be introduced to over 3 000⁹⁵ Beneficiaries of Public Funds (BPFs). BPFs consist of direct and indirect budget beneficiaries, including local authorities and public enterprises controlled by central government or local authorities⁹⁶. More detailed guidance in the area of FMC is provided by the FMC Manual⁹⁷, which has been distributed as part of the training material for the introduction of FMC but does not itself have legal status. The Central Harmonisation Unit (CHU) issued Manuals on IA in 2007 and 2013, and both are in use. The Action Plan for PAR Strategy Implementation 2015-2017 and the Public Financial Management Reform Programme (PFMRP)⁹⁸ 2016-2020 include actions to improve FMC. The more detailed Public Internal Financial Control (PIFC) Strategy Paper 2009-2014⁹⁹ expired and the new one has not yet been approved¹⁰⁰. The PFMRP recognises that the further development of FMC is crucial if IA is to achieve its full potential for system-based auditing. None of the three activities envisaged for 2015 in the PAR Action Plan under Measure 3.3, Improvement of the Financial Management System and Control of Use of Public Resources and Internal Audit, were implemented¹⁰¹.

The CHU only tracks the progress of the largest central government budget beneficiaries¹⁰². This tracking shows limited progress during the last year (for example, only 50% of the organisations which returned questionnaires had appointed an FMC manager or working group), but also marked variations in progress among organisations¹⁰³. These surveys are currently based on self-assessments, and there is no legal provision for the CHU to validate the information.

⁹² BSL, Official Gazette No. 54/09, with subsequent amendments.

⁹³ Ministry of Finance (MoF), Rulebook on Joint Criteria and Standards for Establishing, Functioning and Reporting of the System of Financial Management and Control in the Public Sector, Official Gazette Nos. 99/2011 and 106/2013.

⁹⁴ Rulebook on Joint Criteria for the Organisation and Standards and the Methodological Guidelines for Performing Internal Audit in the Public Sector, Official Gazette Nos. 99/11 and 106/13.

⁹⁵ There is no official figure for the number of organisations required to implement FMC, but this total is based on an estimate of the Ministry of Education, Science and Technology (MEST) of 1 800 schools, and a Fiscal Council estimate of 1 400 state-owned enterprises (SOEs) plus direct budget users and local self-government organisations.

⁹⁶ BSL, Official Gazette No. 54/09, Article 81, with subsequent amendments.

⁹⁷ MoF (2010), FMC Manual, developed through the Technical Assistance project PIFC/IA phase 2, a European Union (EU)-funded project managed by the European Agency for Reconstruction.

⁹⁸ MoF, PFM Reform Program 2016-2020, adopted by the Government in November 2015 and amended in December 2015.

⁹⁹ MoF, Strategy for the Development of PIFC.

¹⁰⁰ The Action Plan for the Implementation of the PAR Strategy, 2015-2017, set the deadline for its adoption for the first quarter of 2015.

¹⁰¹ 2015 Annual Report on the Implementation of the Action Plan PAR Strategy for the Period 2015-2017, pp. 72-74.

¹⁰² 183 for FMC and 185 for IA.

¹⁰³ MoF, Consolidated report on the status of PIFC for 2014.

1.2. Main developments

The PFMRP 2016-2020 was adopted by the Government in November 2015. One element of this programme is effective financial control, with proposed actions covering both the framework for FMC and its implementation in individual organisations, as well as professionalisation of IA. A more detailed strategy for PIFC development for the period up to 2020 remains in draft form¹⁰⁴, with its adoption being further delayed¹⁰⁵.

The number of posts for the CHU as a whole (i.e. for FMC and IA) was formally reduced from 13 to 9 during the year¹⁰⁶. This has had no practical impact because actual staffing was already at or below this lower level. At the time of reporting, only one post dedicated to FMC development and three for IA were filled. The position of Assistant Minister in charge of the CHU was vacant for a year and was filled in March 2016.

Statistics on the implementation of FMC at an organisational level show some improvement in organisational aspects (for example, the appointment of an FMC manager), but no change to elements of the FMC framework (for example, the control environment). There were no important developments in IA in 2015¹⁰⁷.

A new Law on Public Enterprises (LPE)¹⁰⁸ was approved in February 2016, extending the role of audit committees and assigning responsibility for defining quarterly reporting requirements to the Ministry of Economy (MoE)¹⁰⁹.

¹⁰⁴ MoF, Strategy for the Development of PIFC 2016-2020. For the reference to the previous Strategy see footnote 96.

¹⁰⁵ The estimated deadline for adoption, indicated in the 2015 Annual Report of the Implementation of PAR Strategy Action Plan, was the first quarter of 2016.

¹⁰⁶ The public sector in Serbia is currently in the process of “rightsizing” the number of its employees (Law on the Method of Determining the Maximum Number of Employees in the Public Sector, Official Gazette No. 68/15, and the more detailed Decision on the Maximum Number of Permanent Employees in the State Administration System, System of Public Services, System of Autonomous Province of Vojvodina and Local Self-Government System for 2015, Official Gazette No. 101/2015).

¹⁰⁷ Analysis by SIGMA of MoF, Consolidated Reports on the Status of PIFC for 2013 and 2014.

¹⁰⁸ Law on Public Enterprises, Official Gazette No. 15/16.

¹⁰⁹ Law on Public Enterprises, Articles 56 and 63.

2. ANALYSIS

This analysis covers four Principles for the public financial management (PFM) area grouped under two key requirements. It includes a short analysis of the indicators of the Principles, a systematic analysis of the operational framework for FMC and IA, and their implementation within individual budget organisations.

Key requirement¹¹⁰: National financial management and control policy is in line with the requirements of Chapter 32 of European Union accession negotiations and is systematically implemented throughout the public sector.

Indicator values

FMC in the public sector of Serbia is examined through four indicators, three quantitative and one qualitative. The qualitative indicator covers ten critical elements of an effective framework as defined in *The Principles of Public Administration*. It is complemented by three numerical indicators to analyse how key aspects of FMC are developing.

The operational framework for the development of FMC is partly in place. The higher-level PAR Strategy and PFMRP are in place, but the more detailed PIFC Strategy is still in draft form although it is consistent with the other strategies. FMC is still not fully developed and therefore the value for the indicator on the extent to which the operational framework for FMC is complete, in place and applied has an unchanged value of 2. The quantitative indicators related to development in individual organisations are consistent with this, as no data is available. For the third quantitative indicator, on wastefulness of government spending, World Economic Forum (WEF) data again show a very low rating for Serbia (129 out of 140) and the indicator value is also unchanged at 2.2.

	Principle No.	Indicator	Baseline year	Baseline value	Assessment year	Indicator year
Qualitative	6	Extent to which the operational framework for FMC is complete, in place and applied.	2014	2	2015	2
Quantitative	7	Share of first-level budget organisations where budget structure is aligned with the organisational structure.	2014	Not available ¹¹¹	2015	Not available

¹¹⁰ SIGMA (2014), *The Principles of Public Administration*, OECD Publishing, Paris, p. 88.

¹¹¹ Here and hereafter, “Not available” means that this data is not collected by the CHU.

Serbia
Public Financial Management

	7	Share of first-level budget organisations where delegated budget holders below minister or secretary-general level receive at least monthly information on financial commitments and spending against the Budget within their part of the Budget.	2014	Not available	2015	Not available
	7	Wastefulness of Government spending (The World Economic Forum).	2013/2014	2.2 ¹¹²	2014/2015	2.2 ¹¹³

Analysis of Principles

Principle 6: The operational framework for financial management and control defines responsibilities and powers, and its application by the budget organisations is consistent with the legislation governing public financial management and public administration in general.

The BSL provides a high-level framework for FMC and requires that it be introduced to all BPFs, the number of which exceeds 3 000¹¹⁴. The main elements of FMC (including the five elements of the Committee of Sponsoring Organisations of the Treadway Commission [COSO] framework) are listed but not defined. The FMC Rulebook expands on the principles and allocates responsibility to the head of a BPF for setting up the FMC system¹¹⁵. The FMC Manual provides more detailed guidance on each element of FMC, includes the requirement of an organisation-level implementation plan and forms the basis for subsequent training¹¹⁶. It is not published, although it has been widely distributed as part of the material for the CHU's training programme. The BSL requires the Minister of Finance to provide additional guidance on FMC¹¹⁷ and this was fulfilled by issuing the FMC Manual. While the BSL and FMC Rulebook require the heads of BPFs to implement FMC and to report to the Minister on progress, there is no specific obligation to follow the guidance on implementation provided in the Manual, apart from "adhering to the principles of legality and sound financial management of public funds"¹¹⁸.

¹¹² WEF, Global Competitiveness Report 2014-2015, p. 329. Serbia is ranked 132 out of 144 countries. www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

¹¹³ WEF, Global Competitiveness Report 2015-2016, p. 315. Serbia is ranked 129 out of 140 countries. http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf

¹¹⁴ There is no official figure for the number of organisations required to implement FMC, but this total is based on an estimate of the Ministry of Education, Science and Technology (MEST) of 1 800 schools, and a Fiscal Council estimate of 1 400 state-owned enterprises (SOEs) plus direct budget users and local self-government organisations.

¹¹⁵ MoF, Rulebook on Joint Criteria and Standards for Setting up and Functioning of the FMC in the Public Sector, 2007, with subsequent amendments, Official Gazette No. 99/11.

¹¹⁶ MoF, FMC Manual, 2010, developed through the Technical Assistance project PIFC/IA phase 2 – an EU-funded project managed by the European Agency for Reconstruction.

¹¹⁷ BSL, Article 81/4.

¹¹⁸ MoF, Rulebook on Joint Criteria and Standards for Setting up and Functioning of the FMC in the Public Sector, 2007, with subsequent amendments – Article 11 (4).

Serbia
Public Financial Management

Since this framework was established, there have been changes in international best practice¹¹⁹ and the guidance has not been adapted to reflect legal requirements in Serbia (for example, the FMC Manual makes no reference to the specific requirements of the BSL or the FMC Rulebook, whose implementation it supports). The MoF acknowledges that the overall framework for FMC requires further amendment to eliminate current deficiencies and has included the necessary actions in the PFMRP¹²⁰.

The legal framework does not differentiate among organisations in terms of the way they are required to comply with the implementation of FMC. This is despite the fact that the 3 000 organisations vary in size and resources, from the Ministry of Education, Science and Technology (MEST) to an individual school.

The current legal framework does not wholly support the requirements of FMC and the related managerial accountability. The CSL regulates the rights and duties of civil servants and includes provisions for accountability for results and transparency of operations¹²¹, which support elements of FMC. However, there is no reference to other elements of FMC, such as delegation of control of budgets or other resources.

The structure of the current programme budget supports the delegation of duties to the most senior officials. Programmes and sub-programmes are generally assigned to state secretaries or assistant ministers. Neither the MoF Budget Department nor the Treasury IT systems allow the recording or monitoring of further delegation of budgets and related outcomes, for example to sectors. Some ministries have had to develop special expenditure analyses to support informal internal delegation, especially when the breakdown for a sector is needed (for example, the MEST). The principles of managerial accountability are undermined by the head of the BPF having to sign all payment requests. Overall, this shows that the framework for managerial accountability is not fully in place.

The main components of the management and control systems for using EU funds are currently in place, including, for example, the Instrument for Pre-accession Assistance (IPA) Co-ordinator and the National Authorising Officer. IPA funds and national funds are currently managed separately, mainly with different systems. For most areas of PIFC, arrangements are only partially harmonised, but areas such as IA are fully harmonised subject to minor legal and guidance changes. Although the arrangements for accounting are largely harmonised, additional work is required to harmonise financial management arrangements, as the national financial statements are on a cash basis while IPA funds are expected to be accounted for on an accruals basis.

There is a hierarchy of plans for the development of FMC. This hierarchy presents a complex set of actions. The high-level PAR Strategy and the broad-ranging PFMRP both include specific actions for FMC and related areas of IA and budget inspection (BI). In turn, both also require the development of a more detailed medium-term PIFC development strategy as the successor to the PIFC Development Strategy 2009-2014. However, there is still only a draft version of the PIFC Development Strategy although it is consistent with the PFMRP. Monitoring successful implementation of the actions for FMC is made more difficult because only the Action Plan for PAR Strategy Implementation 2015-2017 includes clear indicators of achievement with baseline and target values.

The BSL¹²² includes clear legal authority for the MoF to establish a CHU, and also for the Minister to determine common criteria and standards for the establishment and functioning of the PIFC system. The only subsidiary legislation in relation to FMC is the FMC Rulebook referred to earlier. The authority for the Minister of Finance to establish the FMC Manual is clear but, as already indicated, the

¹¹⁹ As an example, COSO issued an updated Internal Control – Integrated Framework in 2013.

¹²⁰ MoF, PFM Reform Programme 2016-2020, Measure 11 – To improve the strategic and legislative framework for implementing PIFC, January 2016.

¹²¹ CSL, Articles 6 and 8, Official Gazette Nos. 79/2005 and 81/2005 with subsequent amendments.

¹²² BSL No. 54/09, Articles 80-81, with subsequent amendments.

obligation for heads of BPFs to implement the FMC guidelines which it includes is less clear. Legislation does not specifically require the CHU to engage in networking activities, analyse individual internal control systems or validate information submitted about progress regarding FMC implementation, all of which are essential if a CHU is to effectively harmonise FMC implementation throughout the administration.

The internal organisation of the CHU in 2015 shows four posts dedicated to the development of FMC, but at the time of this assessment only one post was filled, partly due to recent departures and staff on maternity leave. The post of Assistant Minister with responsibility for the CHU was vacant throughout 2015¹²³. Despite low staffing levels, the CHU has continued its delivery of FMC training on demand, based largely on the material in the FMC Manual. The State Audit Institution (SAI) and the MoF BI Unit both have an interest in the public sector system of FMC and IA, but the CHU's links with them are limited. Formal workshops or conferences involving the CHU and SAI have been held in four of the last five years, but the issues covered have been almost exclusively related to IA rather than FMC. Less formal meetings were also held between the CHU and SAI, but no notes were available about FMC topics covered¹²⁴. There have been no formal links with the BI.

The PFMRP plans to transfer FMC training to the HRMS. The PFMRP then anticipates that the CHU will become the strategic driver for improving and developing the FMC and IA systems. With the current level of resources and analytical capabilities, it is not well placed to meet these enhanced responsibilities.

The FMC Rulebook requires the head of a BPF to report to the MoF in a prescribed manner on the adequacy and functioning of the established FMC system¹²⁵; this is looked at in more detail under Principle 7 below. In practice, this requires completion of a 60-item self-assessment questionnaire, with the majority of items requiring grading on a five-point scale, although there is no guidance on how the scale should be applied. However, the CHU has no power (or resources) to validate the information submitted, raising doubt about the accuracy of the assessments submitted, especially as these assessments are made on technical issues with which many BPF staff may be unfamiliar. In their audit reports on BPFs, the SAI comments on the level of assurance it is able to draw from the effectiveness of internal control systems in place, but this information is not used by the CHU.

The information in the questionnaires is compiled by the CHU into a consolidated report on the status of PIFC, which is submitted annually to the Minister of Finance. Overall weaknesses are summarised and recommendations to overcome them are made (such as ensuring the presence of senior managers at FMC training conducted by the CHU). However, there is little analysis of the questionnaire results, apart from basic information such as only 50% of organisations having appointed an FMC manager or working group (although these are steps set out in the FMC Manual rather than a legal requirement).

The Minister of Finance is required to report PIFC implementation progress to the Government, and the CHU report is used for this purpose. The Government formally acknowledges receipt of the report but does not use the information proactively, for example to support the actions recommended by the CHU.

The establishment of the BI unit in the MoF predates current FMC developments, and the current IA function developed from the BI function. PIFC requirements seek to ensure separate roles for internal control, IA and BI. In particular, BI should be driven by complaints and focus on compliance. Legislation for the BI unit requires it to prepare a plan for each year's activities¹²⁶, which normally would be

¹²³ A new Assistant Minister was appointed in March 2016, after a year of the position being vacant.

¹²⁴ Events were held in 2011, 2012 and 2013 supported by SIGMA, and in 2015 supported by the United Nations Development Programme (UNDP).

¹²⁵ MoF, Article 13 of the FMC Rulebook.

¹²⁶ Government Decision on the Operation, Powers, and Identification Documents of the BI, Official Gazette Nos. 10/2004 and 84/2007.

contrary to the responsive nature of BI work. However, the plan to control around 18 institutions per year is drawn from more than 300 complaints and other topics, for example those raised by the Prosecutor's Office¹²⁷. Possible topics are ranked by risk, for consideration by the Minister of Finance, who has in practice added topics to the list rather than excluded them. The plan is usually spread out over the year to cope with higher-risk issues; for instance, in 2015 only four of the 18 planned inspections were carried out, but the Annual Report for the year shows that 13 other inspections were added to the programme of work¹²⁸.

Based on the details outlined above, the value for the indicator on the extent to which the operational framework is complete and applied is 2.

A high-level legal framework for FMC is in place, but the lower elements are not all present. The framework for managerial accountability is not yet complete. There are plans for development of FMC, but the list of actions to be implemented and monitored is complex and progress is slow. The PFMRP anticipates the CHU acting as a strategic driver for FMC, but it does not yet have the capacity and capability to fulfil this role. Progress in FMC implementation is measured through self-assessment with no guidance or validation to ensure accuracy.

Principle 7: Each public organisation implements financial management and control in line with the overall financial management and control policy documents.

Overall, implementation of FMC within individual BPFs lags behind the development of the FMC framework, but the position is far from clear. This report is based on a formal data collection process carried out by SIGMA, with validation from a random sample of three organisations visited by the SIGMA team.

The BSL requires all BPFs to implement FMC and defines this obligation very widely, by including extra budgetary funds and state-owned enterprises (SOEs). The CHU does not have the list of all BPFs, and its monitoring efforts are concentrated on the largest entities, including direct budget beneficiaries and SOEs (for example, the Electric Power Industry of Serbia and Air Serbia). In 2014, the self-assessment questionnaire was sent to 183 institutions; less than 70% returned a completed questionnaire.

Guidance on the approach to be adopted for implementing FMC is set out in the FMC Manual, which has 13 logistical steps for BPFs to follow, starting with organising the process and ending with periodically testing internal controls in high-risk areas. The Principles of Public Administration anticipate that organisations required to implement FMC will support key elements of the process through internal regulations. The FMC Rulebook provides heads of BPFs with the power to introduce FMC through internal acts¹²⁹, but BPFs have approached implementation in different ways. The CHU annual survey of FMC (further details below) does not seek information on the rules governing the process of implementation, only those related to the organisation's business processes. Of the sample BPFs visited, two had rules for the appointment of an FMC manager and/or the creation of a working group to support FMC implementation. However, in one BPF the working group had become inactive. The BSL states that the head of the BPF is responsible for the implementation of FMC, but also allows this responsibility to be delegated within the organisation¹³⁰. From the CHU annual survey, only 50% of organisations have appointed either a delegated manager for FMC implementation or a working group to support implementation.

As already indicated under Principle 6, the current programme budget allocates responsibility for resources and outcomes at state secretary or assistant minister level, with the IT systems of the MoF Budget Department and the Treasury not allowing for further delegation. One of the sample BPFs

¹²⁷ MoF, Plan of Work of the BI Unit for 2015; MoF, Plan of Work of the BI Unit for 2016.

¹²⁸ MoF, Annual Report of the Work of the BI Unit in 2015.

¹²⁹ MoF, Article 11(10), FMC Rulebook.

¹³⁰ BSL No. 54/09, Articles 81-83, with subsequent amendments.

visited had developed its own analysis of the budget to support further managerial delegation. The other two preferred centralised management.

Financial management information can be downloaded from the central MoF Treasury Department system for analysis as required by BPFs. Each of the BPFs visited produced monthly information from downloaded data for senior management. Only one went further, with more detailed analysis of expenditure to match the higher level of delegation.

Subordinate or second-level organisations fall within the wide definition of BPFs and are all required to implement FMC in the same way, regardless of size. There is no requirement for first-level organisations to monitor implementation of FMC in related second-level organisations for which they provide funding. The Treasury IT system (FMIS) is being expanded to cover more second-level organisations¹³¹. The new functionality allows the first-level organisation (for example the Ministry of Justice) to have access to the financial information of its second-level organisations (for example the courts). Due to the early stage of implementation of the extended system, SIGMA was not able to assess its impact for FMC quality.

At the national level, SOEs are formally subject to monitoring and supervision by their founding ministries and the MoE. The new LPE requires the MoE to specify the reporting format of quarterly business plan implementation by entities, and also to submit a composite report to the Government on implementation across SOEs generally¹³². The Law also requires that SOE financial statements be subject to external audit, and that audit committees be set up with certain responsibilities such as setting risk management policies¹³³. In 2014, the Fiscal Council heavily criticised the framework within which the SOEs operate and their poor level of financial performance¹³⁴, which indicates that monitoring has not been effective in delivering better performance. As the new Law was adopted in February 2016, the results of its impact cannot be observed yet.

The sample of BPFs visited provided evidence that they have established procedures to support internal control. Guidance in the FMC Manual covers most internal control processes, such as making clear the responsibilities within the organisation and keeping an audit trail of key financial decisions. However, while the Manual refers to value for money as one of the aims of FMC, there are no specific requirements to encourage this, such as ensuring that policy proposals include estimated costs or option appraisals that compare costs and benefits.

Internal control within organisations is augmented by controls imposed by the Treasury FMIS which does not, for example, allow expenditure commitments beyond the level of the approved budget. However, this can only control commitments that are formally recorded in the system¹³⁵.

The FMC Manual states that one of the purposes of the system of internal control is to reduce the risk of fraud and irregularity, although there is no further definition of irregularity. However, this omission has been recognised in the PAR Strategy, which includes steps to establish a framework for the management of irregularities in the public sector¹³⁶.

The CHU organises an annual self-assessment survey of progress regarding FMC implementation, using the questionnaire referred to previously under Principle 6, but it restricts coverage to only the largest organisations. For 2014, 183 BPFs were asked to participate but only 126 (69%) returned the questionnaire (in 2013, 187 were asked and 119, or 64%, responded), even though heads of organisations are legally obliged to make submissions. The analysis of the 2014 questionnaire

¹³¹ In 2016, courts started to be covered by FMIS; in 2018, the next 240 second-level BPFs are to be added.

¹³² LPE, Articles 63 and 64, Official Gazette No.15/16.

¹³³ LPE, Articles 56 and 65, Official Gazette No. 15/16.

¹³⁴ Fiscal Council, Assessment of SOEs in Serbia – Fiscal Aspects, 31 July 2014.

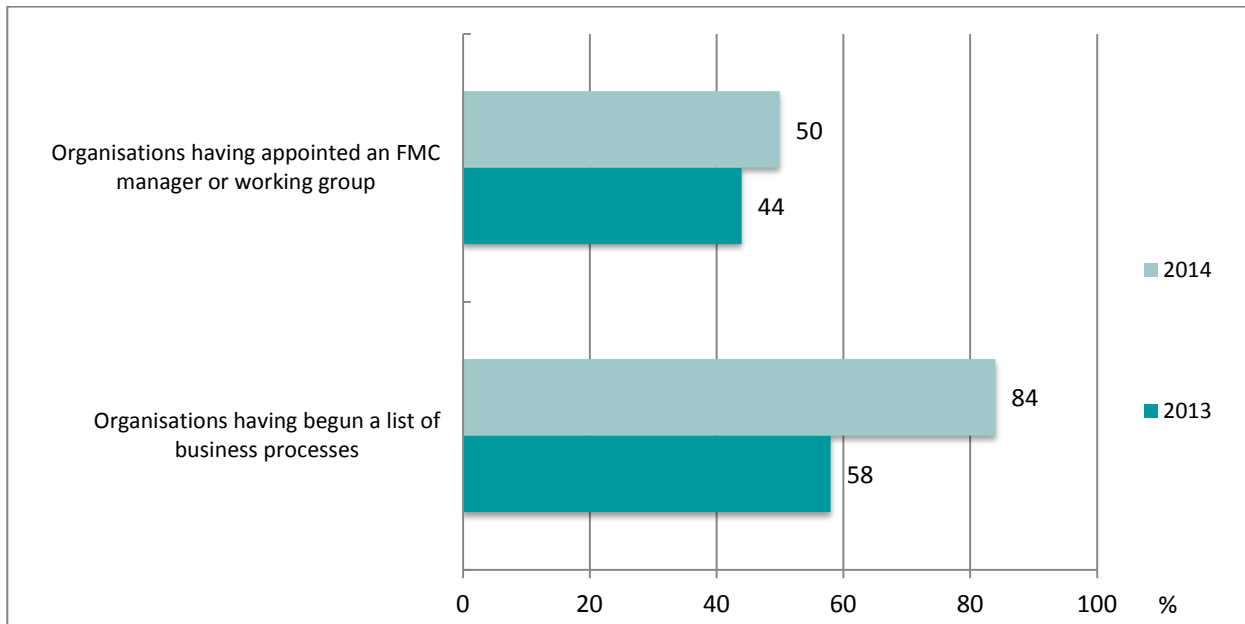
¹³⁵ MoF Treasury uses cash-based accountancy, which suggests that commitments are put into the system to ensure timely payments, not to monitor the level of all commitments.

¹³⁶ MPALSG, PAR Strategy 2015-2017, approved 2014 – Action 3.3.2.5.

Serbia
Public Financial Management

presented in the CHU annual report shows progress in FMC arrangements between 2013 and 2014 within those organisations which replied.

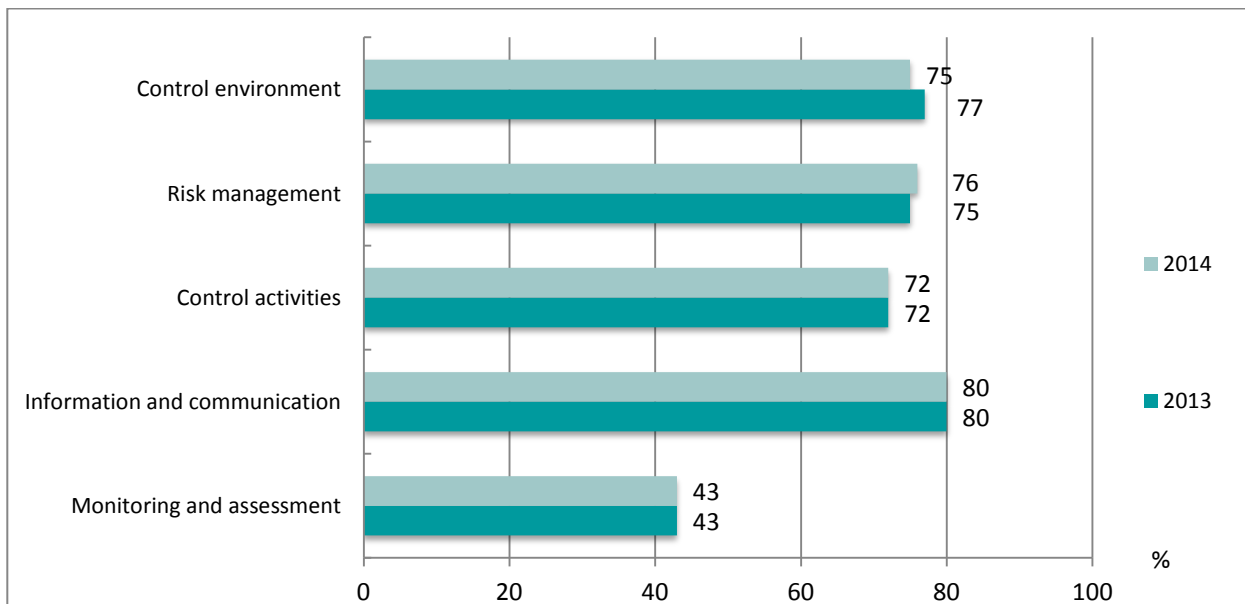
Figure 1. Implementation of FMC: organisational arrangements



Source: Ministry of Finance.

However, Figure 2 shows that there was little progress with detailed elements of FMC, as represented by the 48 COSO requirements in the questionnaire, although these self-assessed and unconfirmed scores are all relatively high.

Figure 2. Implementation of FMC: key elements

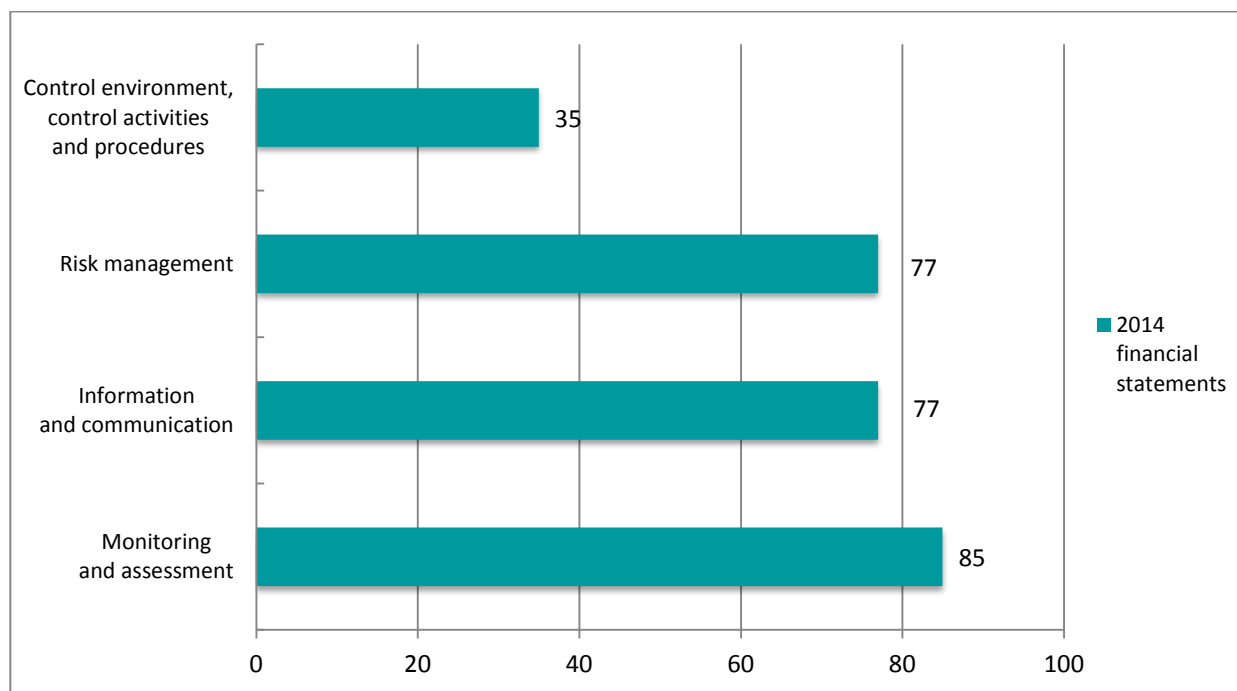


Source: Ministry of Finance.

Further evidence regarding progress of FMC implementation is available from the SAI, which reviews the internal control system of its auditees to support its opinions on financial statements, rather than tracking progress with regard to FMC. The SAI uses a checklist of about 40 items, also derived from the

COSO, with some differences which reflect the SAI's role¹³⁷. From the SAI Annual Report for 2015 (based on the audit of 2014 financial statements for 158 audited entities), Figure 3 shows the percentage of cases for which the SAI did not find shortcomings with the COSO framework.

Figure 3. SAI Annual Report 2015: COSO elements without shortcomings



Source: State Audit Institution.

These tables reveal some marked differences, particularly in relation to the control environment and control activities, for which the SAI found a worse position in practice than that revealed by the self-assessment. Conversely, the SAI found a better position on monitoring and assessment.

There is no information on progress within the remaining 3 000 organisations legally obliged to implement FMC. Moreover, there is no requirement for direct budget beneficiaries to monitor progress of their subordinate organisations. These are generally smaller and with fewer resources than those referred to in the analyses above.

The manner and the extent of the implementation of the FMC legal framework in individual organisations vary. Practical arrangements for the current programme budget structure and IT systems do not support delegation below state secretary or assistant minister level. All subordinate or second-level organisations are expected to meet the BSL FMC requirements. Internal control requirements do not specifically encourage value for money. The concept of irregularity is not yet defined, and such events are not recorded centrally. Information on implementation within the largest organisations is based on a self-assessment exercise which shows slight improvement from 2013 to 2014, but the independent work of the SAI indicates that the progress can be weaker than shown in the self-assessment.

¹³⁷ As an example, the “control environment” section of the SAI questionnaire has specific elements on International Financial Reporting Standards and accounting policies that are not explicit in the CHU questionnaire.

Key requirement¹³⁸: The internal audit function is established throughout the public sector and internal audit work is carried out according to international standards.

Indicator values

The IA function in the public sector is examined through three quantitative and two qualitative indicators. The qualitative indicators cover elements of the IA legal and operational framework and the quality of IA reports. All data collected is supplemented by interviews.

The legal framework for an IA function is in place, but the values below reflect weak implementation. The decrease in the value of the qualitative indicator for Principle 8 reflects the fact that the professional training for auditors concentrates on certification and no continuous training exists. At this stage, when 72% of the auditors already have been certified, a continuous development training framework should be in place. Further, IA units are not established where they should be according to legal arrangements, and only 37% of public institutions have established the function with the minimum required number of staff. The percentage of nationally certified IA staff has been stable since 2013 (72%) but is below the expected minimum percentage of 85%. The 2014 annual report of the CHU does not demonstrate progress in the quality of IA. There are no regular meetings between the heads of IA units and the CHU. The CHU does not compile data about annual IA plans conforming to national legal requirements, and the quality of IA reports cannot be assessed by SIGMA as only one institution out of ten provided IA reports requested by SIGMA.

	Principle No.	Indicator	Baseline year	Baseline value	Assessment year	Indicator year
Qualitative	8	Extent to which the operational framework for internal audit is designed and in place.	2013	3	2015	2
	9	Quality of internal audit reports.	2014	Not available	2015	Not available ¹³⁹
Quantitative	8	Share of public administration organisations meeting national legal requirements for establishing and minimum staffing of internal audit units.	2013	36%	2015	37% ¹⁴⁰

¹³⁸ SIGMA (2014), *The Principles of Public Administration*, OECD Publishing, Paris, p. 93.

¹³⁹ IA reports from only one institution out of ten requested by SIGMA were submitted.

¹⁴⁰ The CHU reported that 69 out of 185 central budget institutions that are required to establish IA units have set up IA in accordance with legal requirements. It also reported that 157 budget institutions in total have set up IA in accordance with legal requirements. This 37% in this indicator derives from central budget institutions only. The actual percentage for all budget institutions is lower, p. 38.

Serbia
Public Financial Management

	8	Share of internal auditors with a national or international internal audit certificate.	2013	72%	2015	72% ¹⁴¹
	9	Share of organisations with annual internal audit plans conforming to national legal requirements.	2014	Not available	2015	Not available ¹⁴²

Principle 8: The operational framework for internal audit reflects international standards and its application by the budget organisations is consistent with the legislation governing public administration and public financial management in general.

IA is performed on the basis of Article 82 of the BSL¹⁴³. This Article stipulates that the head of the BPF is responsible for establishing and providing the conditions necessary for the functioning of IA:

- functional and operational independence
- the types of service to be provided (assurance and consultancy)
- the application of international standards and a code of ethics
- the observation of objectiveness, competence, integrity and confidentiality by internal auditors

The head of the BPF is accountable for IA¹⁴⁴ and, according to the regulation, has access to all information needed for performing IA¹⁴⁵. Although Article 82 of the BSL specifically regulates that the head of an IA unit and internal auditors may not be assigned to perform any work other than IA activities, in newly established IA units auditors spent a considerable part of their time performing other tasks, according to the CHU 2014 Annual Report¹⁴⁶. This is not in accordance with international IA standards¹⁴⁷ and directly threatens the independence of the IA function. However, only one out of the three heads of IA units interviewed confirmed that in the past their minister had requested that the IA unit contribute to operational work.

The BSL and the IA Rulebook¹⁴⁸ do not provide any special rules for the appointment and dismissal of the head of the IA unit and internal auditors, which means that the general rules for civil servants apply. The manager of a BPF may establish an audit committee¹⁴⁹, which can advise on IA and protect the independence of internal auditors, but in practice they only exist in large SOEs. The heads of IA units interviewed in the ministries regard audit committees as an extra bureaucratic burden.

¹⁴¹ The CHU reported that 243 out of a total of 335 IA staff have national certification. The number of staff with international certificates is unknown, as none of them are recognised by national law.

¹⁴² The CHU reported that there is no data on annual IA plans conforming to national legal requirements. IA reports from only one institution out of ten requested by SIGMA were submitted, so the value of this indicator cannot be calculated.

¹⁴³ BSL No. 54/09, with subsequent amendments.

¹⁴⁴ BSL, Article 82.

¹⁴⁵ Article 14 of the IA Rulebook.

¹⁴⁶ MoF, Consolidated report on the status of PIFC for 2014, p. 30.

¹⁴⁷ Standard 1100 of International Standards for the Professional Practice of Internal Auditing – International Professional Practices Framework, issued by the Institute of Internal Auditors (IIA).

¹⁴⁸ Rulebook on Joint Criteria for the Organisation and Standards and the Methodological Guidelines for Performing Internal Audit in the Public Sector, Official Gazette Nos. 99/11 and 106/13.

¹⁴⁹ IA Rulebook, Article 7.

Serbia
Public Financial Management

Article 82 of the BSL gives the Minister of Finance the discretionary power to regulate IA in detail. The IA Rulebook further regulates the establishment and organisation of IA, the development of standards and methodology, rights, obligations and responsibilities of the head of the IA unit and internal auditors, and the activities of IA. Article 3 of the IA Rulebook defines three possible organisational arrangements for IA units: a unit can be organised as a separate, functionally independent unit or as a joint IA unit for two or more BPFs or, based on an agreement, an IA unit in another BPF performs internal audits. The manager of a BPF is responsible for setting up an IA unit¹⁵⁰, which should have at least three staff, including the head of the IA unit¹⁵¹. The IA Rulebook also gives minimum requirements for separate, functionally independent IA units. BPFs should have IA units when they have more than 250 employees¹⁵². In any event, regardless of the size of ministries, direct budget beneficiaries that have indirect budget beneficiaries, such as autonomous provinces and cities, have to set up separate, functionally independent IA units¹⁵³. IA should be performed in all organisational units of a BPF, including beneficiaries of EU funds¹⁵⁴.

Article 83 of the BSL gives the Minister of Finance clear power to establish a CHU for both FMC and IA. To support IA units in their work, the CHU has developed templates for an IA Charter, an IA code of ethics, job descriptions for the head of an IA unit and internal auditors. The templates of the IA Charter and the Code of Ethics are based on models of the Institute of Internal Auditors (IIA). However, the template of the IA Charter does not include provisions for appointment and dismissal of the head of the IA unit, or a quality assurance programme.

The CHU developed an IA Manual in 2007. This Manual has not been endorsed by a Decision of the Minister of Finance but is used in the certification training programme. The Manual was revised in 2013 and consequently the certification training programme has also been adjusted, but the Manual is still officially a draft. In practice, both versions of the Manual are used. The heads of IA units with whom SIGMA met prefer the 2007 version because the 2013 version is too complicated. The four volumes of the 2007 version describe the basic principles and elements of IA in a system-based audit approach, with some examples and templates for checklists. The 2013 version is comprehensive and not only explains what IA is about but leads the reader through the audit process, with many examples of how to carry out audits (including examples of audit programmes for specific audit subjects such as payroll and procurement). However, the content of the 2013 version is very advanced and would be too much for a one- or two-person IA unit to absorb, especially those internal auditors who have only been trained in applying the 2007 version of the IA manual. The CHU acknowledges that the 2013 version can only be used by experienced auditors.

The CHU has not published IA standards. Articles 2 and 11 of the IA Rulebook regulate that IA in Serbia shall be performed in accordance with the standards of the IIA¹⁵⁵. These standards have been translated by the Serbian chapter of the IIA, and each IA unit is supposed to use them¹⁵⁶.

Apart from the IA Manual and templates for the IA Charter, the Code of Ethics and job descriptions, the CHU has not drafted other guidance material. The CHU is working on drafting new rulebooks, for example on dealing with irregularities and quality control, but due to limited resources (see Main Developments) it does not have time to support IA units by offering more guidance material. The CHU's main activity is certification training for newly recruited internal auditors. Article 83 of the

¹⁵⁰ IA Rulebook, Article 7.

¹⁵¹ IA Rulebook, Article 3.

¹⁵² IA Rulebook, Article 4.

¹⁵³ IA Rulebook, Articles 5-6.

¹⁵⁴ IA Rulebook, Article 9.

¹⁵⁵ International Standards for the Professional Practice of Internal Auditing – International Professional Practices Framework, IIA.

¹⁵⁶ The Serbian translation of the IIA standards is available for free on the IIA website; the IIA practice notes are only available for IIA members.

BSL and Article 21 of the IA Rulebook specify that internal auditors should be certified. In co-operation with external partners, the CHU has set up a training programme that consists of basic seven-day training in IA, basic five-day training in FMC and practical training (conducting two audits). The CHU is in charge of organising the training and CHU staff act as mentors during the practical training. As of 31 December 2014, there were 243 certified internal auditors in the public sector¹⁵⁷ (189 in 2013). Internationally acquired IA certificates such as the IIA diploma are not recognised.

The CHU does not organise training for certified auditors, although Article 21 of the IA Rulebook prescribes that certified auditors should attend advanced training, conducted and organised by the CHU. In practice, heads of IA units regard the lack of a continuous professional development (CPD) programme as a major hindrance in the development of professional competencies of internal auditors in the public sector. They try to develop their competencies on their own by attending seminars organised by donors and the IIA chapter of Serbia, or by sharing information with internal auditors from neighbouring countries.

The CHU also has the task of monitoring the work of internal auditors¹⁵⁸. Article 19 of the IA Rulebook stipulates that the work of IA units be assessed internally by the heads of the IA units and externally by the CHU. The CHU has no programme to carry out external quality assurance reviews of IA, but it is developing a rulebook on quality control. In 2013, it carried out a check of IA in 14 institutions, but in 2014 and 2015 it did not review any IA unit. It collects data for an annual report through questionnaires sent to chosen BPFs. The data is published each year in June for the previous year.

Relations between the CHU and the Serbian IIA chapter are limited. They meet mainly on an informal basis at seminars.

On the basis of the evidence provided and outlined above, the value for the indicator on the extent to which the operational framework is designed and in place is 2.

The legal framework for IA reflects international standards. The scope of IA is broad, the functional and operational independence of IA is guaranteed by law to a large degree, and the position of the CHU is regulated. Programmes for CPD and quality assurance of IA work do not exist.

Principle 9: Each public organisation implements internal audit in line with the overall internal audit policy documents as appropriate to the organisation.

IA has not been established in all BPFs, and the number of institutions legally required to do so remains uncertain. At the central, regional and local levels there should be at least 358 IA units¹⁵⁹. However, the number of BPFs with more than 250 employees is not known. When asked by SIGMA, the MEST and the Ministry of Health (MoH) could not submit information about how many IA units within these ministries are, or should be, established¹⁶⁰.

Further, not all organisations which should have an IA unit have established one. In 2014, the number of IA units reporting to the CHU as established in central budget institutions, regional, local and other public funds institutions, increased to 157 (from 105 in 2013)¹⁶¹.

¹⁵⁷ CHU 2014 Annual Report, p. 30.

¹⁵⁸ BSL, Article 83.

¹⁵⁹ Number of institutions to which CHU sends the questionnaire: 185 at the central level and 173 at the regional level (CHU 2014 Annual Report, p.29).

¹⁶⁰ The IA unit of the MEST acknowledged that there should be many IA units because there are many indirect budget beneficiaries with more than 250 employees.

¹⁶¹ 2013 and 2014 data are not fully comparable. They are based on the “reports received” and the number varies. What is more, the 2014 Consolidated Report presents data in a different way and includes a new category of BPF, “remaining public funds”.

Serbia
Public Financial Management

At the central level, only 69 of 185 institutions questioned by the CHU have IA units, or around 37%. At the regional and local government level it is 38 out of 173 institutions questioned, or around 22%. For the “remaining public funds” 47 of 111 institutions, or around 42%, have IA units¹⁶².

The number of systematised posts in established IA units increased from 352 in 2013 to 448 in 2014¹⁶³, and the number of posts filled increased from 262 in 2013 to 335 in 2014¹⁶⁴. The number of reported posts being filled did not change: 75% in both 2013 and 2014.

The criterion for the size of IA units (a minimum of three auditors) is not met. Of the BPFs that have IA units, 61% have one internal auditor, 13% have two internal auditors, and only 26% have three or more internal auditors¹⁶⁵. The CHU acknowledges that “the high percentage of established internal audits with two or fewer auditors can cast doubts on the possibility of fully observing the internal audit standards”¹⁶⁶. As the establishment of IA is left by law to the heads of BPFs¹⁶⁷, the Minister of Finance does not have the authority to enforce the establishment of IA functions where they should be legally established. Neither can the Minister of Finance enforce the criteria for the size of an IA unit (at least three auditors).

BPFs with IA units work according to IA charters. Both versions of the IA Manual have templates and in practice the IA charters are in line with these templates¹⁶⁸.

IA units should plan their audits according to the IA Rulebook. The strategic and annual plans submitted to SIGMA are in line with the requirements of the IA Manual (2007). The strategic plans follow a risk-based approach, taking into account: the risk factors mentioned in the IA Manual; the strategy of the institution; the frequency of IA being carried out in the particular area; findings of the SAI; findings of the BI; and areas with increased risk and complexity. They cover all aspects of the organisation’s business and prioritise audits according to a risk matrix and available resources. When appropriate, the plans do not include audits on EU funds co-financed by the IPA. The plans also lack clear articulation for the prioritisation of audit subjects; prioritisation is therefore the result of a calculation exercise rather than a thoughtful consideration of all possible risks.

As the mandates of the IA units of ministries and the three mandatory insurance funds are broad and resources are limited, it is not possible to consult all relevant management levels before drafting the final plans. The IA unit of one of the ministries visited sent around a questionnaire, but the response was poor. In practice, the Strategic Plan and the Annual Plan are mainly based on the IA units’ own professional judgment. Ministers approve both plans.

One of the ministries visited tries to cover its broad mandate by planning audits on the same topic for several indirect budget users under its charge. Flaws in processes or procedures of a systemic nature are then shared with institutions which were not part of the sample, to inform them of possible errors in their systems. This horizontal approach to benchmarking can be a very efficient use of limited resources in an audit environment with a homogeneous audit population (such as universities or branches of a pension fund).

¹⁶² The numbers in the Annual Report add to 154; they do not add to the 157 mentioned as the general number of IA units.

¹⁶³ CHU 2014 Annual Report, p. 29.

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

¹⁶⁶ Ibid.

¹⁶⁷ BSL, Article 82 states that the head of the BPF is responsible for “establishing and providing conditions for adequate functioning of internal audit” and reporting “in a prescribed manner to the Minister on internal audit functioning”.

¹⁶⁸ SIGMA has interviewed, and reviewed documents provided by three randomly chosen institutions: the MoH, MEST, and the Pension and Disability Fund. The general observations here and below are based on the findings from these assessments.

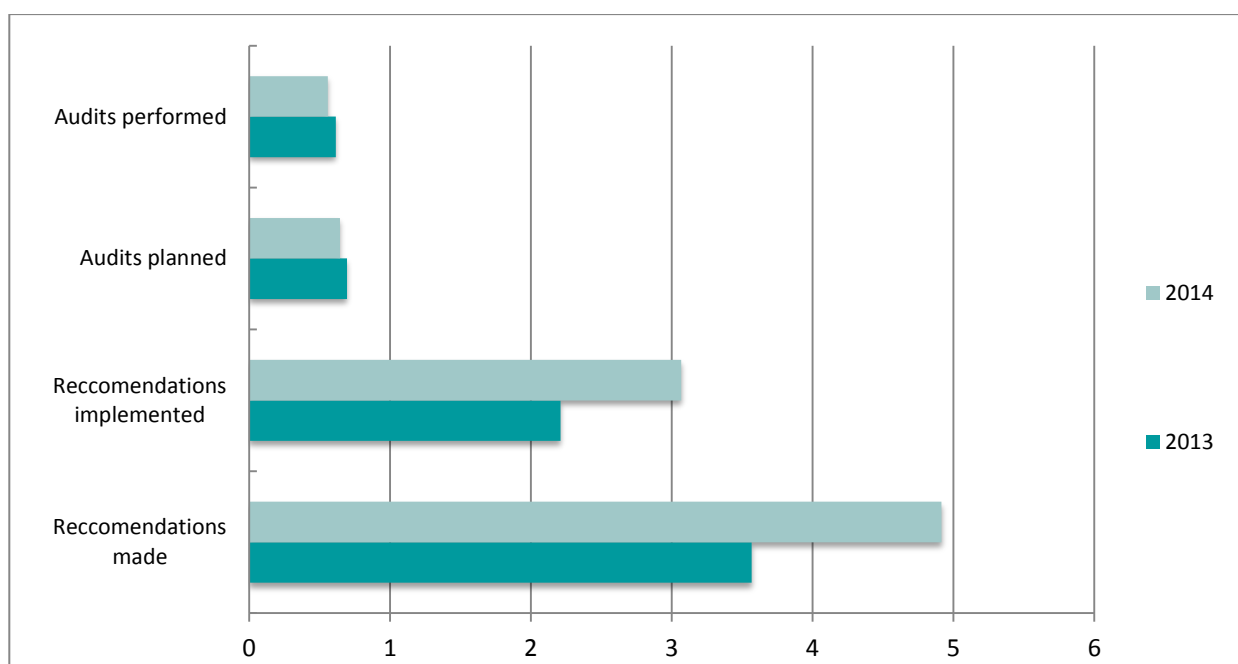
Serbia
Public Financial Management

Annual plans can include a contingency of up to 30% of allocated resources for the minister to decide. If there is suspicion of mismanagement, the IA unit is asked to assess the state of play. IA units report to the minister.

Heads of IA present the reports to the managers of the auditee and the BPF¹⁶⁹. The IA units follow the contradictory¹⁷⁰ procedure as described in the IA Rulebook¹⁷¹. The quality of internal audit reports could not be assessed due to lack of information. Based on other information received¹⁷², IA units report on gaps in procedures and processes and on the accuracy and completeness of accounts, for example gaps in legislation, process descriptions or HR procedures, lack of audit trails or the existence of incomplete receivable accounts. These findings illustrate that IA units use a system-based audit approach in their work.

According to the CHU survey¹⁷³, in 2014 the auditors planned and performed slightly fewer audits than in 2013 but they resulted in a higher number of recommendations being made. The implementation level of the recommendations was the same in both years, at 62%. In 2014, 50% of the recommendations covered the need for improvements to internal policies and procedures (up from 35% in 2013), with the others covering areas such as procurement and contracting, accounting records and financial reporting, and salaries and benefits.

Figure 4. Output of IA work (in thousands)



Source: Ministry of Finance.

A systematic follow-up process to ensure that agreed IA recommendations are properly implemented does not exist. Due to limited resources, the IA units assessed by SIGMA can only carry out follow-up audits on an *ad hoc* basis. Questions from IA units about the implementation of recommendations are not answered by auditees, and there is no information as to whether auditees draft a plan for implementing the IA recommendations.

¹⁶⁹ IA Rulebook, Article 30.

¹⁷⁰ A contradictory process is one in which the auditee is allowed an opportunity to check facts and make comments.

¹⁷¹ IA Rulebook, Articles 28-30.

¹⁷² The basis for this statement is narrow: a CHU questionnaire filled in by one ministry and a checklist on the quality of an internal audit.

¹⁷³ CHU 2014 Annual Report, pp. 31 and 32.

The IA units use either the 2007 or 2013 Manual, depending on their level of familiarity with the new 2013 Manual. Because no additional guidance material is available, IA units also use manuals and guidelines obtained from neighbouring countries.

Article 19 of the IA Rulebook requires that the heads of IA units carry out continuous reviews of the audit activity performance, and periodic self-assessment reviews. Heads of IA units review audit activities according to the quality control procedures they have developed, which are in line with the IA Manual but adapted to the staff situation (e.g. whether they have two or ten auditors). There is no information available on whether heads of IA units organise self-assessments periodically.

Heads of IA units appreciate the certification programme, but think it is too theoretical and too short to teach the profession of IA. They are of the opinion that learning on the job, with an additional annual professional educational programme, will improve the competency of the auditors and the quality of their work.

In 2015, the SAI found 20% of IA units were in place and efficient, 15% functioning partially and 65% not in place¹⁷⁴. The SAI uses IA reports for information, but regards them as incomplete and not sufficiently detailed.

The indicator on the quality of IA reports cannot be assessed, because only one institution of the ten requested submitted an IA report to SIGMA

The IA units in some BPFs have been established and have concluded IA charters with the BPF heads. In the limited examples seen, IA units are providing useful recommendations to help management improve its control systems, but follow-up audits are not a systematic part of the audit programmes. The very large mandates of IA units are sometimes disproportionate to the limited resources of these units, which affects their development into professional, well-respected IA units. IA units lack developmental support from the MoF.

¹⁷⁴ SAI 2015 Annual Activity Report.

Key recommendations

Short-term (1-2 years)

- 1) The MoF should finalise and publish the PIFC Strategy up to 2020, ensuring its consistency with the PFM Reform Programme 2016-2020 and the PAR Strategy Action Plan.
- 2) The MoF should strengthen the capacity and analytical capability of the CHU, to enable it to fulfil its current duties as well as prepare it for its future, strategic role.
- 3) The MoF should strengthen the legislative framework for the CHU to make it more proactive in guiding the development of FMC and IA.
- 4) The MoF should review the FMC Manual to ensure that it is consistent with legislation in the area of PFM, and should ensure it is given legal authority.
- 5) The MoF should formalise liaison arrangements among the CHU, the SAI and the BI on FMC arrangements, to identify areas in which additions or changes to the framework are needed, or guidance is necessary.
- 6) The MoF should perform analyses in BPFs on the level and quality of implementation – as opposed to the existence – of FMC rules and procedures, with the use of SAI and BI reports to identify discrepancies in self-assessments and organisations needing greater support.
- 7) The CHU should set up a separate CPD framework for heads of IA units and senior internal auditors.
- 8) The CHU should develop guidelines for IA quality assurance.
- 9) The CHU should increase efforts to raise awareness at the managerial level of the key roles FMC and IA play in improving governance.

Medium-term (3-5 years)

- 10) The MoF should create and revise the list of entities for which FMC and IA implementation is legally required. The requirements for small institutions should be simplified.
- 11) The MoF should ensure that Budget Department and Treasury IT systems allow the recording and monitoring of further delegation of budgets and related outcomes, and also encourage the use of more detailed performance indicators below the programme or sub-programme level within BPFs.
- 12) The MoF should consider revising the IA Rulebook based on the analysis of criteria for establishing IA units in neighbouring countries.

For more information:

OECD/SIGMA
2 Rue André Pascal
75775 Paris Cedex 16
France

[mailto: sigmaweb@oecd.org](mailto:sigmaweb@oecd.org)

Tel: +33 (0) 1 45 24 82 00

Fax: +33 (0) 1 45 24 13 05

www.sigmaweb.org