



SIGMA
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SUMMARIES OF MONITORING REPORTS

PUBLIC FINANCIAL MANAGEMENT

The **Principles**
of **Public**
Administration

WESTERN BALKANS

**February
2022**

Summaries of Monitoring Reports

Western Balkans

The Principles of Public Administration

PUBLIC FINANCIAL MANAGEMENT

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*This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Introduction

The Principles of Public Administration and the EU integration path – measuring the fundamentals

*The Principles of Public Administration*¹ set out what good public governance entails in practice and outline the main requirements to be followed by administrations during the European Union (EU) integration process. Good public governance is key for achieving economic growth, competitiveness and a better quality of life. Democratic governance and the rule of law require capable, accountable and effective public administrations. In its 2014 and 2018 Enlargement Strategies, the European Commission (EC) highlighted public administration reform (PAR) as one of three “fundamentals first” areas of the EU enlargement process: “Addressing reforms in the area of rule of law, fundamental rights and good governance remains the most pressing issue for the Western Balkans. It is also the key benchmark against which the prospects of these countries will be judged by the EU”².

A regional series, with a long-term perspective

SIGMA monitoring reports³ assess the state of play and progress in improving the quality of national public administrations. Given the geostrategic importance of the Western Balkans to the EU, and the ongoing accession negotiations, Support for Improvement in Governance and Management (SIGMA) conducts regular monitoring of the region. In 2017, SIGMA established a baseline in all areas of public administration. In 2019, monitoring was conducted against selected Principles. The full scope is covered again in the 2021 reports, which compare performance against the 2017 baseline and regional averages. By analysing the long-term perspective, significant changes are identified.

The assessment period was from July 2017 to July 2021. The data collection period was February-May 2021. The COVID-19 pandemic was at its peak, so in-person meetings were replaced by virtual ones. National experts provided invaluable support during this period in securing the necessary data.

Thematic summaries to provide key insights and recommendations to decision makers and selected performance data at the regional level

This document is a compilation of all summaries for the public financial management area in the full SIGMA 2021 monitoring reports. It contains a regional summary with cross-administration analysis of the state of play and key trends since 2017, insights from key performance indicators that showed significant change at the regional level and reflections on the way forward for the region. The purpose is to provide a regional perspective for each of the thematic areas, in order to complement the more detailed monitoring reports developed for each administration.

SIGMA wishes to thank the Governments for their collaboration in providing the necessary administrative data and documentation, as well as for their active engagement during the two rounds of validation to improve the factual accuracy of all the information used. The collaboration with the Regional Cooperation Council on the Balkan Barometer has been excellent. We also thank the experts from EU member administrations who contributed to the report. Finally, the support of the EC is, as always, appreciated.

¹ OECD (2017), *The Principles of Public Administration*, OECD, Paris, <http://www.sigmaweb.org/publications/Principles-of-Public-Administration-2017-edition-ENG.pdf>.

² European Commission (2018), *A credible enlargement perspective for and enhanced EU engagement with the Western Balkans*, p. 4, [communication-credible-enlargement-perspective-western-balkans en.pdf](https://ec.europa.eu/europeaid/sites/default/files/communication-credible-enlargement-perspective-western-balkans_en.pdf) (europa.eu).

³ The monitoring reports are published on the SIGMA website: <http://www.sigmaweb.org/publications/monitoring-reports.htm>.

Methodology

Overall approach – focus on implementation and outcomes, analysing a variety of primary data sources against precise criteria and benchmarks for an objective assessment

*The Methodological Framework for the Principles of Public Administration*⁴ contains a set of standard indicators that SIGMA applies consistently to measure the preconditions and enablers of successful reforms (good laws, policies and procedures, institutional structures, human resources) and the actual implementation of reforms and subsequent outcomes (how the administration performs in practice).

The overall approach recognises that no single measurement method can fully capture the complex issues related to organisational and behavioural change. SIGMA uses information from administrative data, surveys, statistics, interviews, etc., which is cross-checked and triangulated to arrive at a balanced assessment.

Data sources and validation

The main quantitative and qualitative methods applied in the framework are:

- Desk reviews of legislation, regulations and reports (the most recent are analysed if adopted before July 2021)
- Interviews (conducted virtually March-May 2021 with 100+ interviewees per administration, including civil society)
- Review of cases and samples of government documentation (the most recent are analysed)
- Observations of practice and on-site verification (conducted virtually March-May 2021 with national expert support)
- Analysis of administrative data from public registries and national statistics (the most recent when possible; otherwise, from 2020)
- Surveys of the population and businesses through the Balkan Barometer (conducted February-March 2021)⁵
- Surveys of 950 contracting authorities across the region (conducted February-April 2021).

Data was collected through SIGMA's tool for data collection, analysis and validation (PAR.IS). More than 10 000 documents were received regionally for analysis. In 2021, hundreds of government officials were provided direct access to SIGMA's detailed working sheets for calculation of numerical sub-indicator values and justifications for fulfilment of each of the criteria, in addition to fact-checking the draft monitoring reports. The monitoring reports show only the overall indicator values; the detailed criteria-level analysis will be accessible in 2022 through a public portal⁶.

Indicator values reflect the level of maturity and preparedness of administrations – from 0 to 5

The indicator values provide an indication of the administrative capacity and overall performance of national public administrations. This provides an indication of the capability to effectively implement the EU *acquis* and participate in the policy-making processes of the EU.

The point allocation is constructed so that an administration can only receive an overall value of 2 on the basis of the quality of its legislative and regulatory framework; a value of 3 cannot be achieved without showing that implementation of key processes is happening in practice; and in order to obtain a value of 4, the administration needs to show a consistent achievement of relevant outcomes. The value of 5 is

⁴ OECD (2019), *The Methodological Framework of the Principles of Public Administration*, OECD, Paris, <http://www.sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-May-2019.pdf>.

⁵ Regional Cooperation Council, <https://www.rcc.int/balkanbarometer/home>.

⁶ OECD, Principles of Public Administration Data Portal [database], <https://par-portal.sigmaweb.org/>.

reserved for outstanding performance and full compliance with the Principles and the standards for good public governance.

In 2021, averages of the indicator values were also calculated for each of the six thematic areas of *the Principles of Public Administration*. This enables a comparison of overall trends across the whole administration over time and across the region

Understanding how the indicator values are calculated

Across the six thematic areas, the framework is composed of 48 Principles. Each Principle has one or two indicators. There are 52 indicators in total, with 340 sub-indicators and 1 000 individual criteria. Indicator values are presented at the top of the overview tables, on a scale from 0 (lowest) to 5 (highest). The indicator value is based on the total number of points received for the sub-indicators. The point conversion tables are accessible in the Methodological Framework.

If the required information to assess a sub-indicator is not available or is not provided by the administration, 0 points are awarded. All data requested is needed for a well-functioning public administration, and SIGMA does not estimate performance without adequate evidence.

The monitoring exercise of Bosnia and Herzegovina is being conducted in two phases. In 2021, the areas examined were: policy development and co-ordination, accountability and public financial management (PFM), except external audit. In 2022, SIGMA will study strategic framework of PAR, public service and human resource management (HRM), service delivery and external audit. Therefore, regional data comparisons are based on five or six Western Balkans administrations (WB5 or WB6).

Codes used in this report

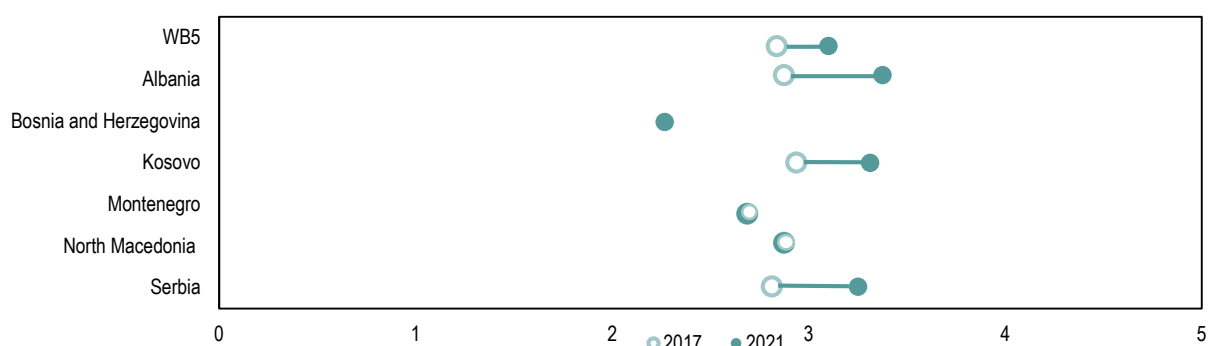
ALB	Albania
BIH	Bosnia and Herzegovina
XKV	Kosovo
MNE	Montenegro
MKD	Republic of North Macedonia, (hereafter “North Macedonia”)
SRB	Serbia
WB5	Western Balkan administrations without Bosnia and Herzegovina
WB6	Western Balkan administrations including Bosnia and Herzegovina

Regional summary

State of play and regional trends

In the area of public financial management (PFM), there has been moderate progress across the region between 2017 and 2021⁷. The average indicator value increased from 2.8 in 2017 to 3.0 in 2021. Albania had the highest average indicator value of 3.4 in 2021, up from 2.9 in 2017, reflecting improvements in budget reporting, procurement legislation and operations. Closely following are Kosovo (2017: 2.9) and Serbia (2017: 2.8), which both progressed to a 3.3 average indicator value in 2021. Improvements are reflected mainly in both administrations' progress in budget management arrangements, although in Serbia the effectiveness of the external audit system showed good progress too. The average values in Montenegro (2.7) and North Macedonia (2.9) are unchanged since 2017.

Figure 1. Modest regional progress in public financial management since 2017, although Montenegro and North Macedonia have shown no overall change

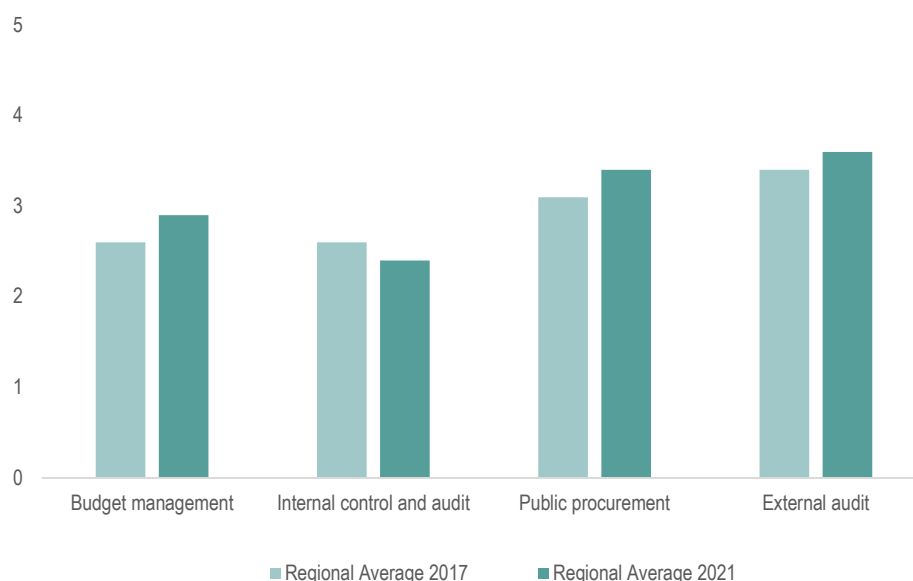


Note: Progress for the region is shown for all administrations except Bosnia and Herzegovina (WB5). SIGMA changed the method of calculating country-level indicator values for Bosnia and Herzegovina in 2021, making direct comparison with 2017 unreliable.

The modest overall progress in the PFM area average covers large variations across and within the four PFM sub-areas: budget management, external audit and public procurement have generally shown steady progress since 2017, but internal control and audit has regressed.

⁷ The regional summary is based on the findings of the SIGMA monitoring reports of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, the Republic of North Macedonia and Serbia. External audit data is not included for Bosnia and Herzegovina as the monitoring for this sub-area will be conducted in 2022.

Figure 2. The public financial management sub-areas have shown improvement since 2017, with the exception of internal control and audit. External audit is the most advanced, followed by public procurement



Overall, the regional average values show that external audit is the most advanced, as was the case in 2017, with an average value of 3.6, followed by public procurement (3.4) and budget management (2.9). The weakest area remains internal control and audit, which has an average value of 2.4. Serbia's sub-area average of 4.5 in external audit was the highest registered across all sub-areas, followed by Albania with 4.2 in public procurement.

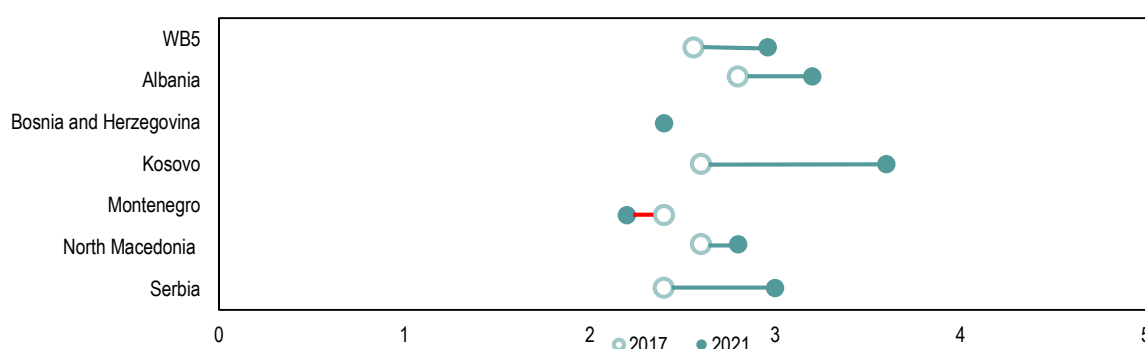
Two dimensions of public procurement recorded both the highest absolute values and highest increase in values on average across all 52 composite indicators: a) quality of legal framework and b) competence of the complaints-handling system, which both had indicator values of 4.4 out of 5. On the other hand, the support of public procurement offices to contracting authorities and economic operators to strengthen the professionalisation of procurement operations deteriorated significantly since 2017. The weakest sub-area of PFM in all administrations is internal control and audit where the value of 'functioning of internal control' fell on average from 1.2 in 2017 to 0.6 in 2021. Better mitigation of fiduciary risk through greater managerial accountability and internal control systems is paramount to improving internal control and audit systems. In comparison, budget management systems perform much better and the trend is upwards, particularly in the development of medium-term budgetary frameworks and reporting on budget implementation. External audit has shown modest improvement from an already high level of performance in 2017. Supreme audit institutions (SAI) are generally sufficiently independent to carry out their mandate, but their effectiveness could be further strengthened if state bodies were more responsive in implementing their recommendations and parliaments provided stronger support.

Budget management

There has been some improvement in budget management in the Western Balkan region, with the average indicator value increasing from 2.6 in 2017 to 2.9 in 2021.

Kosovo had the highest average of 3.6 in 2021, showing solid progress since 2017 when the average was 2.6. The average of Albania increased to 3.2 in 2021 from 2.8 in 2017. Serbia's area average increased by 0.6 to 3.0. North Macedonia also showed progress, while Montenegro showed some backsliding with a decrease of 0.2.

Figure 3. Modest regional progress in the budget management area since 2017, with Albania, Kosovo and Serbia improving and Montenegro showing some minor deterioration



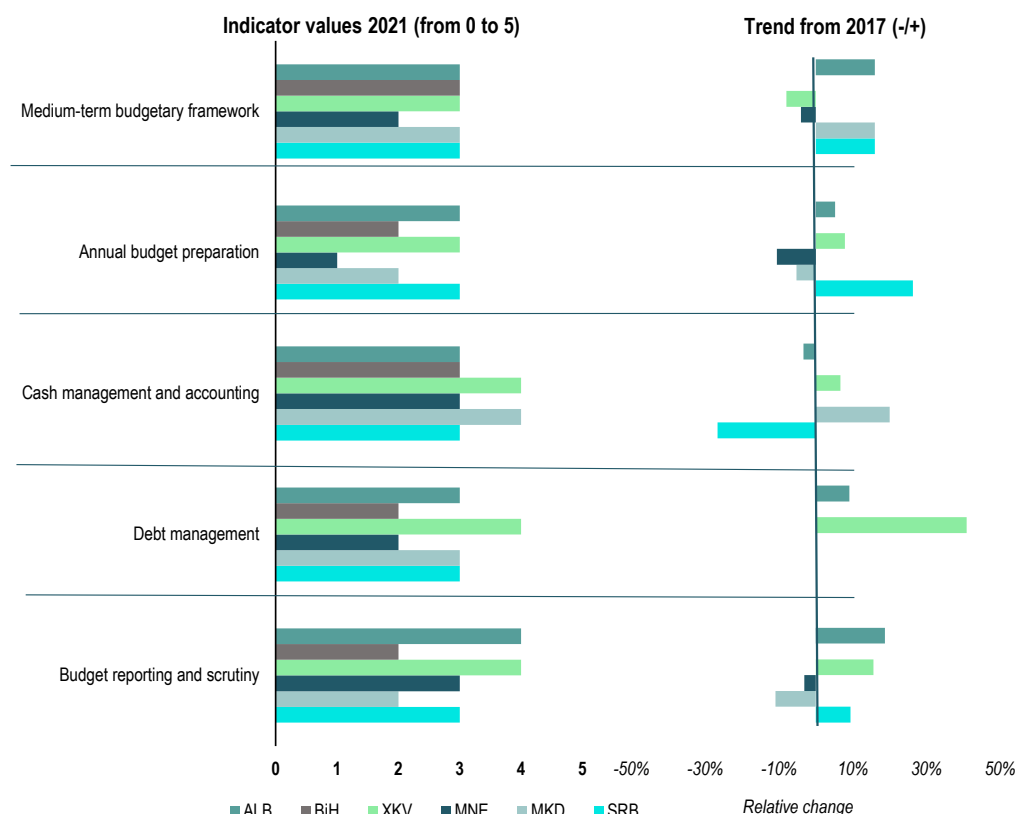
Note: Progress for the region is shown for all administrations except Bosnia and Herzegovina (WB5). SIGMA changed the method of calculating country-level indicator values for Bosnia and Herzegovina in 2021, making direct comparison with 2017 unreliable.

The budget management sub-area covers the quality and credibility of the medium-term budget framework (MTBF) and annual budget process, reliability of budget execution and accounting practices, quality of public debt management, and transparency and comprehensiveness of budget reporting and scrutiny.

There has been improvement in all dimensions compared to 2017, with the 2021 regional value close to a solid 3 except for 'annual budget process', which has a regional average of 2.4.

The most significant improvements are in the indicators for the quality of the MTBF and the transparency and comprehensiveness of budget reporting, with the regional averages for both increasing in 2021 by 0.4 to 2.8 and 3 respectively, due to general improvements in the MTBF documentation and in the quality of the reporting on the use of public finances. While the regional trends are positive, the improvements are generally in specific areas in individual administrations rather than in consistent areas across the region. For example, in Figure 4 the improvement in the medium-term and annual budget process in Serbia is noticeable, although this is tempered by the deterioration in budget execution and accounting practices. In Kosovo, the debt management practices have shown significant improvement.

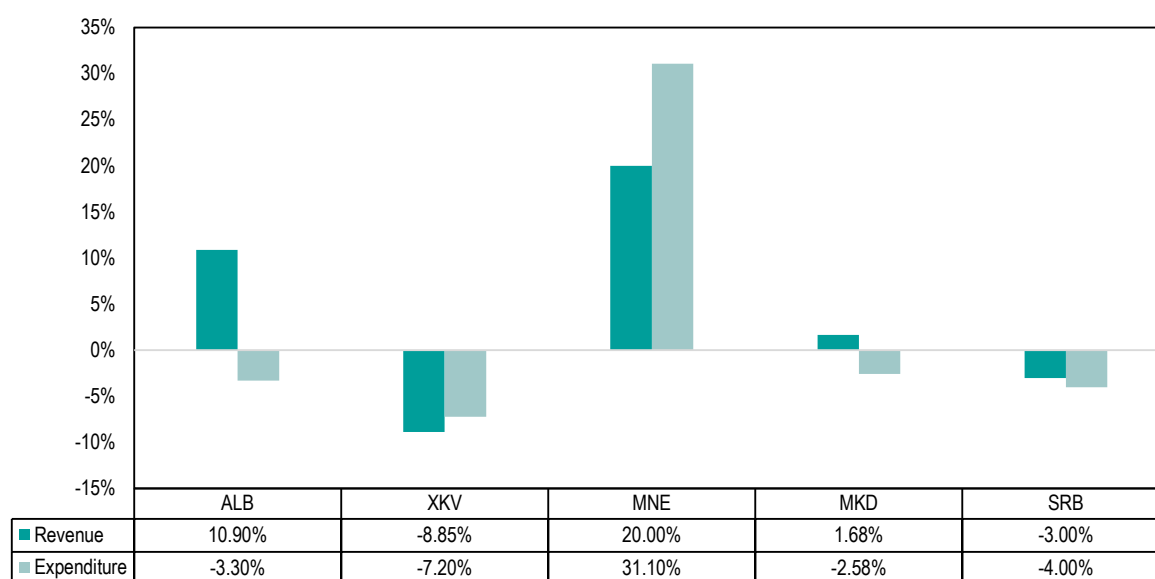
Figure 4. Budget management has improved in 2021 compared to 2017, with all indicators showing modest progress; in particular, the quality of the medium-term budget frameworks and budget reporting showed the strongest and most consistent improvement in performance



The quality of MTBF and annual budget processes have been strengthened but there is room for improvement, including in the credibility of the revenue and expenditure plans

All administrations have established MTBFs and, compared to 2017, there have been some improvements in how these have been implemented. A number of shortcomings require improvement, however, and the credibility of the medium-term plans still needs to be improved, as shown in Figure 5; the differences between the forecasts in the medium-term budgets and the actual outturns are highlighted.

Figure 5. Difference between the 2019 revenue and expenditure outturns and the forecasts in 2018-2020 medium-term budget frameworks



Source: Figures are for the central government. Planned figures are from the relevant MTBF. Outturn data is from the annual financial/budget execution statement⁸.

In particular, there is incomplete integration of the MTBFs, with sector strategies limiting their strategic policy role; the ceilings for years two and three are generally not firmly established; and there is limited engagement of parliament. Fiscal rules/targets for deficit and debt have generally been established across the region, although in Montenegro and Serbia they were not complied with in 2020. At present only Serbia has established an independent fiscal council to provide oversight of the Government's fiscal plans.

Except for Kosovo and Serbia, there are still challenges in the alignment of the annual budgets with the MTBF. Compliance with the budget calendar continues to be an issue in Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia, with examples of delays identified in both 2019 and 2020. In the case of Bosnia and Herzegovina (State level) and Montenegro, temporary financing arrangements had to be implemented at the beginning of 2021 due to delays in preparing the budget, which in Montenegro's case was caused by the parliamentary elections at the end of 2020. It is also clear that parliaments do not have sufficient time to review and debate the budgets, and that parliamentary scrutiny is an area where significant improvement is still required.

As highlighted in Figure 6, the quality of the budget documentation is an area where further improvement is required particularly in Kosovo, Montenegro and Serbia. The information provided needs to be improved, including on new policy initiatives, contingent liabilities and non-financial performance information.

⁸ The values were determined on the basis of 2019 data due to the COVID-19 pandemic in 2020.

Figure 6. There are gaps in the quality and transparency of budget documentation across all administrations, with Serbia in particular having a number of areas that need to be improved

	ALB	XKV	MNE	MKD	SRB
The budget documentation sets out the macroeconomic and fiscal assumptions on which the budget is based	●	▶	●	●	●
The budget documentation provides, on the basis of the European System of National and Regional Accounts (ESA), medium-term projections for general government balance, revenue and expenditure	●			●	
The budget documentation indicates the latest estimates of the budget balance, revenue and expenditure of the current year for comparison	●	●	▶	●	
The budget documentation links appropriations to administrative units (first-level budget organisations at a minimum)	●	●	●	●	●
The budget documentation provides information on new policy initiatives	▶				
The budget documentation provides information on contingent liabilities	●				
The budget documentation provides long-term projections (five years or more) for at least the two largest expenditure areas					
The budget documentation presents links between the budget and the government's policy objectives for the upcoming year and provides non-financial performance information	◀	▶	▶	●	◀

Note: A green triangle denotes that this criterion was not fulfilled in 2017 but was in 2021. A red triangle shows where the criterion was fulfilled in 2017 but no longer in 2021.

The quality of budgeting for capital investment projects, including the processes for appraising projects, is still limited. The credibility of the revenue and expenditure plans in the annual budgets improved in Serbia, but has decreased in Kosovo and Montenegro.

Budget execution and accounting practices are well-established, but cash flow forecasting and the management of arrears need improvement

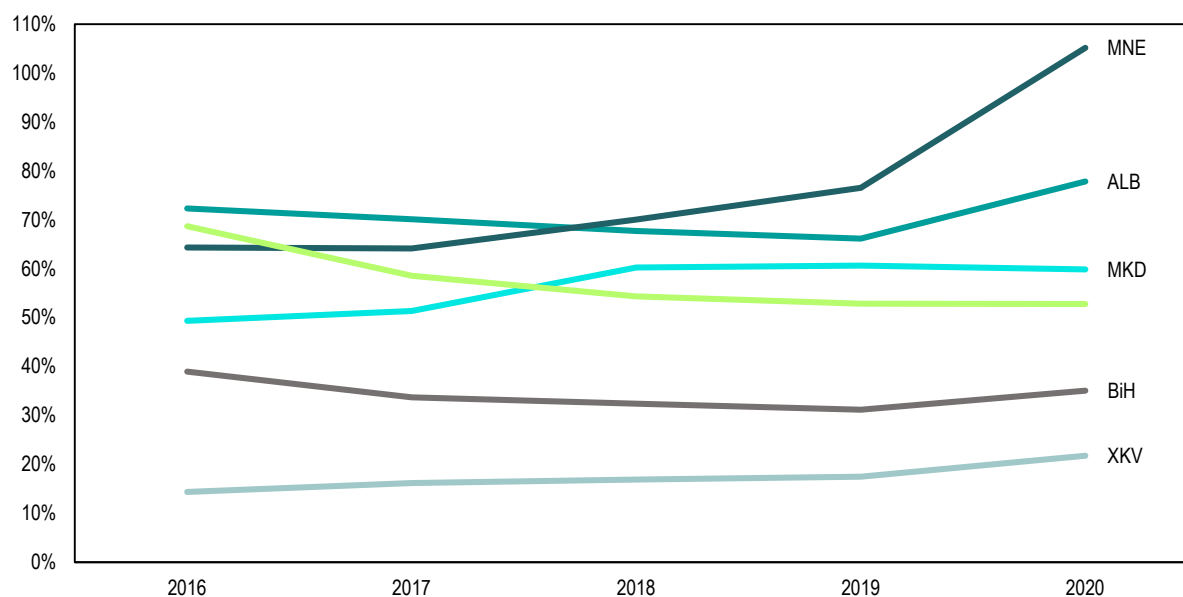
Budget execution and accounting practices, including cash and commitment management, are generally well-established and have continued to be strengthened since 2017, although there are still deficiencies in cash flow forecasting and planning across the region. Additionally, with the exception of North Macedonia, the management of expenditure arrears has not improved since 2017, with the availability and quality of data on arrears and the level of arrears remaining significant issues.

Debt management practices are well-established, but further steps need to be taken to manage exposure to exchange and interest-rate risks

Across the region, the quality of debt management has remained stable since 2017, with only Kosovo showing improvement. Appropriate legal frameworks and systems, debt strategies and transparent debt reporting are generally in place. However, the risk profiles of the debt portfolios in Albania and Montenegro are higher. There is exposure to foreign-exchange and interest-rate risks, leaving them more vulnerable to exogenous shocks.

While the level of government debt as measured as a percentage of gross domestic product (GDP) had been on a downward path for a number of administrations since 2017, it increased across the region in 2020 due to the impact of the COVID-19 pandemic. While debt levels were maintained within the target levels in Albania, Kosovo and North Macedonia, they diverged in Montenegro and Serbia. Montenegro in particular has seen a significant rise in the level of public debt and divergence from the planned levels in 2019 and 2020, rising to 105.2% of GDP in 2020, due to both increased nominal debt and the fall in GDP owing to the macroeconomic impact of COVID-19.

Figure 7. The level of government debt, as a percentage of GDP, increased in Albania, Bosnia and Herzegovina, Kosovo and Montenegro in 2020, although in Bosnia and Herzegovina and Kosovo it increased from a lower base. Debt levels are on a downward path in North Macedonia and Serbia



Overall, there has been some improvement in the transparency and comprehensiveness of budget reporting and scrutiny across the region compared to 2017. However, there are still areas for improvement. With respect to the in-year and annual reporting of the governments, there is no consistent reporting on assets and liabilities, commitments, and deviations from the budget, amongst other things. Additionally, with the exception of Albania, there is no systematic monitoring or reporting on fiscal risks. The quality of reporting on state-operated enterprise activities and their financial positions remains a challenge in all administrations, generally not being very systematic and, as result, the fiscal risks they pose are not clear or transparent. With respect to local governments, annual financial reporting is undertaken across the region, although the requirements for them to be audited varies significantly.

The financial reports of the governments on the use of public finances that were submitted to parliament were of an appropriate quality, receiving unqualified audit opinions from the respective SAIs except in North Macedonia. These reports, along with the SAIs' reports, were also submitted to the parliaments in line with the required time frames. The subsequent parliamentary discussions on the SAIs' reports were generally timely and consistent with the 2017 assessment, although there were some delays in Montenegro as a result of the COVID-19 pandemic, and in the case of Albania there was no parliamentary hearing to discuss the SAI's report.

The way forward

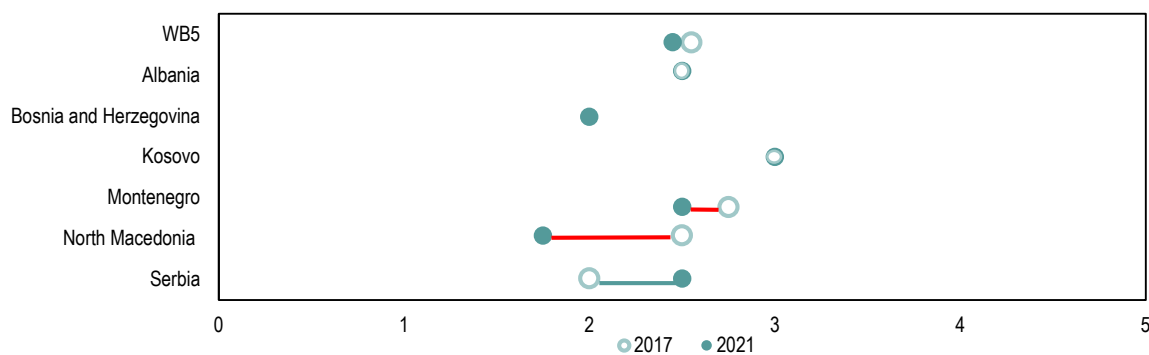
- Improve the alignment and integration between financial planning, sector strategies and overall government policy planning.
- Improve budgetary forecasting and planning to produce more credible and reliable medium-term and annual budgeting, and establish independent fiscal institutions to provide oversight of the governments' fiscal plans.
- Formally scrutinise in parliament the medium-term budget plans, with three months to examine annual budget plans in line with good practice.
- Implement capital-investment planning and monitoring systems to ensure the appropriate appraisal and prioritisation of projects, and monitoring of their implementation.
- Bring debt levels back in line with target levels and minimise risk exposure of the debt portfolios to exogenous shocks.

Internal control and audit

The indicators for internal control and audit show a mixed picture in 2021, with relatively solid operational and regulatory frameworks but with the implementation in practice being weaker. In particular, the functioning of internal control in practice is rudimentary and deteriorated from an already low base in 2017.

As previously highlighted, the sub-area average for internal audit and control shows some backsliding across the region, with the average decreasing from a relatively low base of 2.6 in 2017 to 2.4 in 2021. Kosovo had the highest average value of 3, the same as in 2017. The only administration to show an improvement was Serbia, with an increase of 0.5 in 2017 to 2.5 in 2021. The sub-area average for both Albania and Montenegro was also 2.5, but in the case of Albania this was the same as in 2017 while for Montenegro it was a decrease of 0.2. North Macedonia had the lowest value of 1.85, a decrease of 0.7 from the 2017 value.

Figure 8. There has been a small deterioration in the regional position for internal control and audit since 2017. Serbia is the only administration to improve, with Montenegro and North Macedonia backsliding

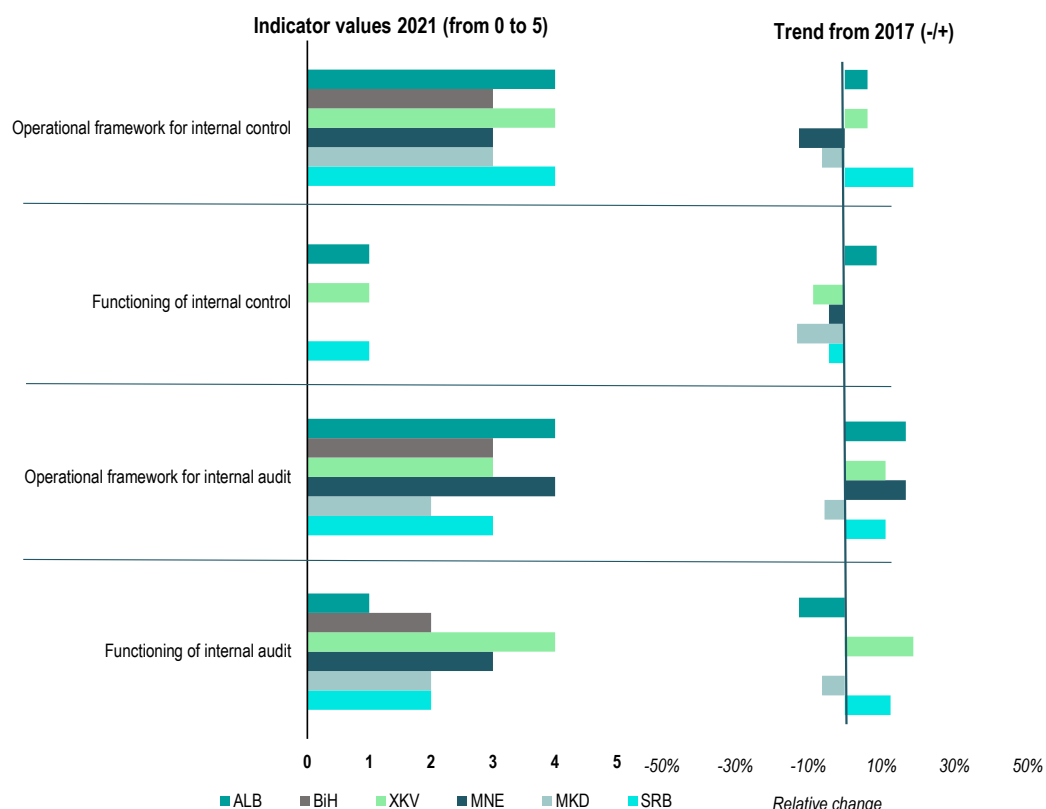


Note: Progress for the region is shown for all administrations except Bosnia and Herzegovina (WB5). SIGMA changed the method of calculating country-level indicator values for Bosnia and Herzegovina in 2021, making direct comparison with 2017 unreliable.

The internal control and audit sub-area examines the operational framework and the functioning of internal control and internal audit. The operational framework considers the legal and regulatory framework, along with the planning and monitoring arrangements in place to strengthen implementation of public internal financial control (PIFC), while the functioning reviews how internal control and audit are implemented in practice.

“Operational framework for internal audit” is the only indicator to show improvement, with a regional value of 3.2 in 2021 compared to 2.8 in 2017. “Functioning of internal audit” remained broadly consistent with 2017, with a value of 2.3. However, “Operational framework for internal control” and “Functioning of internal control” both decreased, with the operational framework indicator marginally falling by 0.3 to 3.5 in 2021, mainly due to the revised plans for the development of internal control and audit in Montenegro not being finalised. “Functioning of internal control” decreased from a low base of 1.2 in 2017 to 0.5 in 2021, with no administration showing improvement in the implementation of internal control and managerial accountability, and Kosovo, Montenegro and North Macedonia all backsliding.

Figure 9. Internal control has deteriorated compared to 2017, particularly in the effective functioning or implementation of internal control, which was already at a low base. Internal audit has shown modest improvement in the majority of administrations in both the framework and its functioning



The internal control regulatory and operational frameworks are largely in place, but their functioning in practice and the implementation of managerial accountability are limited and need significant improvement

In general, all administrations have established well-developed legal and operational frameworks for internal control, which are aligned to requirements for PIFC. Central harmonisation units (CHU) are established to support the implementation of PIFC, and the plans for the development of financial management and control (FMC) and managerial accountability, along with regulations and guidelines for implementation, are largely in place in all administrations. The CHUs have established review and reporting arrangements to monitor and evaluate the implementation of FMC.

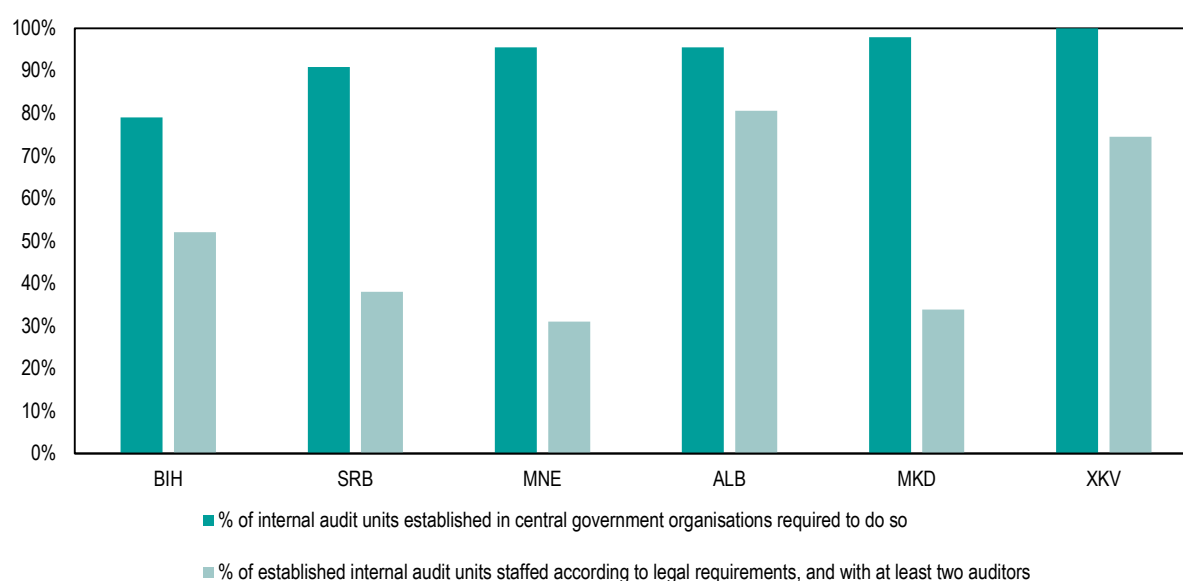
The effective implementation of internal control and the application of appropriate rules and procedures in budget organisations are weak in all administrations, however, lagging well behind the development of the regulatory framework. The development and implementation of effective managerial accountability and the level of delegation of decision-making authority are very limited, as is the development of performance management and monitoring arrangements, including the setting of clear objectives. This is exacerbated by the high number of first-level budget organisations that are not ministries or constitutional bodies, reducing managerial accountability at the government level as sectoral ministries are bypassed.

While there have been minor improvements in certain aspects of internal control systems in some administrations, it is clear that across the region a number of areas still need to be further developed including risk management, the management of arrears, reporting on irregularities, and monitoring and reporting on the financial and physical progress in capital projects.

The regulatory and operational frameworks for internal audit are generally established, but the organisational capacity of internal audit needs further strengthening and its impact improved

The regulatory framework for internal audit is well-developed in all administrations, with the requirement for internal audit work to be conducted in accordance with the international professional practice framework. The development of internal audit is a fundamental element of the PIFC development plans. The regulatory frameworks are generally supported by operational guidance. All administrations organise internal audit on a decentralised basis and, with the exception of North Macedonia, there has been a general improvement in internal audit organisational capacity, with internal audit units being established. Nevertheless, significant issues remain with the staffing of units, with many not meeting the minimum requirements established and many having only one member of staff, making it impossible to comply with the requirements of international standards.

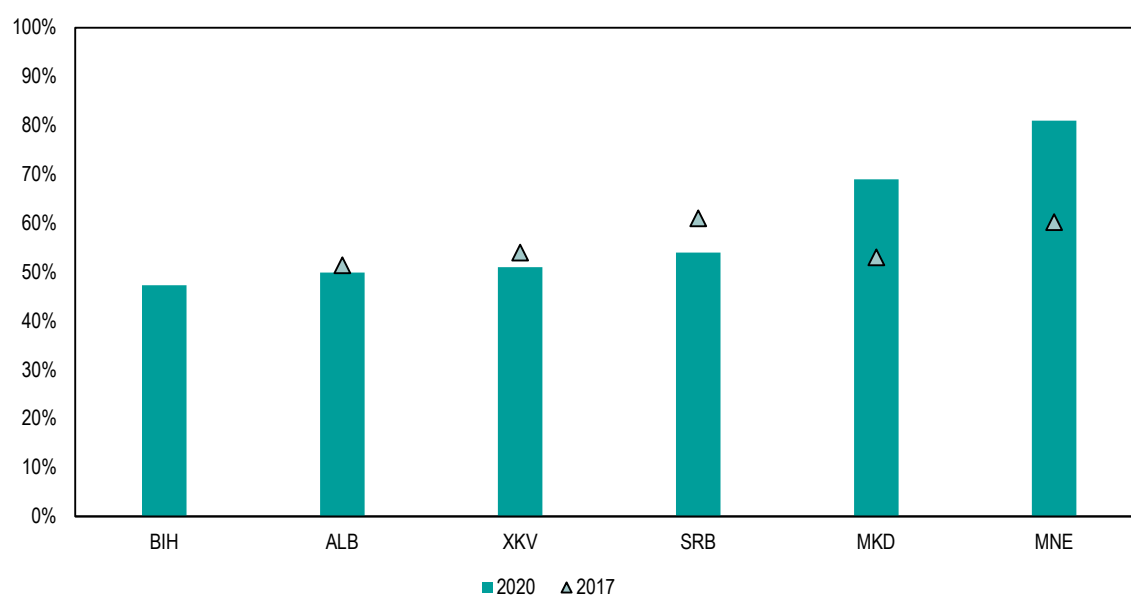
Figure 10. There is a general improvement in the establishment of internal units in central government, but issues remain in effectively staffing those units



Quality assurance systems for internal audit have been established in Albania and Montenegro, but this is a significant area where further development is required in the other administrations.

Internal audit units generally prepare strategic and annual audit plans that are in line with national legal requirements and based on a risk assessment. Audit reports are broadly prepared in line with the relevant requirements and manuals, but there is still a limited focus on value-for-money issues. In addition, the implementation rate of internal audit recommendations remains low, limiting the impact.

Figure 11. Internal audit recommendations implemented within one year remain low, with the exception of Montenegro



The way forward

- Work with centre-of-government institutions to establish plans to support the implementation of managerial accountability.
- Develop strategies to ensure that the organisation and staffing of internal audit units is developed, in order to enable the efficient and effective delivery of internal audit services in line with international standards.

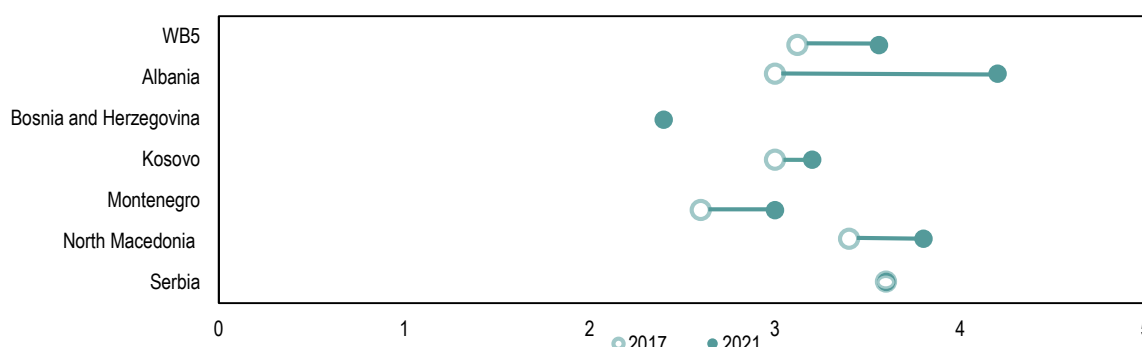
Public procurement

There have been a number of developments in the region as regards to public procurement since 2017

Overall in the region progress has been made, but public procurement systems need to further improve, in particular with regard to the procurement practice.

The 2021 average indicator was 3.37, up from 2.96 in 2017.

Figure 12. Regional average indicators in 2021 as compared with 2017

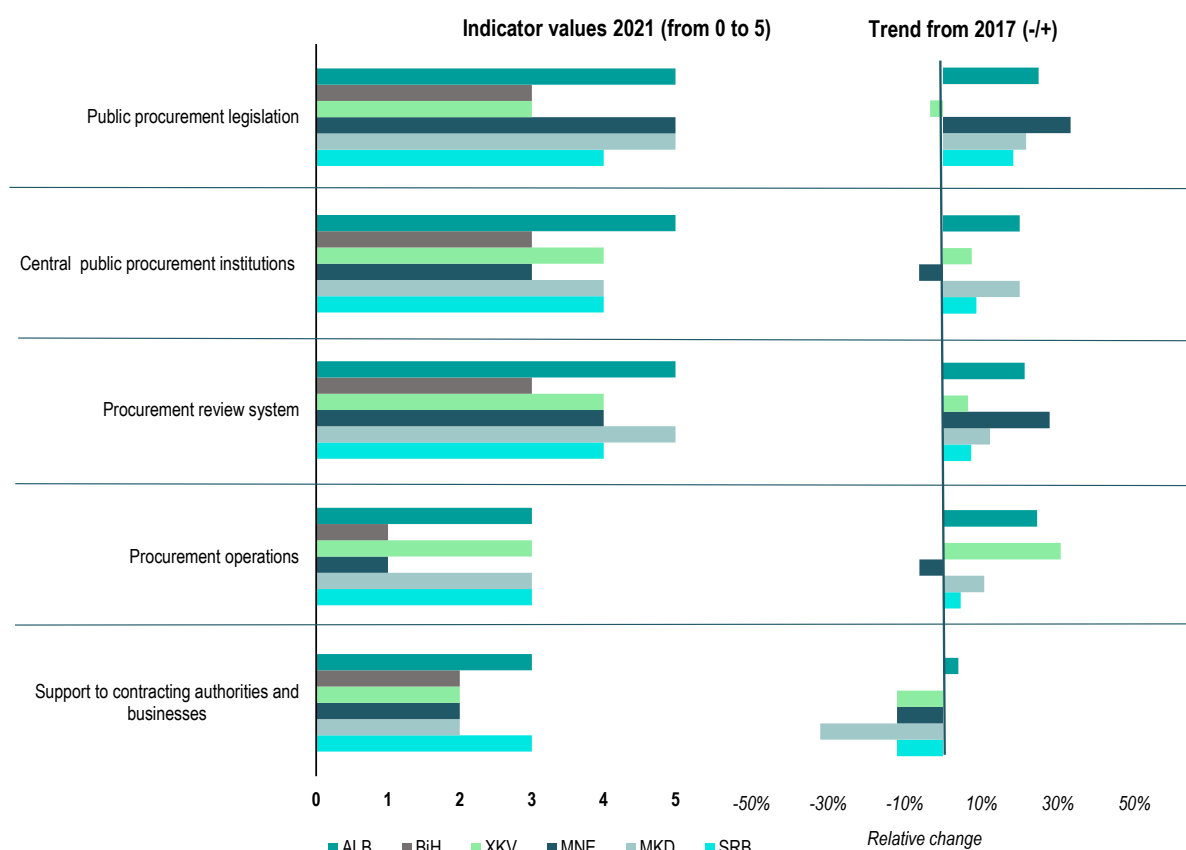


Note: Progress for the region is shown for all administrations except Bosnia and Herzegovina (WB5). SIGMA changed the method of calculating country-level indicator values for Bosnia and Herzegovina in 2021, making direct comparison with 2017 unreliable.

The greatest improvement was made in the “Public procurement legislation”, where the average indicator in 2021 was 4.16, up from 3.16 in 2017 due to the reform of public procurement legislation and implementation of European Union (EU) compliance rules in public contracts, concessions/PPP and defence procurement. Clear progress is shown in “Procurement review system”, where the average indicator increased from 3.33 in 2017 to 4.17 in 2021. Here the improvement is due to the increase of quality, timelines and independence of the review systems (strengthening of administrative capacities of procurement review bodies [PRBs], better adherence to time limits in decision making, improved quality of rulings). Also, some progress took place regarding “Central procurement institutions”: the indicator is 3.83 in 2021, compared to 3.33 in 2017. Finally, some progress has been noted with regard to “Procurement operations” but the 2021 value of 2.33, albeit much better than in 2017 (1.83), is still unsatisfactory. On the other hand, a regression was observed in the “Support to contracting authorities and businesses”: the average indicator is 2.33 in 2021, down from 3.16 in 2017, attributable to the fact that training materials and other operational tools in most cases have not been updated since the new laws were adopted in most Western Balkan administrations.

As Figure 13 shows, there are administrations that can be considered regional “champions”, those with moderate progress and those lagging behind.

Figure 13. Administration “champions”, those with moderate progress and those lagging behind



New strategic policy instruments have been adopted, and legal frameworks have significantly improved and are now mostly harmonised with EU requirements

New strategic policy instruments related to public procurement have been adopted or are at the stage of finalisation across the region. Multi-year strategies or action plans comprehensively covering issues of public procurement, including PPPs and concessions (Albania, Montenegro, North Macedonia and Serbia), are or will be very soon in place. They deal with improvements of legislative frameworks, strengthening of administrative capacity, increasing the efficiency of legal protection measures and combating corruption and conflicts of interest.

In general, the administrations have good legislative frameworks in this field: most have recently adopted new public procurement laws implementing provisions of 2014 EU public procurement Directives, both for classical as well as utilities contracts. Albania, Montenegro, North Macedonia, and Serbia adopted new public procurement laws (PPLs) in 2019 and 2020. New PPLs are characterised by a high level of EU compliance, with only a few cases of minor inconsistencies or shortcomings. Examples of provisions that do not fully correspond to EU requirements are related, for example, to additional grounds for exclusion of economic operators and application of “blacklists” of economic operators – the automatic exclusion on the basis of decisions of Public Procurement Offices (PPO) for a certain time period, due to, for instance, a withdrawal by the winning bidder from signing the contract (in Albania and North Macedonia), a lack of solutions concerning self-cleaning of economic operators (in North Macedonia) or limitations concerning the share of contracts covered by subcontracting (in Albania).

The new PPLs provide for equal treatment of economic operators regardless of their origin and require respect of other fundamental EU principles. In cases where public procurement rules in the past provided for domestic preferences, those preferences either have been removed from new procurement provisions (Serbia) or, after expiry of relevant implementing regulations, new ones have not been (so far) issued (Bosnia and Herzegovina). In some cases, on a temporary basis, domestic preferences were increased or introduced in the framework of solutions related to fighting the consequences of the COVID-19 pandemic (Bosnia and Herzegovina, Kosovo).

In some instances, however, this generally positive view concerning EU compliance of public procurement law is affected by the adoption of, in addition to general PPLs, specific regulations addressing some types of procurement, usually major infrastructure linear constructions of large value (Serbia) or constructions executed in the aftermath of the earthquake (Albania). Those procurement rules provide for a number of exceptions from general public procurement rules concerning time periods, documentary evidence and rules on procurement review, and are not consistent with EU rules.

Compliance with EU requirements in the field of PPPs and concessions is not very advanced, but at least relevant rules now comply with basic EU standards in that field and some administrations have recently adopted new provisions transposing the Concessions Directive (Montenegro).

Most of the administrations in the region have also implemented provisions concerning procurement in the field of defence and security by adopting separate laws and/or implementing regulations transposing provisions of EU Defence and Security Procurement 2009/81 (Albania, North Macedonia and Serbia).

The institutional set-up is solid, with well-developed electronic procurement tools. Support to contracting authorities and economic operators is insufficient. There is a need to adopt or update training materials following a significant update of procurement rules

Everywhere, there is a solid institutional set-up at the central level with PPOs or public procurement agencies (PPAs), either as separate institutions (Albania, Bosnia and Herzegovina, Kosovo, Serbia) or within the framework of Ministries of Finance (Montenegro, North Macedonia). PPOs/PPAs perform all central procurement functions required by EU rules related to legislation, monitoring and reporting of functioning of public procurement systems, control of legal compliance with rules and advice, training and other support to contracting authorities and, to a certain, degree, to economic operators. Professional support offered by PPO/PPAs to contracting authorities and economic operators is still insufficient as regards in particular complex procurement/PPPs, and contracting authorities need their capacity to be strengthened. In cases where public procurement provisions have been recently modified (new PPLs were adopted), only basic information about new rules was provided and new operational tools such as manuals, guidelines and other practical tools are not yet generally available.

Everywhere in the region electronic procurement is well-advanced, with new or significantly improved public procurement portals managed by PPO/PPAs, enabling fully electronic communication between contracting authorities and bidders, including electronic submission of tenders. In particular, new public procurement portals have been recently established in Montenegro and Serbia, thanks to support from EU funds by means of technical-assistance projects. Already existing electronic procurement tools are being upgraded in Albania, Kosovo and North Macedonia. In some cases, work is very advanced in order to introduce solutions enabling the application of electronic measures in legal-protection procedures (submission of appeals to review bodies in Albania) as well as monitoring and management of contracts (also in Albania). In all administrations, there is room for wider use of centralised procurement.

Independent review mechanisms and offices are in place. Transparency of the review process has been improved, as well as timeliness of review and quality of rulings of review bodies

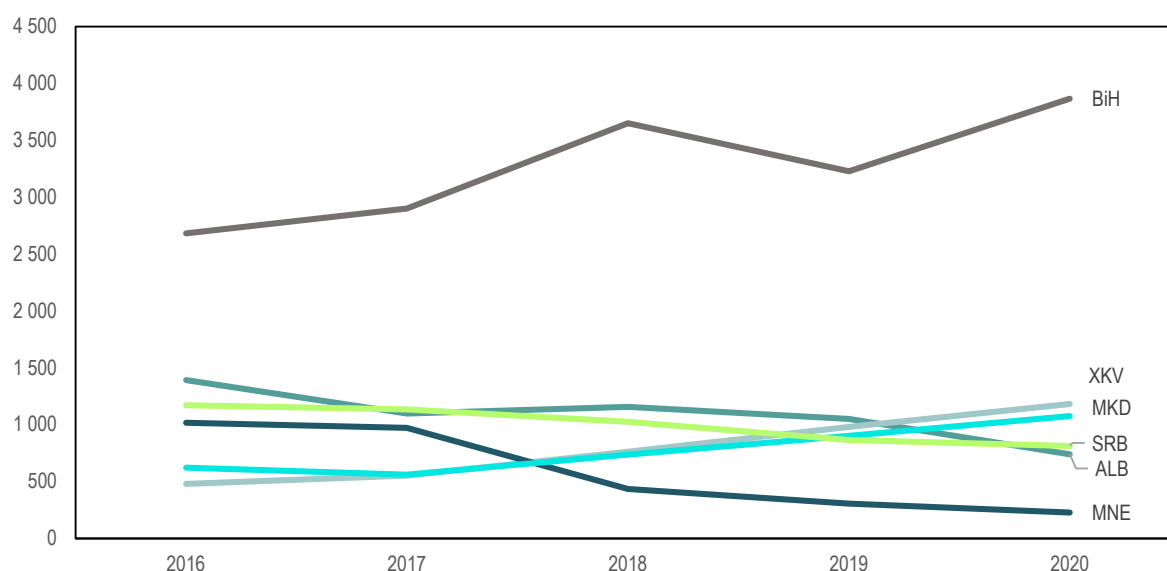
Independent review mechanisms are in place everywhere, with solutions, provisions and procedures to a high degree harmonised with requirements of the EU Procurement Review Directives. Everywhere in the region there are independent PRBs responsible for review of appeals submitted against decisions of contracting authorities by aggrieved economic operators. PRBs are composed of members chosen in transparent and selective procedures and are appointed mostly by parliaments (or by the Government in Montenegro) for five-year terms. The number of PRB members (including their presidents) varies from 5 (Albania, Kosovo, North Macedonia), 7 (Montenegro), 9 (Serbia) and up to 17 in Bosnia and Herzegovina. Bosnia and Herzegovina is a case apart since it has in fact three procurement offices (the main office and two branch offices with separate remits and responsibilities) and, unlike elsewhere in the region, at the end of June 2021 it had more members than supporting staff.

Transparency of the review process has been improved. In Bosnia and Herzegovina, the lack of a website was finally resolved and the PRB now has its own, separate from the PPA (www.urz.gov.ba), although its

rulings are not published there but rather on the e-procurement portal. In Albania, transparency of the review process has been greatly increased thanks to the implementation of the e-appeals system ("E-ankesa", www.kpp.al), similar to solutions applied for example in North Macedonia.

The number of submitted appeals has been growing in recent years in Bosnia and Herzegovina, Kosovo and North Macedonia. In the other three administrations, the opposite trend is clearly visible, with the most drastic decreases in Montenegro and Serbia (interestingly, the last two administrations have the largest procurement review offices in the region, if Bosnia and Herzegovina with its special set-up is not counted).

Figure 14. Comparison of the number of submitted appeals in the region, 2016-2021



Proceedings leading to the adoption of rulings by the PRB are generally quick and efficient: PPLs require rulings to be adopted within 15 days in North Macedonia and 30 days in other administrations (with the possibility to further extend in particularly complicated cases). The decisions of PRBs may then be appealed to a court, which acts as a second-instance review body. Rulings adopted by PRBs are of generally good quality, and the share of cases overturned by courts as a result of complaints amounts to only a few percent.

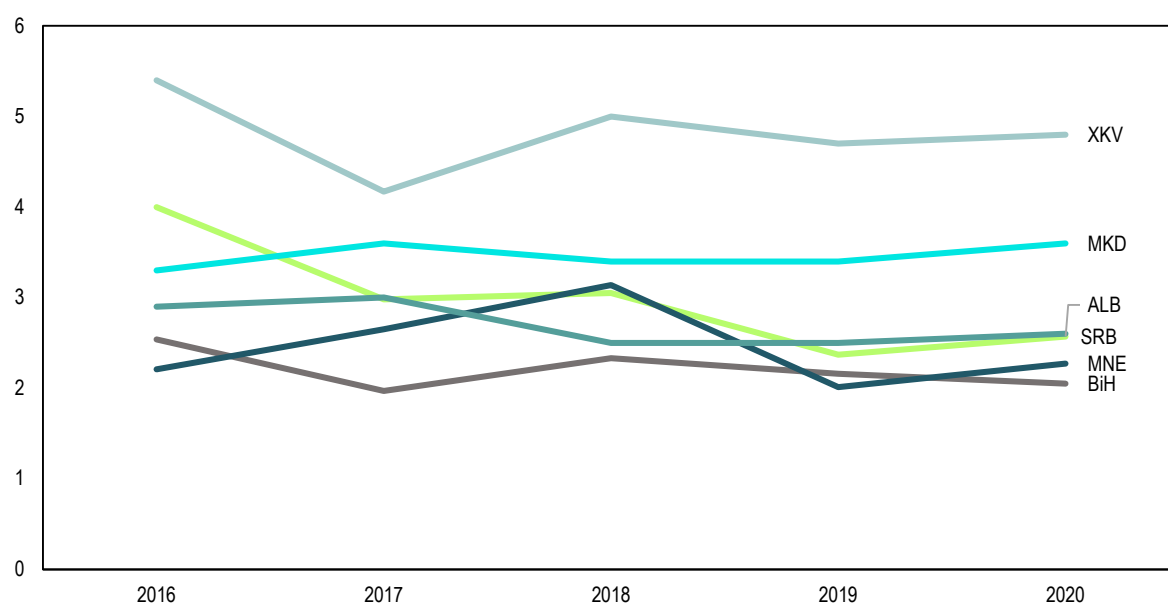
Public procurement remains a significant part of the economy, but competition for public contracts remains weak and the lowest price is still a predominant factor in the selection of the best bids. Open procedure is the most often used method of awarding contracts; multi-staged procedures are rarely used. There has been an increase in the application of non-transparent and non-competitive procedures

The value of the public procurement market represents 6-13% of GDP and has diminished in some cases since the beginning of the COVID-19 pandemic.

A characteristic of all administrations is low competition in public procurement procedures. The average number of bids submitted in the region in 2020 amounted to 2.98 tenders per procedure, varying from 2.05 in Bosnia and Herzegovina to 4.8 in Kosovo, with a median value of 2.58.

Figure 15 shows that the average number of tenders remains practically unchanged in most of the administrations over the past years, despite all the efforts to increase transparency of public procurement provisions (reform of public procurement legislation, establishment of e-procurement tools), simplify proceedings and remove barriers to access bidding opportunities (including for small and medium-sized enterprises).

Figure 15. Competition on the public procurement market in terms of average number of bids per procedure 2016-2021

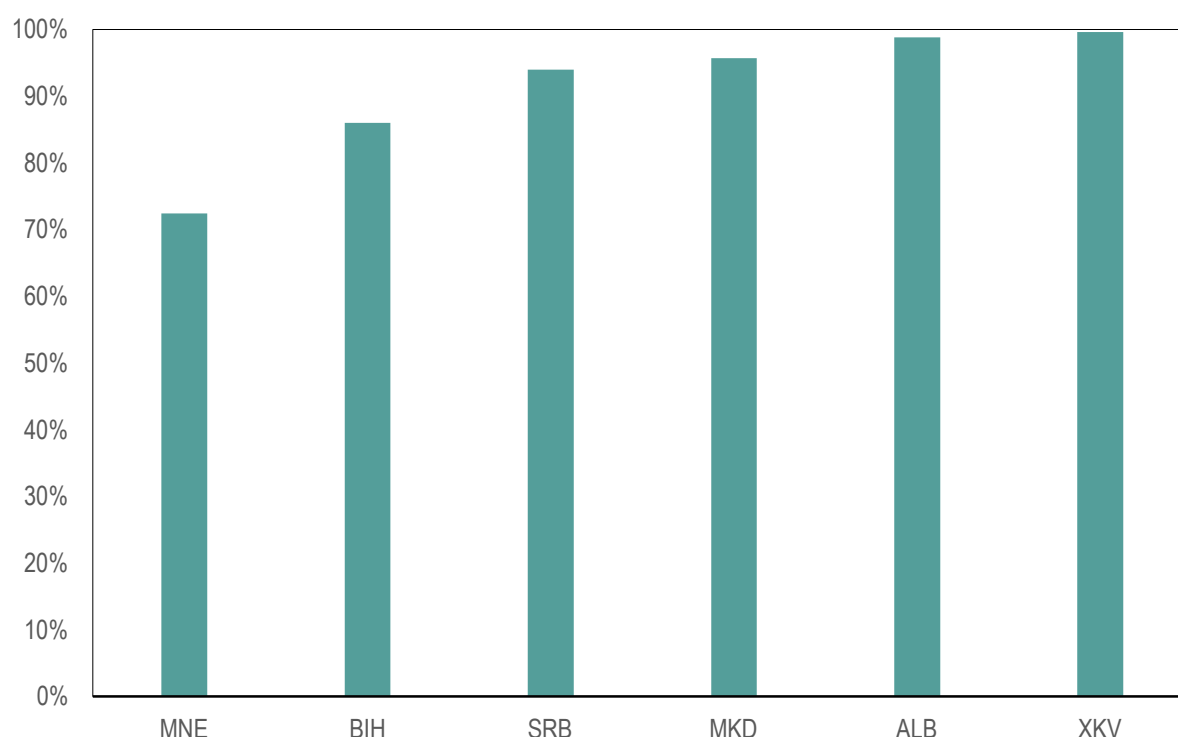


More bids are submitted, however, in response to a call for competition concerning simplified procedures for small-value contracts (in particular in Albania: 11.6).

In all administrations, open procedure is the most often used public procurement procedure, although in terms of, for example, value of contracts awarded in the negotiated procedure without publication of a notice is increasing, mainly as a result of the application of measures to fight the effects of the COVID-19 pandemic (for example in Serbia). Also worrisome is the increased number of cases where the PPL is not applied on the basis of exemptions from the PPL or because special procedures are applied, based on either separate laws or international agreements with third administrations (Serbia). Multi-stage procedures involving separate qualification and bidding stages are very rare. Certain procedures and tools such as Innovation Partnerships, competitive procedures with negotiations or dynamic purchasing systems are not used yet, or very rarely. In turn, an increase in the number of framework agreements has been noted, and centralised procurement is gaining more relevance: new central purchasing bodies have been established and new rules on centralised procurement have been adopted (for example in Albania). There are also cases where central purchasing is not as effective (Montenegro).

Notwithstanding the adoption of new provisions on contract-award criteria which promote the application of the best price quality ratio or limit the application of the lowest price criterion, price remains by far the most common factor for the selection of the best tender. In cases where the PPLs give freedom to contracting authorities to choose between the price-only criterion and the best price/quality ratio, the price criterion is predominantly applied, from 86% of procurement procedures in Bosnia and Herzegovina to 99.63% in Kosovo. Only in Montenegro, where the PPL gives preference to a price/quality criterion, did the share of price-only fall to 72% (in 2020 the new PPL was applied only for half of a year, however, so this share, valid for the whole 2020, should fall more in the coming years).

Figure 16. Frequency of use of price as the only selection factor



The way forward

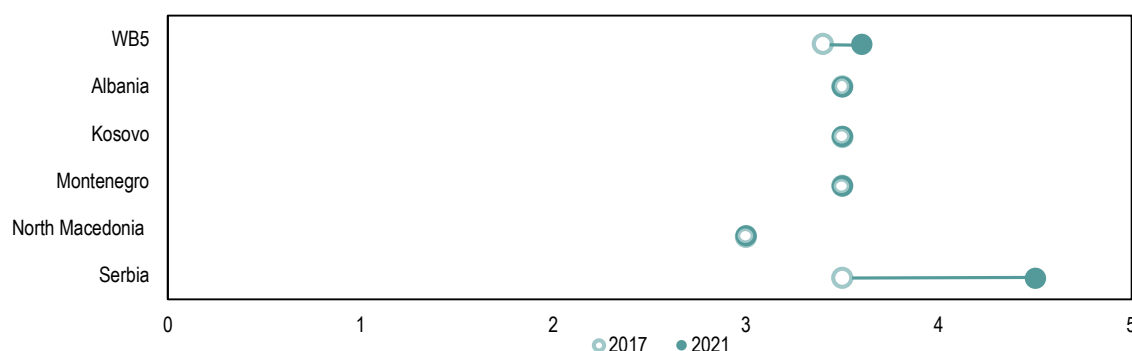
- Harmonisation of public procurement legislation (including PPPs and concessions) with EU legislation should be completed.
- Comprehensive and updated public procurement manuals, covering all stages of the procurement process and addressing in a practical and useful way the real-life issues identified by stakeholders, need to be produced.
- While acknowledging the need for independence, the central procurement institutions (including the review bodies and state audit) need to establish permanent and efficient mechanisms to co-ordinate interpretation of procurement legislation.
- The central procurement institutions (including those for PPPs and concessions) should be properly resourced, in order to be able to satisfactorily perform all their statutory functions.
- Transparency of the review process should be enhanced (in particular to improve smart online access to decisions of the review bodies).

External audit

In the sub-area of external audit, there has been modest progress from a reasonably high base in the Western Balkans, with the average indicator value increasing from 3.4 in 2017 to 3.6 in 2021.

Serbia had the highest average value of 4.5 in 2021, indicating good progress since 2017 when the average was 3.5. The averages of the other administrations have not changed since 2017, with Albania, Kosovo and Montenegro having an average indicator value of 3.5 and North Macedonia an average of 3.0.

Figure 12. Modest regional progress in the external audit area since 2017, with only Serbia showing significant change

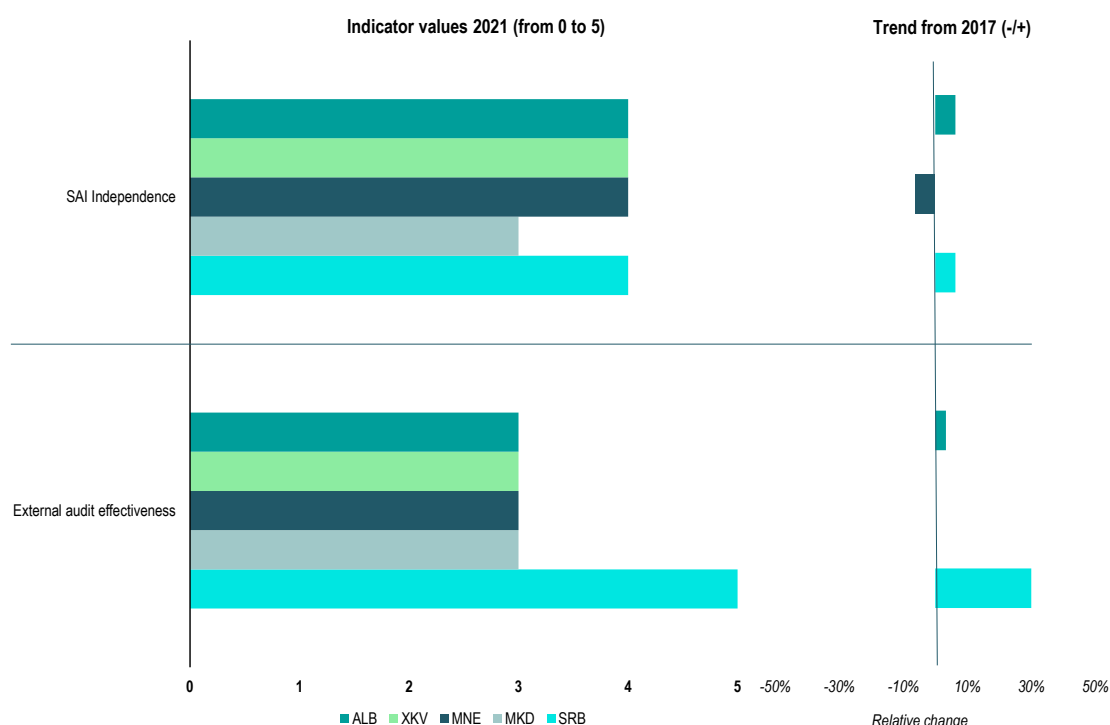


Note: Progress for the region is shown for all administrations except Bosnia and Herzegovina (WB5). SIGMA changed the method of calculating country-level indicator values for Bosnia and Herzegovina in 2021, making direct comparison with 2017 unreliable.

The two indicators for external audit cover the independence of SAIs and the effectiveness of external audit, focusing on its implementation of international standards and impact.

“Independence of the supreme audit institution” has an average value of 3.8, consistent with 2017, generally reflecting that it is well-established across the region. “The effectiveness of external audit” has seen some improvement compared to 2017, with the regional average increasing to 3.4 in 2021 from 3.0 in 2017 (Figure 13). This mainly reflects improvements in the quality assurance arrangements and the use of the SAI’s reports by the legislature in Serbia.

Figure 13. The independence of supreme audit institutions has not changed since 2017. The effectiveness of external audit has seen little change apart from in Serbia, which has significantly improved



The independence of the supreme audit institutions is well-established in legislation, although the public's perception of their independence is low

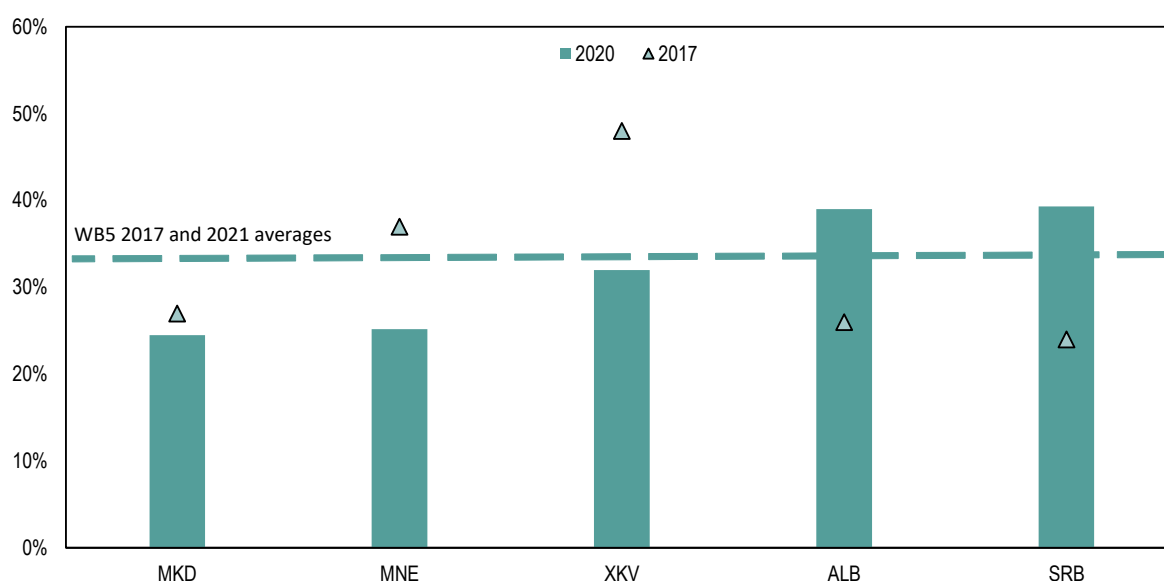
There have been no significant changes to the constitutional or legal frameworks governing the work of the SAIs since 2017. Generally the laws governing the SAIs are well-developed and closely aligned with international standards, providing for their organisational, functional and financial independence, and are normally respected in practice. They also provide the SAIs with sufficiently broad mandates to carry out financial, compliance and performance audits across the public sector.

In a number of instances, however, there is no explicit protection from a supreme court against any interference with the SAI's independence and audit mandate, and in North Macedonia, the SAI is not part of the constitutional framework, compromising the protection of its independence and the importance of public external audit.

While the appointment of the heads of the SAIs is regulated across the region, the appointments of the Chairman in Albania and the Auditor General in North Macedonia by their respective parliaments were very protracted, leading to delays of over 18 months in the appointments following the expiry of the previous incumbents' mandates.

Across the region, the public perception of the SAIs' independence is generally low, with only 32% agreeing that SAIs are independent as indicated in Figure 14. Perceptions of SAI independence normally correlate with views on trust more broadly, and trust in the SAI to some extent is affected by broader trends, as reflected in the Accountability regional summary. The regional average remains unchanged since 2017; perceived independence has improved in Albania and Serbia but deteriorated in Kosovo and North Macedonia.

Figure 14. The public perception of supreme audit institution independence in 2017 and 2021



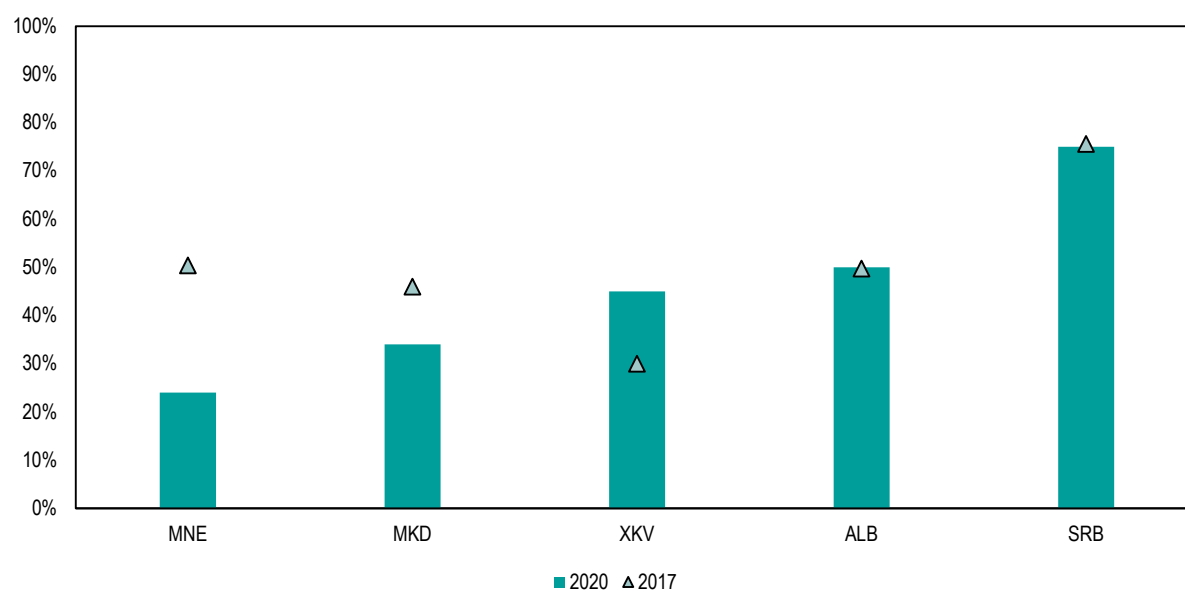
Source: Regional Cooperation Council (RCC) (2021), Balkan Barometer Public Opinion database (<https://www.rcc.int/balkanbarometer/>).

External audit is generally conducted in line with international standards, but more effective use of SAI reports by the parliaments and better implementation of their recommendations would increase the impact

All the SAIs implement their mandates adequately overall, and they have generally developed audit methodologies and quality assurance procedures in line with the Internal Standards of Supreme Audit Institutions. However, there are instances where they need further development or where more work is required to embed them in working practices. For example, quality control and assurance arrangements require further development in Kosovo and Montenegro.

Generally, arrangements are established with the parliaments to use the reports of SAIs in order to scrutinise the Executive and follow up on the implementation of recommendations. However, in practice the actual engagement of the parliaments in the work of the SAIs during the monitoring period was not consistent. While Serbia showed significant improvement, there was limited engagement in Albania, Montenegro and North Macedonia, reducing the overall effectiveness of the external audit system. Additionally, while there has been a marginal improvement the implementation of the SAIs' recommendations since 2017, the implementation rates across the region are still generally low except in Serbia.

Figure 15. The implementation rate of supreme audit institution recommendations in 2017 and 2021



The way forward

- SAIs should continue to strengthen their engagement with parliaments and other external stakeholders, in order to promote the implementation of their recommendations and increase their impact.

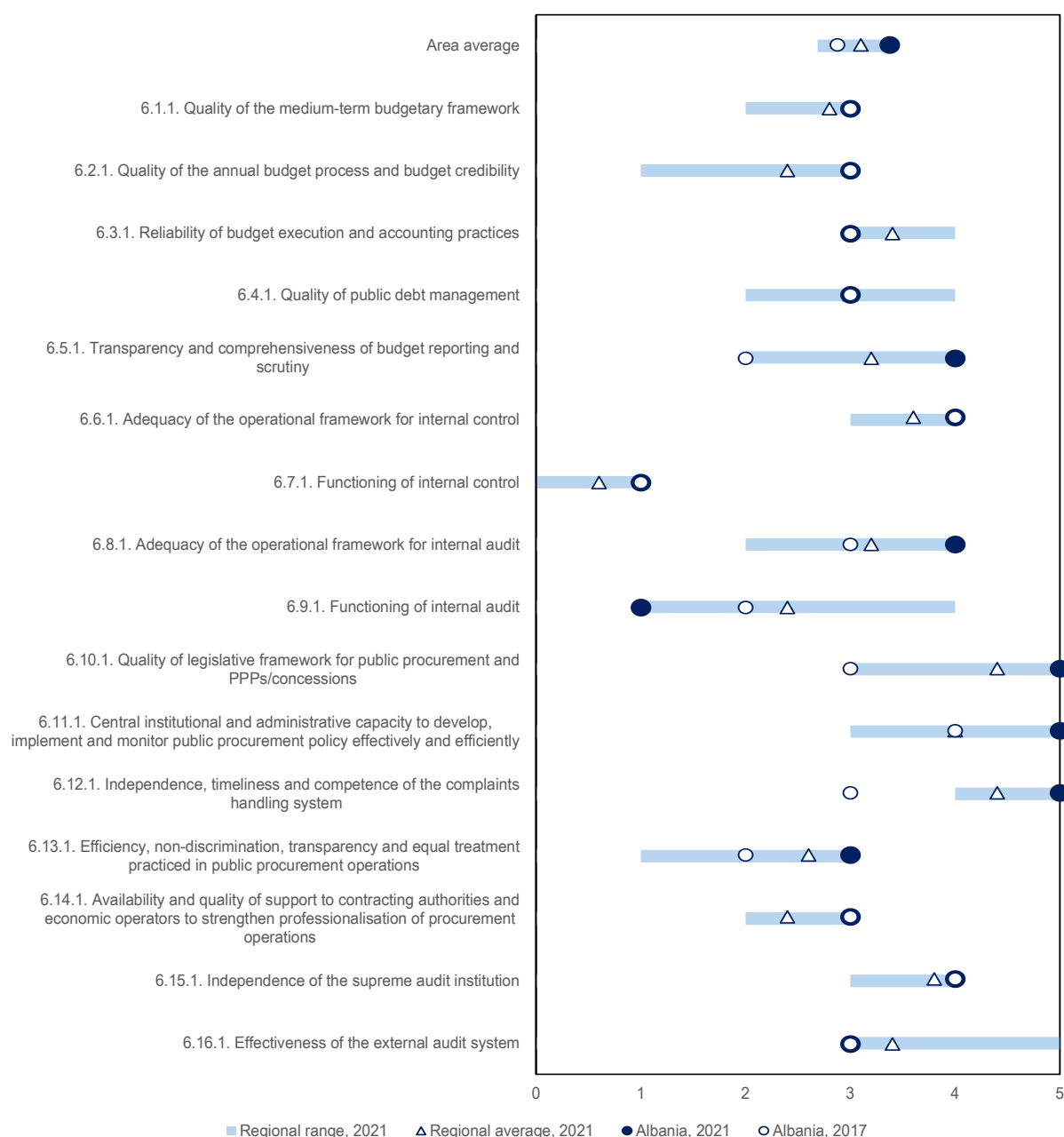
Albania

Albania

Summary and recommendations

The overall trajectory for Albania in public financial management (PFM) is upwards, from 2.8 in 2017 to 3.3 in 2021, and is now above the regional average of 3.1. Compared to the regional average, performance is similar or stronger in each indicator in the PFM domain, except for the functioning of internal audit (IA). Most pronounced is the strong performance in the domains of public procurement and the foundations for the functioning of financial management and control (FMC), IA and external audit (EA).

Albania's performance is strong in many PFM indicators, and its national average exceeds the regional average



In the domain of budget preparation, **the quality of the Medium-Term Budget Programme (MTBP) has been improved**, with additional relevant content to inform decisions. The budget calendar is orderly and adhered to, and the **budget proposal that is submitted to Parliament is comprehensive and reasonably transparent**.

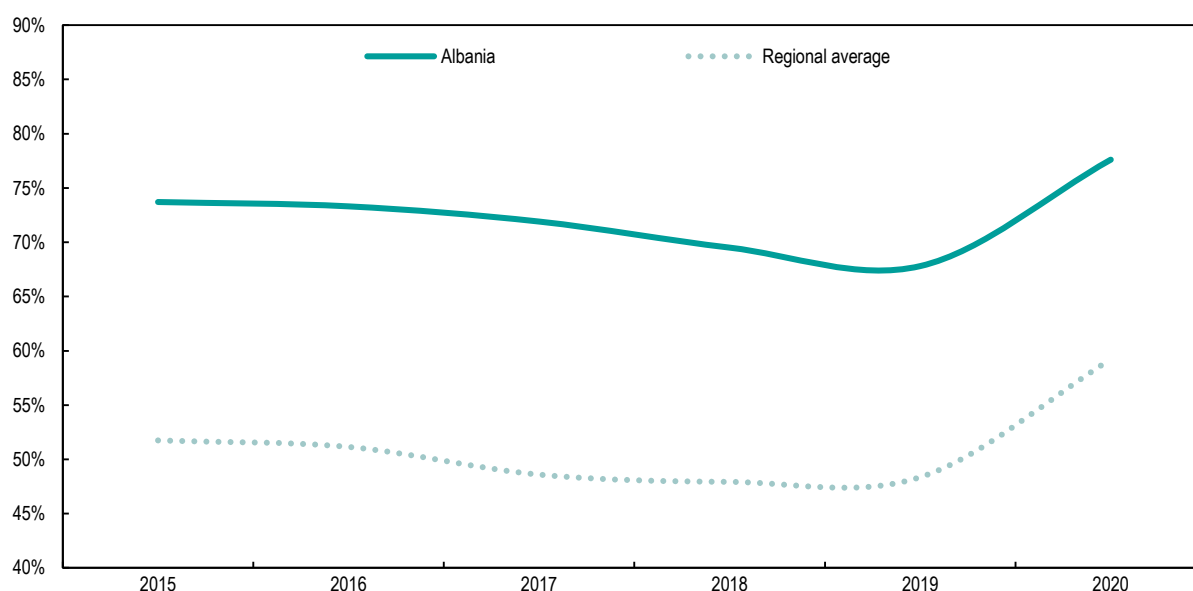
However, the credibility of revenue estimates in the MTBP remains weak. The average deviation between estimates and outturns for revenues was 14.5%. This signals challenges for the Albanian authorities in estimating the revenues more realistically or collecting the revenues effectively. Both are not helped by the complex and fragmented tax system and frequent *ad hoc* changes.

For expenditures, the MTBP could be more supportive of the operations of line ministries, with stable sector ceilings on a medium-term basis. The substantial deviations among the main spending ministries between the MTBP and the annual budget expenditure ceiling add uncertainty and instability to the budget process, and as a consequence, the delivery of public services.

A fiscal council could help to insist on rigor in the budgeting process, but Albania has not yet established one. Parliament does not take an active role in the process. Large capital investment decisions generally lack independent and transparent appraisal of the costs and benefits, which is likely to put further strain on the budgeting process in future years.

Notwithstanding the shortcomings in the budget preparation process, **the fiscal performance in Albania has been stable. From 2015 to 2019, public debt was on a downward trend.** As a result of the economic contraction caused by the pandemic, it increased to 76% in 2020. Sound fiscal policy is needed to re-establish the situation that prevailed before the pandemic. The weaknesses in monitoring the fiscal risks from the borrowing and debt of state-owned enterprises (SOEs) is a concern in this respect. There was no progress on SOE debt reporting, which appears *ad hoc* and lacking a systematic approach. The same applies for the monitoring of local government debt, although the urgency is still low, given that local government debt is not high.

Development of general government gross debt in Albania, 2015-2020



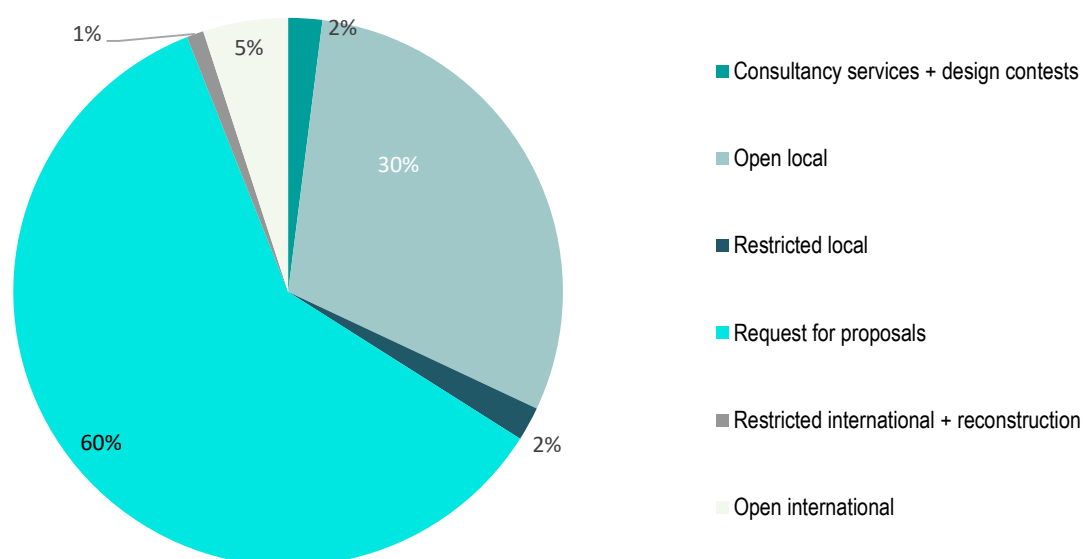
Source: IMF (2021), World Economic Outlook Database.

Otherwise, the Albanian authorities have **established a fairly complete legal and operational framework for internal control (IC) and internal audit (IA)** by introducing further improvements, such as the guidance on delegation and external quality assurance for IA. This progress has been supported by the Public Administration Reform (PAR) Strategy 2015-2020 and the Public Financial Management (PFM) Strategy 2019-2022. In 2020, another element to enhance IC and IA, the Public Internal Financial Control (PIFC) Strategy 2021-2022, was added.

As observed in the previous monitoring report, **the implementation of IC and IA at the institutional level still lags behind the progress made in the overall legislative framework.** Although more use is being made of delegation within organisations and risk management, there are still outstanding concerns in a number of areas, including the management of arrears, the procedures to address potential irregularities and the arrangements for managerial accountability between ministries and subordinated bodies. For IA, the gains of the external quality assurance will need to be reaped in the years to come. However, the downward trend in the proportion of systematised IA posts filled and the proportion of IA staff who hold a certificate are not conducive to a higher quality of IA. Meanwhile, improvement in IA quality is required, since SIGMA's analysis of the operations of a sample of IA shows that they have not clearly demonstrated that IA can improve the functioning of the public entities that they serve.

A national strategy dedicated specifically to public procurement was adopted by the Government on 4 November 2020. The strategy envisages a comprehensive set of activities in the field of public contracts, concessions and public-private partnerships (PPPs) for both the legal and institutional framework to be undertaken in 2020-2023. On 23 December 2020, the Parliament adopted a new Public Procurement Law (PPL). Its purpose was to align provisions in the field of public procurement with the European Union (EU) *acquis*. **The new PPL contains provisions to a very great extent harmonised with the EU Public Procurement Directive and Utilities Procurement Directive. A few cases remain, however, of provisions that are not fully compliant with the *acquis* or in direct conflict with it.** Concessions and PPPs continue to be regulated by the Concessions and Public-Private Partnerships Law (CPPPL) No. 125/2013, which, in many important respects, was modelled on EU Directive 2014/23/EU. The CPPPL was last amended in July 2019. Although the CPPPL incorporates **most of the requirements of the recent Concessions Directive, harmonisation is not complete.** On 26 November 2019, north-western Albania was struck by a 6.4-magnitude earthquake, which caused numerous casualties and considerable damage. In the aftermath, in December 2019, in order to facilitate the reconstruction process in affected areas, the Government adopted Normative Act No. 9, "On Addressing the Consequences of Natural Disasters". The Normative Act contains specific provisions used in procurement procedures for reconstruction. They are based on the principle of transparency and competitiveness but set relatively short time periods for submission of tenders and very short time periods for submission of appeals. **The Defence and Security Procurement Directive 2009/81/EC was fully implemented by Law No. 36/2020 on Public Procurement in the Field of Defence and Security of 16 April 2020.** Relevant implementing provisions were adopted in December 2020, and standard bidding documents were published in April 2021. The Government also introduced a series of measures and legislative changes related to public procurement contracts awarded as a result of the COVID-19 pandemic. **In the field of review and remedies, the number of appeals fell by comparison with previous years. The performance of the Public Procurement Commission (PPC), has significantly improved,** expressed in median duration of review procedures and number of review procedures in which the statutory time period for review was exceeded. A new PPC website was put into operation in April 2021. The PPC also successfully introduced a new e-appeals system which should be completed by November 2021.

Distribution of procurement methods in 2020



Source: PPA Annual Report for 2020.

As for **the functioning of the State Supreme Audit Institution (SSAI) as an external oversight body on the functioning of the PFM system, no significant changes to the constitutional and legal framework** have been implemented since 2017. The framework is still closely aligned with international standards and continues to be applied and respected in practice. The SSAI has updated all its audit methodologies and quality assurance procedures, in full conformity with international standards. Much work remains to be done, however, to embed these methodologies in working practice and to improve audit quality. While resources are being switched to financial and performance audit, the bulk of the work remains focused on compliance audit. **The absence of sustained and structured engagement by Parliament to support the work of the SSAI is a significant limitation** on the overall effectiveness of the external audit system. While public awareness of the independence of the supreme audit institute (SAI) and its operations has greatly increased since 2017 (from 26% to 39%), the SSAI's audit reports are still not widely used, as they should be, in parliamentary debates.

Short-term recommendations (1-2 years)

- 1) The Ministry of Finance and Economy (MoFE) should improve the MTBP by including a general government fiscal outlook and establish a Fiscal Council mandated to review the MTBP.
- 2) The MoFE should strengthen the monitoring and reporting of SOE debt and borrowing and develop policy proposals to limit the fiscal risks linked to SOE loans. The dedicated unit for monitoring fiscal risks within the Directorate of Budget Management in the MoFE should be given the proper mandate and resources to carry out this task.
- 3) The MoFE should make further efforts to reduce the stock of arrears in expenditures. It should use the observations of the SSAI to analyse the reasons behind the current incompleteness of the records.
- 4) The MoFE should eliminate the outstanding bank accounts that are not in control of the MoFE/Treasury and ensure that all bank accounts are part of the Treasury Single Account (TSA).
- 5) The Council of Ministers (CoM) should complete the harmonisation of public procurement legislation by removing the remaining inconsistencies in the PPL and CPPPL and revising the system of financial thresholds (particularly the high ones), adjusting high financial thresholds to the EU threshold levels.
- 6) The Public Procurement Agency (PPA) should review the provisions on procedures for small value procurement and remove unnecessary burdens.

- 7) The CoM should revise provisions on appeal fees in public contracts and PPP/concessions, to avoid any risk of abuse by economic operators submitting frivolous complaints, on the one hand, and also so that they do not constitute a barrier to access of infringed bidders.
- 8) The PPC should improve the content of its new website by providing information on the requirements applied in review procedures in public procurement that could be important for appealing or potentially appealing parties, to finalise the implementation of the e-appeal system.
- 9) The PPA should finalise enforcement of the new PPL by producing comprehensive and updated public procurement manuals, covering not just the use of the electronic public procurement system but all procedures and all stages of the procurement process. Article-by-article commentary for the PPL and for the Directive of the Council of Ministers (DCM) would also be a useful tool.
- 10) ATRAKO should improve its website, in particular the information about provisions concerning concessions and PPP, starting with an update of the relevant legal provisions. ATRAKO should also develop manuals and other material supporting application of the CPPPL taking into account modified provisions in the field of public procurement.
- 11) The SSAI should build on its Memorandum of Understanding of 2017 with the MoFE on following up the implementation of audit recommendations and enhance engagement with Parliament to explain the benefits of its work.
- 12) The Parliament should consider the draft amendments to the SSAI Law to clarify the full extent of the SSAI's mandate, to avoid disputes between the SSAI and any legal entity on the mandate of the SSAI.

Medium-term recommendations (3-5 years)

- 13) As institutions strengthen their internal control processes and demonstrate effective management of their resources, the MoFE should move away from centralised control to a more decentralised management of resources. This should be reflected in a reduction of the number of first-level budget organisations to ministries and constitutional bodies. This would at the same time increase the role of sector ministries in the budget cycle and increase their responsibility for the sectors under their charge.
- 14) The medium-term budget should be further developed as a strategic document which requires that the indicative sectoral or ministry ceilings in the next two years must be respected.
- 15) The MoFE should consider organising IA at the sectoral level by sector ministries. This would ensure that the IA are familiar with the sectors in which they work, while building sufficient capacity in the IA units to organise quality control and cater to specialist technical areas such as information technology (IT), performance audit and the audit of major capital projects.
- 16) Parliament should take a more active role in the budget cycle, especially regarding the MTBP and the audit reports of the SSAI.
- 17) Although the amount of local debt is still small, the MoFE should increase the room for manoeuvre, while at the same time including local debt in debt management strategy and strengthening the monitoring and audit arrangements of local government.
- 18) The CoM should revise and remove administrative burdens that are not required by EU law and do not bring added value by increasing the participation of foreign companies.
- 19) The PPA should reconsider its involvement in the mandatory exclusion of economic operators from participation in public procurement procedures and propose adjustments of law and practice to that effect to EU standards, as interpreted by the case law of the Court of Justice of the European Union (CJEU).
- 20) The MoFE should make further efforts to develop accounting standards consistent with international standards. However, rather than adopting full accrual basis International Public Sector Accounting Standards, it should consider a gradual approach and make decisions based on a comprehensive and realistic cost-benefit analysis of adopting new accounting standards

Bosnia and Herzegovina

Bosnia and Herzegovina

Summary and recommendations

Bosnia and Herzegovina (BiH) has a unique and complex public finance system. It comprises the State level, the two Entities (the Federation of Bosnia and Herzegovina [FBiH] and the Republika Srpska [RS]) and the Brčko District [BD]). In terms of funding, direct taxes are collected and distributed within the FBiH, the RS and the BD, while indirect taxes are determined at the State level and the revenue is then divided between the State level, the Entities and the BD. Given this structure, there is no single framework for public financial management (PFM). Rather, four different PFM systems exist, and there is no centralised domestic organisation that publishes centralised consolidated data on public finances.

The quality of the medium-term budgetary framework (MTBF) in BiH is impacted by its complexity, which has contributed to delays in, or the non-publication of, Budget Framework Papers at the State level and in the FBiH. This is compounded by limited parliamentary scrutiny.

There has been some limited improvement in the quality of the annual budget process and budget credibility, due to better alignment between the planned revenue and expenditure and the outturn. However, budgetary discipline and respect for the budgetary laws has been undermined, due to repeated failures to observe the budget calendar, extensive use of temporary financing measures and limited time for parliamentary scrutiny.

There is no consistent approach to fiscal rules. At State level and in the FBiH, there are no fiscal rules concerning both debt and deficit limits. However, in 2018 the RS established fiscal rules: the deficit is to be no more than 3% and the debt no more than 55% of GDP. While there was a temporary deviation from the rules in 2020 due to the emergency situation related to the Covid-19 pandemic, the National Assembly adopted a decision approving the temporary deviation from the fiscal rule of the consolidated budget deficit. The RS has also established a fiscal council. But at the State level and in the FBiH, independent authorities to support the rigor of the budgeting process (such as a fiscal council) have still not been established. Large capital investment decisions generally lack independent and transparent appraisal of the costs and benefits, which could put a strain on the budget in the future.

There has been limited progress in the reliability of budget execution and accounting practices and the quality of public debt management. Cash flow forecasting continues to be an area where improvements are required, and general government arrears is still an area where there is little clarity or information. **While the level of public debt to GDP is relatively low (35%), there is limited coverage of state-owned enterprises (SOEs) and FBiH local government debt and the risks that they pose.**

There has been **some progress in the transparency and comprehensiveness of budget reporting and scrutiny**, but there are still weaknesses in the quality of in-year and annual reporting. Parliamentary scrutiny of in-year budget execution and annual financial statements continues to be limited.

The regulatory and operational framework for internal control at the State level and in the FBiH and the RS is largely in place, with strategies to guide its further development until at least 2025. However, the effective level of implementation of internal control (IC) systems and managerial accountability within the budget organisations and between ministries and their subordinate organisations is limited. The FBiH and the RS face greater implementation challenges due to the numbers of institutions required to implement IC systems and the lack of capacity to manage and monitor progress. For the BD, the framework itself is less developed, so institutional arrangements are only at a formative stage.

The regulatory and operational framework for internal audit (IA) is largely complete and broadly in line with the requirements of international standards. However, while the establishment of IA units in the State level, the FBiH and the RS institutions has improved, it is still far from complete, with a significant number not meeting the regulatory requirements or able to substantively comply with international standards. There has been **an improvement in the proportion of IA units implementing internal audit**

in line with the internal audit operational policies, with audits being planned, conducted and reported in line with international standards. But there are still some significant areas for improvement, and the impact of the work continues to be low. The BD is in the formative stages of establishing the operational framework for internal audit, and an IA unit has yet to be established.

The Public Procurement Law (PPL) has remained unchanged since 2014. The aim of the PPL is to ensure compliance with the principles of non-discrimination, competition, transparency and equal treatment. It reflects some of the key elements of the 2014 EU Public Procurement Directives. However, while the application of domestic preferences was supposed to be phased out on 1 June 2020, the Council of Ministers of BiH (CoM) decided to temporarily extend the application of preferential domestic treatment of 30% until 1 June 2021 in response to the COVID-19 pandemic. The application of domestic preferences is not in line with the fundamental principle of equal treatment and leads to discrimination against EU companies in BiH.

In February 2021, the CoM adopted the Proposal on the Law on Amendments to the Public Procurement Law and submitted it to the parliamentary procedure.

Implementation of the **Public Procurement Strategy**, which expired in 2020, has not been successful. No annual action plans have been adopted since 2017, and there have been no reports on implementation of the Strategy. Very few activities have been actually put into practice.

The institutional set-up remains the same.

Understaffing of the Public Procurement Agency (PPA) is a source of serious concern, given the volume, variety and importance of the functions the PPA is called upon to undertake. This is particularly the case for the PPA's monitoring function and advisory and operations support. The PPA has been inactive in preparation of manuals, guidelines and other accompanying materials for professional development. It is regarded as very responsive and co-operative, but the lack of consistency in interpretation of procurement legislation between key institutions, in particular between the PPA and the Procurement Review Body (PRB), is consistently noted as a problem by stakeholders.

The PRB, with headquarters in Sarajevo and branch offices in Mostar and Banja Luka, acts as an independent and autonomous institution responsible for the review of appeals. In 2020, the PRB upgraded its internal information system. This was supposed to enable the three offices to co-ordinate their operations and ensure consistent decision-making and legal certainty, but the inconsistency of its decisions is the most frequently criticised aspect of the work of the PRB. The rising trend in the number of appeals submitted to the PRB demonstrates the need to strengthen its capacity. Almost 10% of the PRB's decisions were challenged before the Court of Bosnia and Herzegovina in 2020, but the length of administrative disputes is excessive, from one to three years. Poor transparency in the PRB's decision-making remains an unresolved issue. Not all PRB decisions are published on the Public Procurement Portal.

There is a continued positive trend in the PPA's management and development of the centralised electronic Public Procurement Portal, which is a very strong element of the system. However, full e-communication including e-submission of tenders and requests to participate has not yet been introduced.

Stakeholders report that implementation of the PPL is very formalistic and fails to achieve some of its main objectives. For example, the PPL introduced mandatory self-declaration of economic operators to replace documentary evidence as the condition for participation in procurement procedures, but this in effect imposes greater burden and costs to participants.

Short-term recommendations (1-2 years)

- 1) The CoM of BiH and the Entity Governments should recommit themselves to observing the budget calendar as set out in the respective budget laws, as the delays in finalising and adopting the annual budgets undermine the budgetary system.
- 2) The ministries of finance (MoFs) should draft proposals to amend the organic budget laws to require that the Budget Framework Papers (BFPs) be sent to the parliaments for approval prior to the annual budget being adopted and allow more time for parliamentary consideration of the annual budget.
- 3) The MoFs of the FBiH and the RS, and the Finance Directorate (FD) of the BD should propose legislative changes to their respective governments to bring all extra-budgetary funds (EBFs) and all proposed capital expenditure fully into the budget process.
- 4) The MoFs of the FBiH and the RS should publish a monthly forecast of budget execution at the beginning of the year and monthly budget execution reports throughout the year and should improve cash-flow forecasting by performing monthly updates.
- 5) The MoFs of the FBiH and the RS should develop a system for establishing the level of arrears at all levels of government and in SOEs, publish comprehensive quarterly reports on arrears and include a section on arrears in the annual financial statements.
- 6) The MoFs of the FBiH and the RS should expand their debt strategies to include greater analysis of the debt risk posed by SOEs and for FBiH local government.
- 7) The Central Harmonisation Units (CHUs) of the State level and all the Entities should be helped to develop the skills necessary to move to the next stage of IC development so they can provide more practical help to institutions, such as advising on appropriate levels of control that balance cost and complexity with risk or the necessary monitoring and feedback mechanisms for different levels of delegation.
- 8) The CHUs should finalise and implement arrangements for external quality assessment of the work of IA units, in accordance with the requirements of the International Professional Practice Framework for Internal Auditing (IPPF)⁹. The FBiH CHU should finalise plans for a programme of continuing professional development for internal auditors and implement it.
- 9) The BD should establish an operational framework for IA, with the CHU developing the guidance needed, including a manual, standards, code of ethics and charter. It should consider co-operating with the IA units and CHUs of the State level and the Entities to learn from their experience.
- 10) The CHU Co-ordination Board should look again for ways to reduce the numbers of single-person IA units, exploring the scope for more combined units to provide a critical mass of staff to enable effective internal quality control and allow for career progression. The CHUs should also encourage institutions to reconsider the levels of IA staffing required to meet their audit obligations and to recruit staff to fill IA vacancies to enhance the effectiveness of IA.
- 11) To improve implementation rates, the CHUs should develop further guidance for IA units on the development and wording of recommendations and their follow up.
- 12) The PPA in co-operation with the competent authorities should prepare and adopt the new Public Procurement Strategy and the Action Plan for implementation of the Strategy. The strategic documents should include objectives, indicators, targets, responsible institutions and the source of financing.
- 13) The PPA should undertake the process of alignment of the legislation with the 2014 Directives. Secondary legislation and other implementing instruments that supplement and detail the provisions of the primary law should be updated in a timely manner and aligned with the primary law.
- 14) While acknowledging the need for institutional independence, the PPA and the PRB should establish formal or informal mechanisms to co-ordinate interpretation of procurement legislation between key institutions on a regular basis.
- 15) The CoM should strengthen the staff and technical capacity of the PPA and the PRB to enable them to fully carry out their tasks under the Public Procurement Law.

⁹ IPPF developed by the Institute of Internal Auditors and updated in 2017.

- 16) The PRB, in conjunction with the PPA as necessary, should create a free text-search facility to allow stakeholders to browse both current and archived PRB decisions by subject matter, keyword or legal provision, and should also publish all decisions and conclusions without delay on the Public Procurement Portal.

Medium-term recommendations (3-5 years)

- 17) The Council of Ministers at the State level and the FBiH Government should introduce fiscal rules on debt and deficit limits and establish an independent fiscal monitoring body.
- 18) The Ministry of Finance and Treasury (MoFT) at the State level, the MoFs in the FBiH and the RS, and the BD FD should ensure that coding within budget structures enables alignment with management structures to facilitate delegation of budgets and that Treasury financial management information systems can provide information at the level of delegated budget holders to support monitoring and accountability.
- 19) The MoFT at the State level, the MoFs in the FBiH and the RS, and the BD FD should consider moving from centralised control to a more decentralised management of resources as institutions strengthen their IC processes and demonstrate effective management of their resources.
- 20) The CHU Co-ordination Board should consider ways of enhancing IA capability in more specialised technical areas, such as IT Audit, performance audit and audit of major capital projects.
- 21) The PPA should proactively promote the use of award criteria other than acquisition price. It should also develop, publish and disseminate tools for implementing public procurement provisions such as manuals, guidelines and instructions on subjects including preliminary market analysis, procurement planning and contract management. It should furthermore move quickly to post solutions to the most common practical problems on its website.
- 22) The PPA and other competent authorities should implement full e-communication in public procurement, including e-submission of tenders and requests to participate.
- 23) The PPA and other competent authorities should further encourage of introduction of centralised public procurement at various levels, where appropriate.

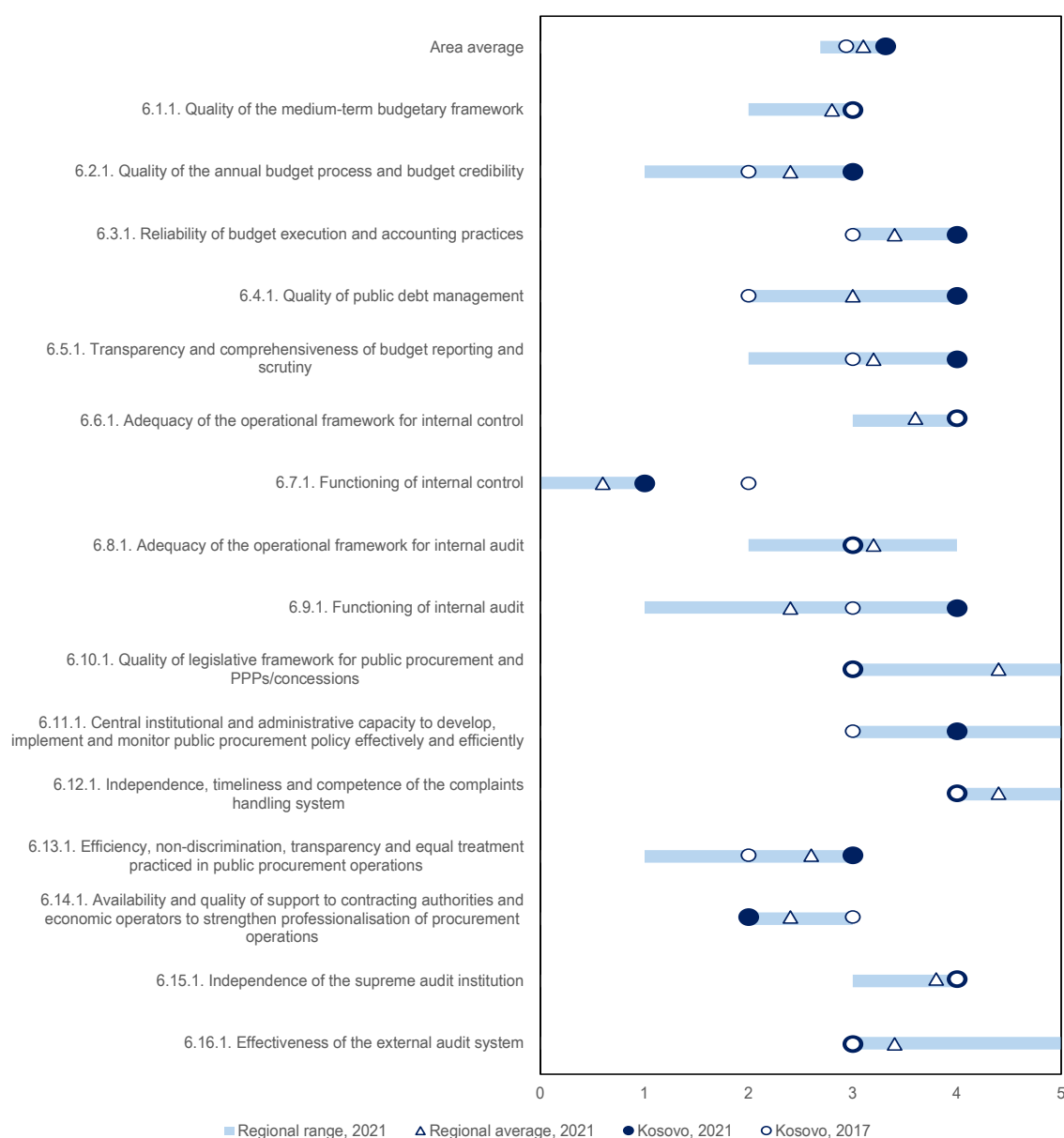
Kosovo

Kosovo

Summary and recommendations

The overall trajectory for Kosovo in the public financial management (PFM) area is upwards. Kosovo's area average of 3.3 is one of the highest compared to its neighbours in the region and has increased from 2.9 in 2017. The relatively stronger performance compared to the region and 2017 applies to a number of indicators across the PFM area, in particular those related to public expenditure management. The indicators for public internal financial control (PIFC) show a more mixed picture, with the functioning of internal control remaining an area of weakness. The external audit indicators are broadly consistent with the regional average and 2017.

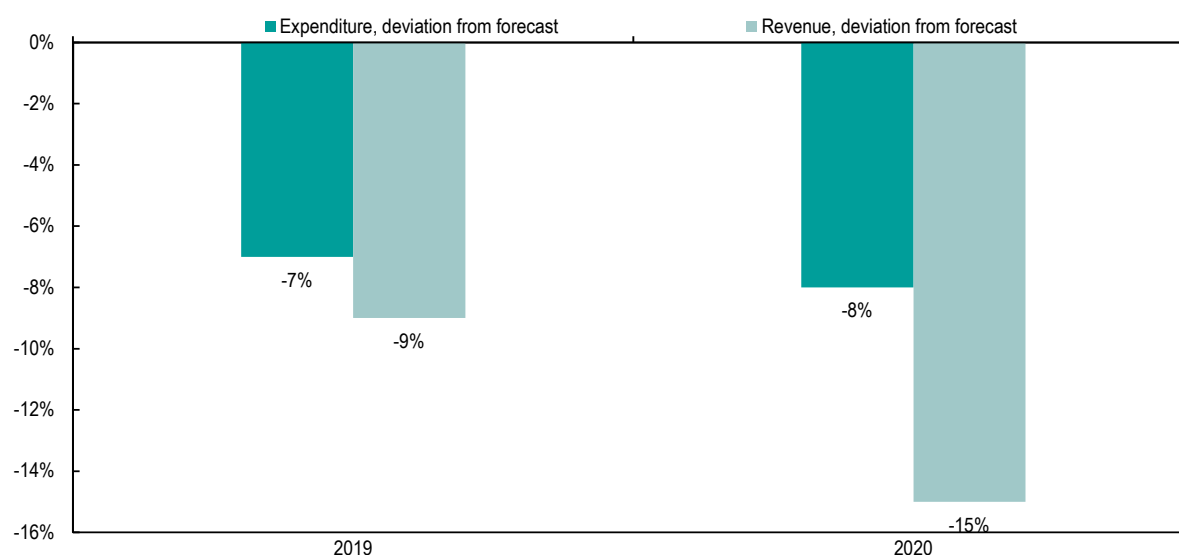
The area average is the highest in the region and higher than in 2017 because of improvements in public expenditure management



The quality of the medium-term budgetary framework¹⁰ has been strengthened with additional content that is relevant for informing decisions. The budget calendar is reasonable and adhered to, and **the quality of the annual budget process and budget credibility has improved**, reflecting an improvement in operational alignment between the medium-term expenditure framework (MTEF) and the annual budget process and greater transparency of the budget proposal before its adoption by the Assembly. However, some gaps do remain in the information provided, including non-financial performance information, and the ability to make amendments to the approved budget appropriations by up to 25% without parliamentary oversight is a concern.

The credibility of the medium-term revenue and expenditure plans needs to be strengthened. At an aggregate level, there were significant deviations in 2020 between actual outturns and forecasts for both revenue (15.3%) and expenditure (7.7%), although these were affected by the COVID-19 pandemic. However, there were also significant deviations in 2019 between the revenue and expenditure outturns and forecasts, with deviations of 8.7% and 7.2%. This signals challenges for the Kosovo authorities to estimate the revenues more realistically or to collect the revenues effectively.

Difference between medium-term budgetary forecasts and outturn, 2019 and 2020



Note: Figures are for central government.

Source: Planned figures are from the relevant MTEFs (e.g. for 2019, the MTEF 2018-2020). Outturn data is from the Annual Financial Statement of Budget Execution.

The Government has established clear quantitative fiscal rules and has not violated them within the last two fiscal years, although an independent authority to support the rigour of the budgeting process, such as a fiscal council, has not been established. Large capital investment decisions generally lack independent and transparent appraisal of the costs and benefits which could also put a strain on the budget in future years.

The **reliability of budget execution and accounting practices and the quality of public debt management have been strengthened** since the previous assessment in 2017, as a result of improvements in the credibility of cash flow planning and public debt management practices. While the level of public debt as a proportion of gross domestic product (GDP) has been on an upward trajectory since 2016 when it was 14.4%, it is still relatively low risk at only 21.8% of GDP.

There has been **progress in the transparency and comprehensiveness of budget reporting and scrutiny** with frequent and comprehensive in-year reporting and timely publication of annual financial

¹⁰ 'Medium-term expenditure framework' is the formal title used in Kosovo for the medium-term budgetary framework.

statements for central and local government, although there are some gaps in the information provided. However, there are weaknesses in the monitoring of fiscal risks and in the transparent reporting on the financial performance of state-owned enterprises that need to be addressed.

The **regulatory and operational framework for internal control** is largely established with appropriate strategies in place. However, **the effective implementation of internal control lags behind the development of the overall framework**. There is a reasonable level of delegation of decision-making authority within ministries. However, risk management and reporting on irregularities need further development, and basic accountability mechanisms between ministries and subordinated bodies are not operating effectively.

The **regulatory and operational framework for internal audit (IA) is largely complete, broadly in line with the requirements of international standards, and there has been progress in its application**. However, while the establishment of IA units has improved, not all are staffed in line with the legal requirements, and there are a number of single-person units. There has been an improvement in the proportion of IA units implementing IA in line with the IA operational policies, but there are still some significant areas for improvement, and the impact of the work continues to be limited.

No specific progress related to the legal framework for public procurement has been registered since 2016. The last change to the Law on Public Procurement (PPL)¹¹, the amendment adopted in December 2020¹², introduced 15% domestic preferential treatment until 31 December 2021, which drastically affected the principles of equal treatment and non-discrimination and was not in line with the commitments in the Stabilisation and Association Agreement (SAA). In general, the regulatory framework in public procurement and public-private partnerships (PPPs) and concessions¹³ reflects the fundamental EU Treaty principles of transparency, equal treatment and non-discrimination, but it needs modernisation and is not fully in line with the relevant 2014 EU Directives.

Activities on adoption of the new PPL and a new PPP Law have commenced in 2020, but the drafting process is moving slowly.

The current National Public Procurement Strategy 2017-2021 does not cover PPPs/concessions; neither does it cover other important aspects, such as green procurement, social procurement and innovations. There are no publicly available reports on the implementation of the Strategy, and the Action Plan has not been updated since 2019. In particular, there is a need to strengthen the administrative capacities of the Monitoring Department of the Public Procurement Regulatory Commission (PPRC), as well as the Central Procurement Agency (CPA). Significant concerns are caused by a long period of incomplete composition of the Procurement Review Body (PRB), followed by no functioning of the PRB board since March 2021. The lengthy periods with non-appointment of all the PRB board members has been affecting the effectiveness of the review procedures.

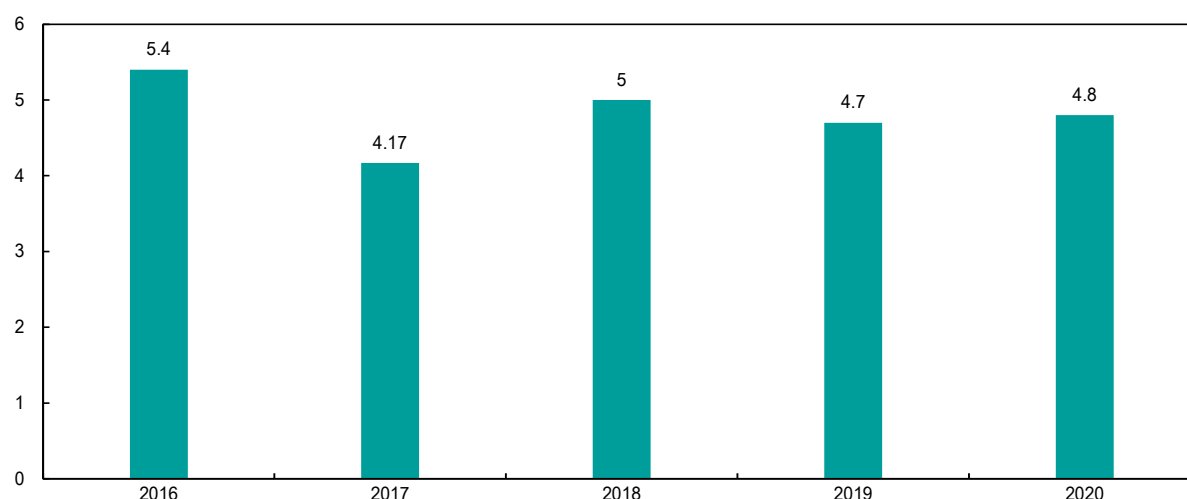
As regards the procurement operations, an advanced e-procurement platform has been implemented, covering all the stages of the procurement process. There are also newly introduced tools for improving contract management and performance evaluation on the platform. Procurement plans are not published, although they are accessible after registering on the platform. The main challenges are linked to poor planning and cost estimation, the issue of systematic artificial splitting of contracts and the excessive use of the lowest-price criterion.

¹¹ Law No. 04/L-042 on Public Procurement in Republic of Kosovo, Law No. 05/L-068 amending and supplementing Law No. 04/L-042 on Public Procurement, amended and supplemented with Law No. 04/L-237, Law No. 05/L-092 amending and supplementing Law No. 04/L-042 on Public Procurement, amended and supplemented with Law No. 04/L-237 and Law No. 05/L-068.

¹² Article 13 of the Law No. 07/L-016 on Economic Recovery – COVID-19, adopted December 2020.

¹³ Law No. 04/L-045 on Public Private Partnership of 2011.

The average number of participants in competitive procurement procedures remains fairly high



Source: Reports on public procurement activities in Kosovo for 2018, 2019 and 2020.

Training for and certification of procurement professionals continued to be delivered during 2020, despite the constraints of the COVID-19 pandemic. Relevant manuals and training materials have been published and some standard procurement documents have been updated, although there are some notable gaps due to a lack of practical examples.

There has been no significant change to the independence of the supreme audit institution (SAI) since the 2017 assessment. **The framework for the National Audit Office (NAO) is aligned to international standards and continues to be applied and respected in practice.** The July 2020 judgement of the Constitutional Court further emphasised its independence from the Executive. With respect to the effectiveness of the external audit system, the implementation of the International Standards of Supreme Audit Institutions (ISSAIs) is well progressed in the NAO, but there is still room for improvement, particularly in quality assurance arrangements. **The NAO's audit reports are used by the Assembly to scrutinise the Executive. However, the implementation rate of the recommendations remains low, limiting the impact of the NAO.**

Short-term recommendations (1-2 years)

- 1) The role of the Assembly in the evaluation and decision making of the MTEF should be strengthened to increase its importance in ensuring the predictability and stability of the public financial management system. This should be supported by the establishment of an independent authority, such as a fiscal council to review the MTEF and budget proposals before their approval by the Assembly, to increase the credibility of government fiscal projections and the sustainability of public finances in the medium term.
- 2) The Government's capacity to prepare budget revenue forecasts and manage cash flow forecasts should be improved to ensure the fulfilment of commitments made by budget organisations (BO) during the year and to avoid expenditure arrears. The MoF should also publish the stock and composition of expenditure arrears at least quarterly, to increase the Government's accountability for the fulfilment of commitments and timely payments.
- 3) The MoF should further develop annual financial reporting. This should include reporting on non-financial performance information and capital investment project expenditure variations to increase the Government's accountability for achieving planned goals and objectives, and the productive and efficient use of budget funds.
- 4) The Central Harmonisation Unit (CHU) should work with ministries to develop plans for implementing performance management systems for managing and monitoring subordinated bodies, which includes establishing objectives and measurable targets, monitoring of progress and reporting on performance.
- 5) The CHU should develop a plan that takes into account the capacity of the institutions and sets realistic deadlines for the full implementation of the risk management system in each central government body, to ensure that the risk management system works in practice.
- 6) The CHU should continue to look at ways of reducing the numbers of single-person IA units and explore the scope for more combined units to provide a critical mass of staff to enable internal quality control and allow for career progression. The CHU should also develop and implement a continuous professional development programme for internal auditors.
- 7) The CHU should develop mechanisms to enhance the accountability of the heads of budgetary institutions for the timely implementation of IA recommendations. The CHU should also develop further guidance for IA units on the development and wording of recommendations and their follow-up to improve implementation rates.
- 8) The Assembly should immediately abolish legal provisions on domestic preferential treatment.
- 9) The MoF/PPRC/Government should finalise the draft of the primary and secondary public procurement legislation and the Assembly should adopt the new PPL and PPP Law, in order to ensure harmonisation with the 2014 EU Directives.
- 10) The PPRC/Government should adopt a new strategic framework for the period after 2021, covering also PPPs and concessions.
- 11) The Government/the Assembly should immediately appoint the PRB board members. The new PPL should contain provisions preventing situations where the PRB is not functional or where the provisions of the PPL regarding the number of PRB board members cannot be respected.
- 12) The NAO should consider separating compliance audits from financial audit work in order to concentrate on implementing efficient, evidence-based financial audits and to carry out government-wide thematic compliance audits.
- 13) The NAO should approve and implement an ISSAI-compliant audit quality assurance system.

Medium-term recommendations (3-5 years)

- 14) The MoF should include targets for the sectoral policy objectives in the MTEF aligned to the Government's overall policy planning. The MoF should also develop the budget documents to include information on contingent liabilities and new policy initiatives, as well as information on the independent assessment, cost-benefit analysis and future operating costs of large investment projects.
- 15) The MoF should establish a system for the identification, monitoring and annual reporting of fiscal risks in the budget, to ensure the stability of the implementation of the annual budget and to reduce the risk of unplanned commitments.
- 16) The MoF should consider moving from centralised control to a more decentralised management of resources, as institutions strengthen their internal control processes and demonstrate effective management of their resources. This would increase the role of sector ministries in the budget cycle and strengthen their responsibility for the sectors for which they are mandated.
- 17) The CHU should establish formal procedures for IA quality assurance in line with the Institute of Internal Auditors standards, to ensure the quality of IA and that it operates in accordance with legal requirements.
- 18) The Government should strengthen the capacities of the PPRC, in particular its monitoring department and the CPA.
- 19) The PRB should review the PRB website and improve its accessibility and the search options for the review decisions, as well as the management and reporting system.
- 20) The PPRC and PRB should improve the current (formal) mechanisms for co-ordinating the interpretation of procurement legislation, while acknowledging the need for institutional independence.
- 21) The NAO should consider programming specific follow-up audits on recommendations in order to identify and address the root causes for the high rate of non-implementation, with a view to improving the implementation rate.

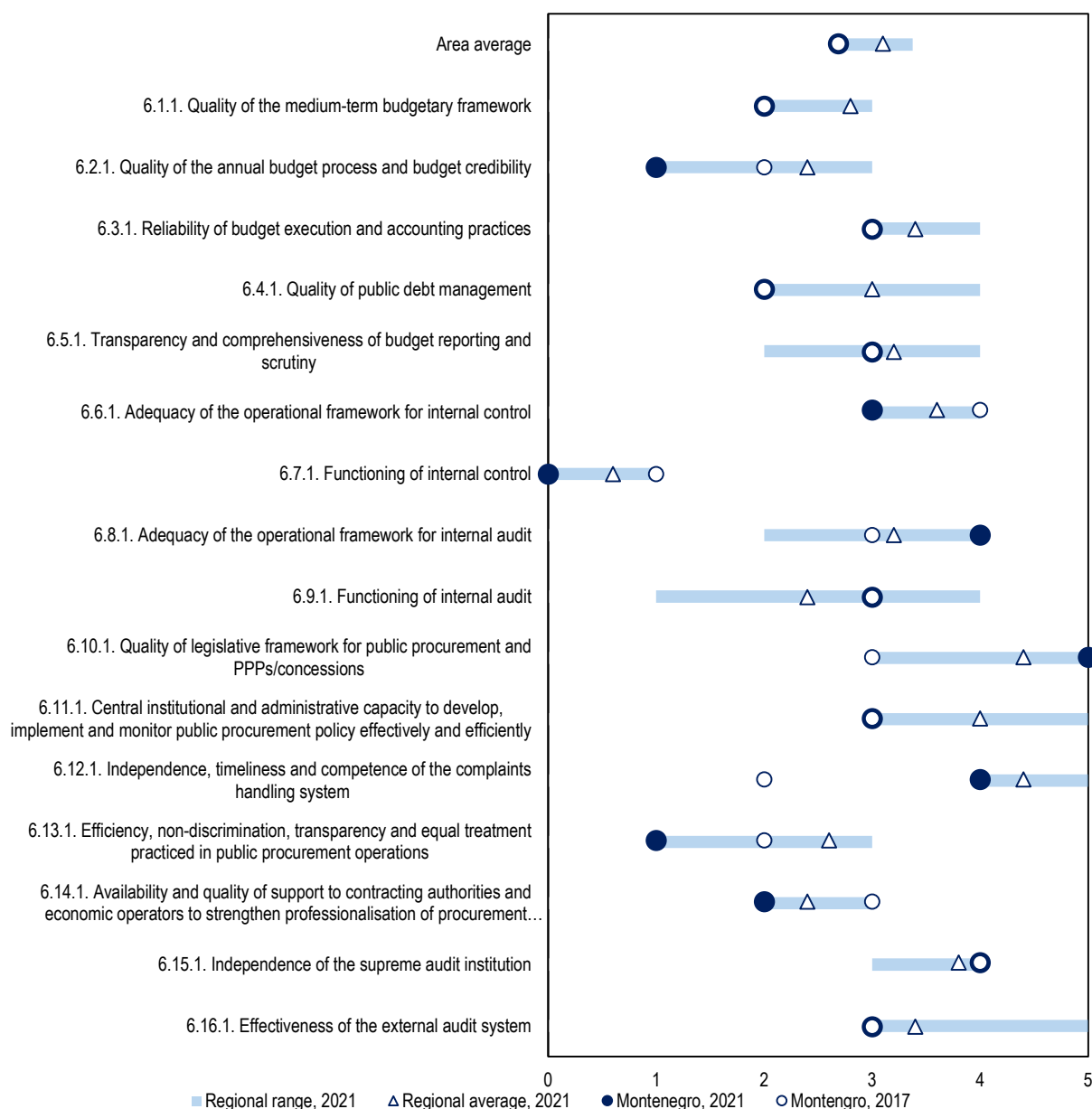
Montenegro

Montenegro

Summary and recommendations

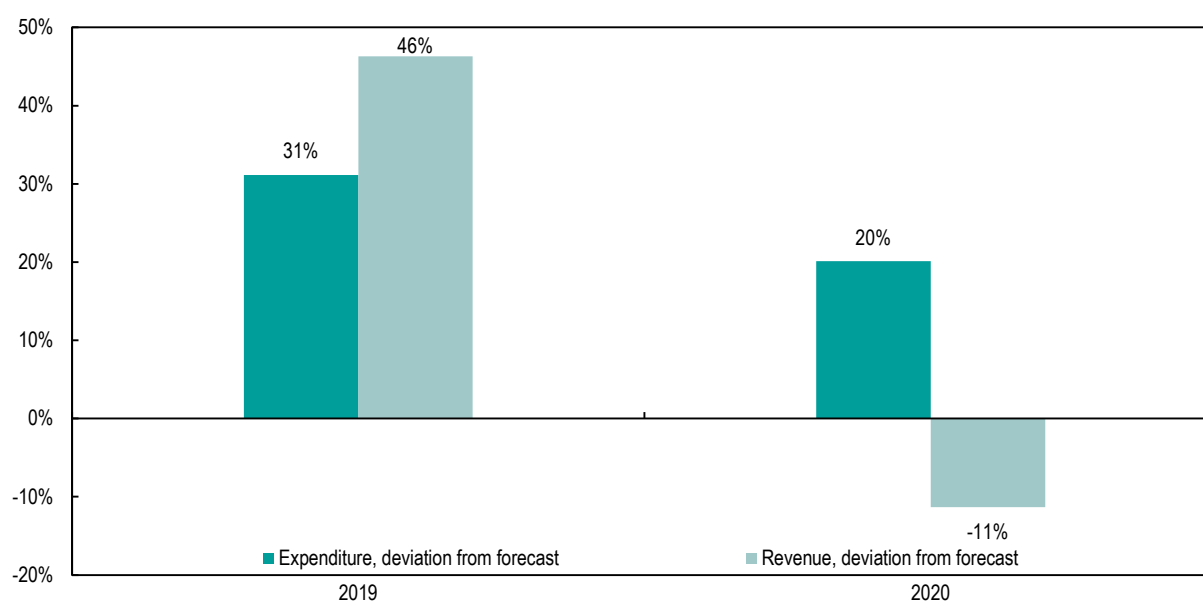
The overall situation for Montenegro in public financial management (PFM) remains the same as in 2017. Montenegro's area average of 2.7 is the lowest compared with its neighbours in the region, with weaker performance for most principles in the PFM domain. Only the principles related to internal (IA) audit and the independence of the State Audit Institution (SAI) are above the regional average, with a notable improvement in the operational and legislative framework for IA in comparison with 2017. The performance is weaker and has deteriorated since 2017 especially in the area of public internal financial control (PIFC) and in the quality and credibility of the budget.

The overall situation in public financial management is the same as in 2017. Montenegro's area average of 2.7 is the lowest compared with its neighbours in the region



Many elements of a strong medium-term budgetary framework have been established in law. However, the effective implementation of these elements is pending. The approach to medium-term budget planning is basically unchanged since 2017 and gaps remain, such as the lack of non-financial information and the limited input of first-level budget organisations to the Fiscal Policy Guidelines (FPG). The credibility of medium-term expenditure and revenue plans remains weak and has worsened since 2017, with an apparent bias towards underestimating medium-term forecasts.

The difference between medium term budgetary forecasts and outturn, 2019 and 2020, which shows the lack of credibility of medium-term expenditure and revenue plans that has had a strong impact in the overall values for the PFM area



There have been improvements in the budgetary framework, such as strengthened transparency through the introduction of programme budgeting in the 2021 budget and the inclusion of information related to capital expenditure, with individual capital projects included for the first time in the 2021 budget law. Programme budgeting would allow for a clearer link between spending and Government policies and strategies, and could facilitate the way to performance-based budgeting. However, the budget information is not yet comprehensively presented, as no information on contingent liabilities or on the elaboration of new and existing policy initiatives is presented.

The Government has established clear quantitative fiscal rules, but there is still no oversight of the budgeting process by an independent institution, such as a fiscal council. The SAI monitors the adherence to these rules only on an *ex post* basis. The reports for 2018 and 2019 show that the fiscal criteria were not adhered to in either year, and preliminary data indicates that they were not met in 2020.

The level of public debt rose from 76.5% of gross domestic product (GDP) in 2019 to 105.2% in 2020, which, in addition to the extent of foreign debt (87%), has increased the risks to the public finances. There are gaps in the reporting to the Ministry of Finance and Social Welfare (MoFSW) of relevant information that can affect the public deficit position; this is the case of the debt of state-owned enterprises (SOEs), which is not directly reported to MoFSW; data from local governments; and information on contingent liabilities. These gaps, too, can create increased risks.

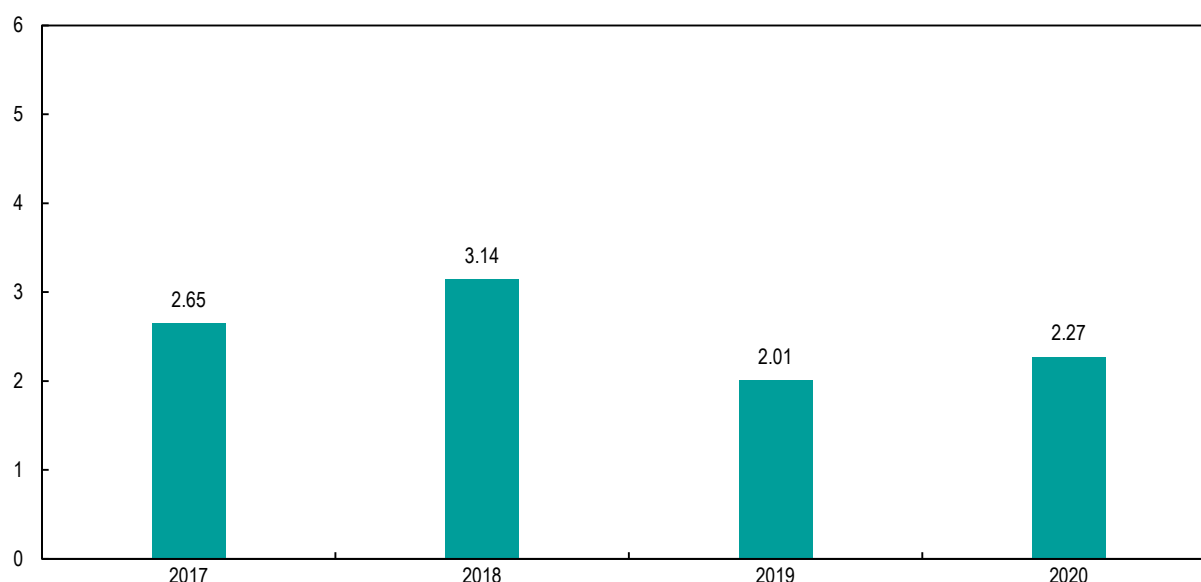
The area of **PIFC has a comprehensive legal basis**. The new PIFC Law is based on a thorough analysis of the situation in the public sector. During the reference period PIFC was guided by the PFM Reform Programme 2016-2020, while the new Programme is still under development; consequently, **there is no current plan to support the further development of internal control**. Furthermore, notwithstanding legislative initiatives and some improvements that the MoFSW introduced in the operational framework, **the implementation of internal control arrangements lags well behind the development of the legal**

framework, with the main weaknesses affecting managerial accountability, risk management and reporting of irregularities.

Positive developments took place with regard to further improvement of the legal and operational framework for IA. However, insufficient staffing of IA units limits the impact of the audit activity. Furthermore, the share of performance audits in the overall IA envelope is very low.

The new Public Procurement Law (PPL)¹⁴, adopted at the end of 2019, has been applicable since 9 July 2020. Almost all of the secondary legislation was adopted on time, though some parts were adopted after 9 July 2020. The new Law on Public-Private Partnership (PPPL)¹⁵ was also adopted at the end of 2019. **The current regulatory framework is largely aligned with the EU *acquis* on public procurement, including concessions and public-private partnerships (PPP). A few minor discrepancies remain, however.** The new PPL's provisions ensure the basic principles of equal treatment, non-discrimination, proportionality and transparency. Also, the use of modern procurement techniques and methods is regulated. Despite the positive impact of the new PPL provisions, there is a widespread perception that public procurement is a cumbersome process that limits contracting authorities' ability to use public funds effectively. The **overall competitiveness of the procedure remains low**, with only 2.3 bids submitted on average.

The average number of tenders submitted



The current institutional set-up, except for central purchasing, is comprehensive and meets the requirements of the *acquis* for public contracts and ensures that relevant functions are accordingly performed. However, the administrative capacity of contracting authorities and economic operators requires significant strengthening. Centralised procurement, as organised by the State Cadastre and Property Administration (“Property Administration”), remains largely dysfunctional and currently represents less than 2% of the total value of contracts.

The new e-procurement system encompasses all relevant functionalities, from the publication of procurement plans, tender documents, the public opening of tenders and tender submission up to the e-complaint system. The new e-procurement system has been used since 1 January 2021. Although both contracting authorities and economic operators are satisfied with its functionalities, the e-system needs improvements to increase its efficiency and to avoid adding more administrative tasks for users.

¹⁴ Official Gazette No. 074/19, 30 December 2019.

¹⁵ Official Gazette No. 073/19, 27 December 2019.

Due to the decreased number of complaints, the average duration of the appeal procedure in the State Commission has been reduced to 18 days. The accessibility of the Commission's decisions is still limited due to non-existent search functions on its website.

The SAI of Montenegro remains a solid performer in the area of external audit. Since 2017, the SAI has made efforts to improve its institutional and methodological framework, adapting it to International Auditing Standards of SAIs (ISSAI). The regulatory framework has been further developed and the independence of the SAI strengthened.

Nevertheless, both indicator values in this area are unchanged compared to 2017, as most outstanding weaknesses remain, mainly the insufficient audit coverage and the limited use of SAI reports by the Parliament to hold the Government accountable, thus limiting the impact of the SAI's audit work. The SAI has also made significant efforts to implement its Communication Strategy 2020-2024, yet citizens' trust in the Institution's work has decreased since 2017.

Short-term recommendations (1-2 years)

- 1) The Government should commit to observing the legal timetable and complying with the obligations established in the Budget and Fiscal Responsibility Law (BFR), particularly on the development of the new Fiscal Strategy and a new debt-management strategy.
- 2) The MoFSW should guarantee transparency in the presentation of the documentation provided in the budget process, accuracy of estimates, delivery of sectoral inputs by line ministries, comparability with Fiscal Guidelines, and comprehensiveness, ensuring that the full cost of capital projects and contingent liabilities are reflected.
- 3) The MoFSW should establish an independent Fiscal Council to assess and advise on short- and medium-term macroeconomic fiscal policy and assess compliance with fiscal rules on an *ex ante* basis, to provide an independent assessment of medium-term budgetary policy that should be considered by the Parliament.
- 4) The MoFSW should ensure that all relevant information affecting the public deficit and debt position, including risks and contingent liabilities, is reported to them, including from SOEs and local governments as required, as well as accurate and complete information on the overall level of general-government arrears.
- 5) The MoFSW should ensure, through close monitoring and reporting, that public entities put into practice arrangements for the delegation of authority, in combination with harmonisation of management and budget structures.
- 6) The MoFSW should improve the oversight and systems for monitoring public expenditure, particularly in relation to public investment projects, as well as the control of commitments to improve the monitoring of arrears.
- 7) The MoFSW should consider enhanced training activities in identifying and reporting on irregularities, and consider developing a guideline including, among other items, an inventory of potential irregularities characteristic of the public sector.
- 8) The MoF should improve the e-procurement system in order to increase its efficiency and to avoid adding administrative tasks for its users.
- 9) The Government should review the functioning of the State Cadastre and Property Administration as the central purchasing body and accordingly improve the system of central purchasing in all aspects, from planning to tender preparation and contract execution.
- 10) The Directorate for Public Procurement Policy (DPP) should prepare guidelines and manuals for both contracting authorities and economic operators covering all stages of the public procurement cycle, containing practical examples.
- 11) The Commission for Protection of Rights in Public Procurement Procedures (CPRPPP) should start using a case management system for processing appeals and improve its website to ensure that its decisions are searchable by date, participants of the procedure and case category.
- 12) The MoFSW and relevant public bodies should ensure appropriate staffing of IA units to increase the coverage of the audits.

13) The SAI should take action to increase the impact of its audit work by:

- expanding audit coverage and ensuring selection of audit topics with the highest impact on the functioning of the public sector.
- pursuing the regular submission of the SAI's individual audit reports to the legislature in the framework of the protocol signed by the SAI and the Parliament in 2018.
- improving the rate of implementation of recommendations through better monitoring and control.

14) The SAI should adopt an ISSAI-compliant performance audit manual to provide practical guidance to auditors, describing in detail how performance audits should be carried out, in application of the SAI's Instruction on performance auditing methodology.

15) The SAI should start performing regular audit quality assurance measures. Among other benefits, this would contribute to the development of a user-friendly performance audit manual.

Medium-term recommendations (3-5 years)

16) The MoFSW should adopt European System of Accounts (ESA) standards for the annual financial statements and quarterly reports, enhancing the annual financial report by including a statement of the up-to-date position on state assets and liabilities.

17) The MoFSW should issue additional guidance on performance auditing and develop IA capacity in this area, as well as undertake regular IA quality-assurance arrangements in accordance with international standards.



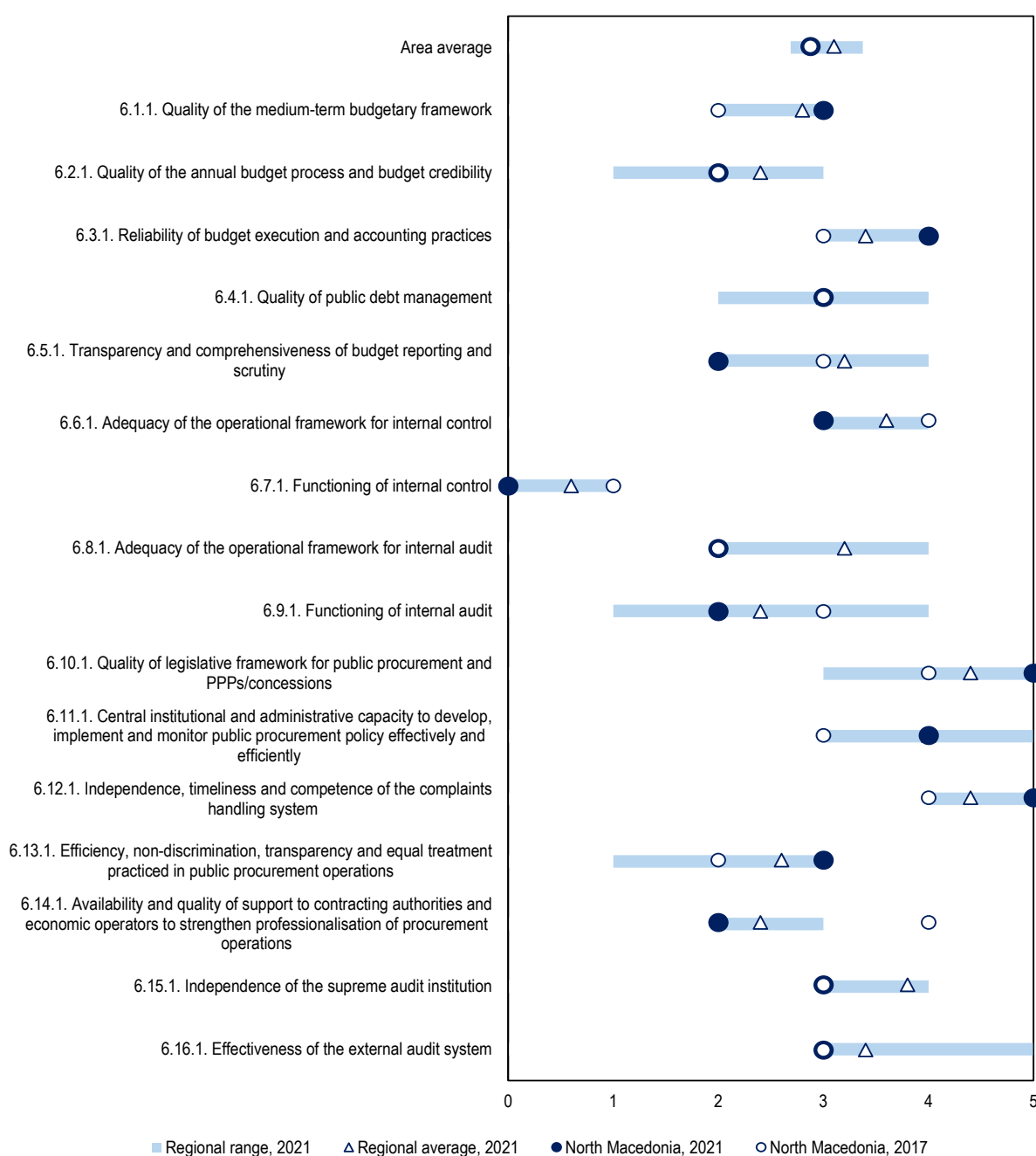
Republic of North Macedonia

Republic of North Macedonia

Summary and recommendations

The overall trajectory for North Macedonia in public finance management (PFM) moved slightly downwards, from 2.9 in 2017 to 2.8 in 2021, and is below the regional average of 3.1. The performance relative to other administrations in the region is weaker for most indicators in the PFM area. All indicator values in the public procurement area increased, except regarding support to contracting authorities. In the rest of the PFM area, only the medium-term budgetary framework (MTBF) and reliability of budget execution performs stronger due to adequate budget discipline and active monitoring of payment arrears.

The average indicator value remains below the regional average, but some gains were made in the areas of public procurement, MTBF and reliability of budget execution

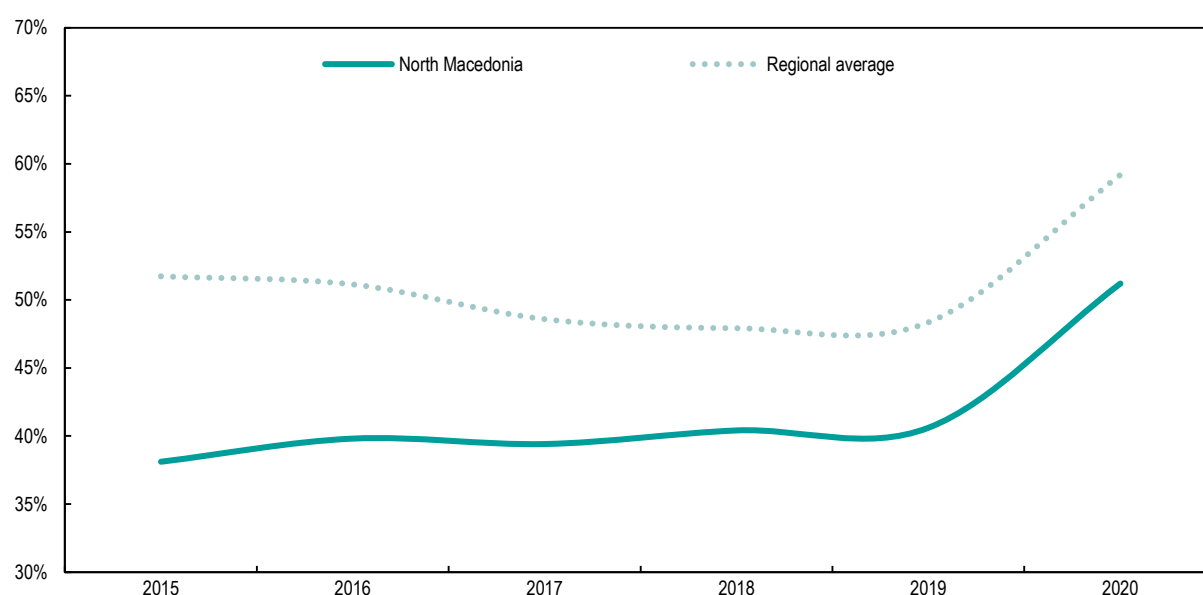


The stagnation in performance must be put into context. There is **strong potential to improve the PFM function in the coming years, as far-reaching legislative reforms are currently in deliberation by the Parliament**. The new draft organic Budget Law (OBL) and a new draft Law on Public Internal Financial Control (PIFC) in line with the new systemic Law on Organisation and Operation of State Administration Bodies have the potential to address the weaknesses observed in this monitoring report. Proposals to restructure state administration bodies and introduce the concept of “parent” budget users, which will be hierarchically superior to and accountable for subordinate users, could provide a new paradigm for a more decentralised PFM function.

Budgeting has improved in terms of the credibility of both the medium-term projections and the annual estimates. Deviations between estimates and outturns are reasonably limited. This reflects increased maturity in fiscal forecasting and discipline in budget execution. The importance that the Government attaches to budget discipline is reflected in the adoption of the Law on Reporting and Recording of Liabilities in 2018, which aims to prevent payment arrears via systematic registration. Although the registration may not yet be complete, the Law is a good step in the government’s ambition to control payment arrears.

Improvement is also reflected in debt management with the upgrading of the Public Debt Management Strategy (PDMS) to an independent document, separate from the Fiscal Strategy (FS). In addition, reporting on budget execution in greater detail allows the public to monitor execution by budget entity and not only in aggregates. The level of government debt has been gradually rising over the last seven years, but it is still low in the European context.

General Government debt increased due to the COVID-19 pandemic, but it is still low in the European context



Source: IMF (2021), World Economic Outlook Database.

However, **budgeting is still mostly an annual process and not policy driven by policy strategy**. The FS, which reflects the medium-term perspective, does not include disaggregated medium-term budget sectoral or ministerial ceilings. In their absence, sectoral policy priorities and fiscal strategy remain weakly linked. The high number of first-level budget organisations, of which there are currently 100, impedes the Ministry of Finance (MoF) approaching the budget preparation process in a more strategic manner.

The high number of first-level budget organisations also causes shortcomings in the annual budget preparation process and limits the opportunity to make effective use of performance information in the budgeting process. It also reduces reporting on budget execution to a quantitative exercise rather than an analytical process and limits the accountability of sectoral ministries for the allocation of funds in their sector, as the budget decisions are taken by the MoF. The implementation of the various PIFC concepts is also primarily driven by the Central Harmonisation Unit (CHU) of the MoF without any co-ordination role for sectoral ministries. As a result, the CHU currently oversees a total of 1 380 public entities. Although

the legal framework is established and the CHU provide provide a broad range of guidelines, **implementation of the PIFC concept is lagging**. Not all budget organisations follow the legal obligations for putting in place internal procedures for the delegation of tasks, risk management and the definition and monitoring of performance indicators. The PIFC-related manuals are not applied consistently by budget organisations, and the requirements are perceived as an administrative burden rather than as useful management tools.

Comparable problems are observed in the domain of internal audit (IA). **Although the legal framework for establishing IA is in place and implemented, the effectiveness of IA suffers from the fragmentation of budget organisations** and the consequently small IA units, often staffed by only one person. This negatively affects staff competences, planning and quality control procedures.

The new Public Procurement Law (PPL), adopted by the Parliament on 28 January 2019, entered into force on 1 April 2019. The PPL transposes the current European Union public procurement directives. Procurement contracts in the fields of defence and security are subject to a separate new Law on Public Procurement in the Field of Defence and Security (Defence and Security Procurement Law), adopted on 27 August 2019.

The Defence and Security Procurement Law transposes Directive 2009/81/EC (EU Defence and Security Directive). The by-laws supporting the Defence and Security Procurement Law were prepared and published between November 2019 and October 2020. The Law on Concessions and Public-Private Partnerships 2012 (Concessions and PPP Law) is not fully harmonised with the EU Directive 2014/23/EU on Concessions¹⁶ (EU Concessions Directive), but it respects the general EU principles. The Strategy for public procurement is included within the wider Public Financial Management Reform Programme 2018-2021, which also includes high-level objectives and activities for public procurement and concessions and PPPs.

The new PPL ensures a high level of compliance with the 2014 EU Procurement Directives. The PPL also incorporates the relevant provisions of the EU challenges and remedies regimes. Only a few issues are problematic from the EU perspective, such as the lack of equivalent provisions related to negative references, the “self-cleaning” mechanism and automatic exclusion in certain cases. The process of drafting the PPL in 2018 was very inclusive: all stakeholders had an opportunity to submit comments and suggestions during public consultations. The relevant by-laws/rulebooks were prepared and published in the first half of 2019, following the adoption of the PPL. The Public Procurement Bureau (PPB) also delivered trainings on the new PPL for stakeholders, with a focus on the legal provisions rather than on the practical application of the Law.

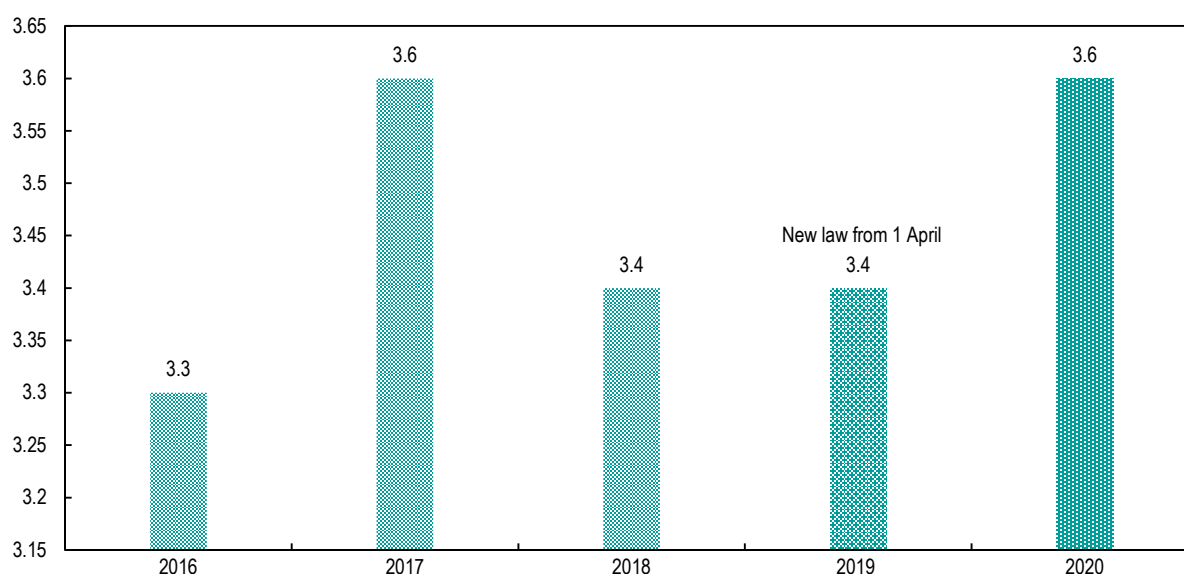
The PPB continues to assist contracting authorities and economic operators through advisory and training activities. The need to strengthen its administrative capacity is greater now, in order to ensure the performance of all of its obligations in a proper and timely manner.

In the field of concessions and PPPs, a draft law on PPPs has been prepared, and a new law is planned for concessions for goods of a general interest. However, during the assessment period, PPP projects have been limited in number, and the Public-Private Partnerships Council (PPP Council) is still not active.

The system benefits from an advanced Electronic System for Public Procurement (ESPP), which is highly appreciated by users. E-auctions are no longer mandatory, and the lowest price is not the only criterion for awarding contracts, but in practice, e-auctions and the lowest price remain the predominant approach. Contracting authorities have an obligation to publish on the ESPP not only the notices and tender documents but also the public procurement annual plans and data about the fulfilment of the contracts.

¹⁶ Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts.

Average number of tenders submitted, 2016-2020



Source: Data provided by PPB, May 2021.

Despite the introduction of new flexibilities in the PPL, there is little evidence of a change in day-to-day procurement activities, with continued very high use of the lowest-price award criterion and e-auctions and minimal improvements in the levels of competition. Training and guidance for procurement professionals and other stakeholders is focussed on legal compliance rather than on addressing practical issues at all stages in the procurement cycle.

The e-Appeals function of the ESPP became fully operational on 1 April 2019, which is a significant and widely welcomed achievement.

Training for and certification of procurement professionals continued to be delivered during 2020, despite the constraints of the COVID-19 pandemic. New guidelines have been published, and some standard procurement documents have been prepared in line with the new PPL, although there are some notable gaps.

The legal framework includes sufficient provisions for the independence and mandate of the State Audit Office (SAO), but an anchor in the Constitution is still missing. Although no interference by the Government has been experienced in practice and the SAO has invested considerable efforts in improving its external communication, the majority of the population perceives the SAO as not fully independent.

During recent years, the SAO further improved the institutional framework to produce ISSAI-compliant audit reports. It has adopted new manuals for regularity and performance audit that are compliant with the ISSAIs. The audit procedures increasingly emphasise quality control and assurance. Most audit recommendations are accepted by the auditee and their implementation is in progress. **However, with the exception of the SAO's annual report, the audit reports are not used by the Parliament, which limits the impact of the SAO.**

Short-term recommendations (1-2 years)

- 1) The Parliament should adopt the new OBL and new Law on PIFC. The MoF should prepare an action plan for their implementation.
- 2) The MoF should, in line with the new draft OBL, transform the FS into a medium-term framework for government expenditures. This requires that it includes disaggregated ceilings on a medium-term basis that reflect the Government's spending priorities among the main sectors, integrating policy information within the fiscal framework.
- 3) The MoF should, in line with the new draft OBL, establish a Fiscal Council with a proper mandate and sufficient resources to monitor compliance with the fiscal rules and provide advice on fiscal policy.

- 4) The Government should ensure that audited financial statements of state-owned enterprises (SOEs) are submitted within six months of year end, prepare a consolidated analysis of the fiscal risks and submit the analysis to the Parliament as part of the budget documentation.
- 5) The MoF should continue its efforts to reduce the risk profile of the debt portfolio by gradually reducing the share of floating-rate debt and increasing the average maturity of domestic public debt.
- 6) The Government should conduct a review of the financial departments of the new “parent” ministries to identify their gaps in capacity and resources, considering their new tasks and responsibilities in the new legal framework.
- 7) The CHU of the MoF should establish a basic quality assurance programme that helps IA units give due attention to systemic weaknesses in their set-up and working practices.
- 8) The PPB should actively engage with contracting authorities, the private sector and non-governmental organisation (NGO) stakeholders prior to and during the preparation of new guidelines and training on the operation of the public procurement system, to ensure that they address in a practical and useful way the real-life issues identified by stakeholders.
- 9) The PPB should prepare and publish a full suite of standard documents and templates in line with the PPL, including practical examples to cover, in particular, the use of qualitative criteria, weightings and related methodologies, and incorporation of sustainability factors into the entire public procurement cycle.
- 10) The Government/Parliament should finalise and adopt the PPP Law aligned with the 2014 EU Concessions Directive. The Ministry of Economy (MoE) should establish a centre of excellence, including the appointment of appropriately qualified staff, to support the roll-out of the new PPP Law and PPPs in practice, prepare and deliver practically focussed training and support and ensure co-operation among key institutions.
- 11) The MoE, in co-operation with contracting authorities, the private sector and NGOs, should publish all necessary by-laws, guidelines, brochures and standard documents in support of the new PPP Law prior to or when it comes fully into force.

Medium-term recommendations (3-5 years)

- 12) The Government should continue the establishment of a governmental “academy” for public finance as a tool to build the capacity of parent ministries to fulfil their responsibilities under the new draft legislative framework in a sustainable manner.
- 13) The MoF should, in line with the legislative framework, organise IA at the sectoral level by parent ministries. This would ensure that the internal auditors have the knowledge of the sectors in which they work while allowing the building of sufficient mass in the IA units for more specialist tasks.
- 14) The MoF and the MoE should facilitate co-operation among key institutions on the roll-out and ongoing delivery of PPP. They should establish processes for review and feedback to play into ongoing learning and the improvement of the PPP framework and operation.
- 15) The State Appeals Commission (SAC), in conjunction with the PPB as necessary, should review and fully update the SAC website to create a free text search facility for searching all SAC decisions, current and archived, and ensure that it is consistent with the relevant functions of the ESPP, in particular the e-Appeals system.
- 16) The MoF, PPB, SAC and SAO should re-establish a formal or informal mechanism to co-ordinate on a regular basis the interpretation of procurement legislation by key institutions, while acknowledging the need for institutional independence.
- 17) The SAO should continue to co-operate with the Assembly to increase the impact of its audit work, especially by raising the interest and understanding of Members of Parliament concerning its audit results and recommendations.
- 18) The Government should establish an audit framework that covers local government on an annual basis by an external auditor.

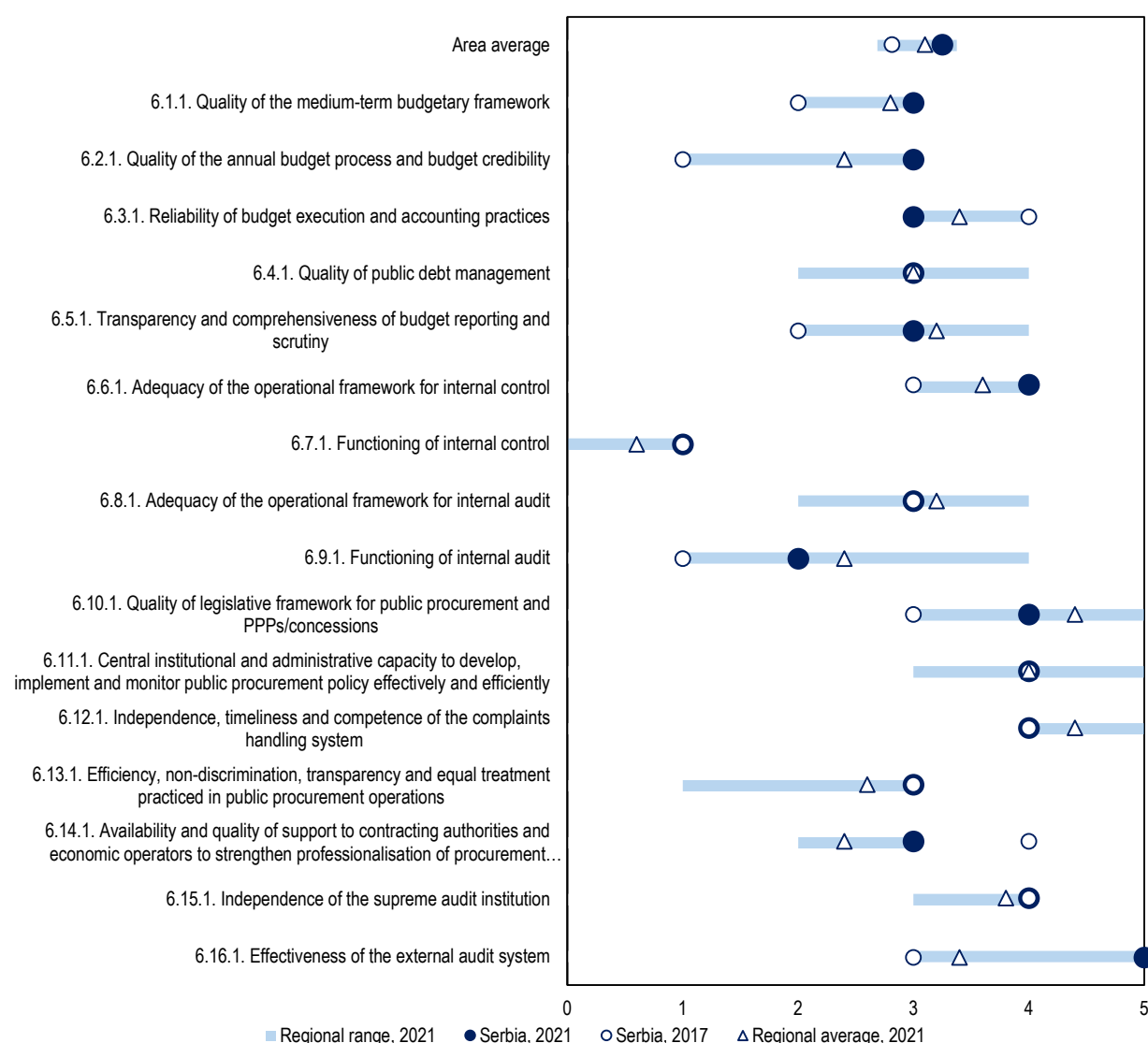
Serbia

Serbia

Summary and recommendations

The quality of public financial management (PFM) in Serbia has developed positively. The overall area average increased from 2.8 in 2017 to 3.3 in 2021, and is one of the highest values in the Western Balkan region. The regional average is 3. The relative stronger performance applies to some of the budget management indicators and especially to the effectiveness of the external audit system. The indicators for public internal financial control (PIFC), while improving, are below regional average (except for “functioning of internal control”). The functioning of internal control (IC) and the functioning of internal audit (IA) remain the weakest areas, although the latter has improved. There has been some improvement in public procurement, however the positive impact of the new Public Procurement Law was reduced by the adoption of special regulations and insufficient professional support to contracting authorities.

Overall development since 2017 shows that Serbia is now ahead of the regional average in several indicators



The quality of the medium-term budgetary framework has improved because the Fiscal Strategy (FS) was published on time and that there was a slight increase in its forecasting accuracy. However, forecast on expenditure and revenue are still calculated as a percentage of gross domestic product (GDP), which can lead to complications as GDP itself is subject to forecasting uncertainties. **The quality of the annual budget process has also been strengthened due to the improved credibility of the budget for both revenue and expenditure.** However, there is little time for the Parliament to assess the budget. In addition, the budget documentation submitted to the Parliament, is not comprehensive.

Despite the well-established treasury system, the **reliability of budget execution and accounting practices deteriorated in 2021, reflecting the fact that the management of arrears is still not sufficiently robust.** Cash flow forecasting by the Treasury administration could be improved by early input from budget users and by a more detailed breakdown for the forecasts for budget users.

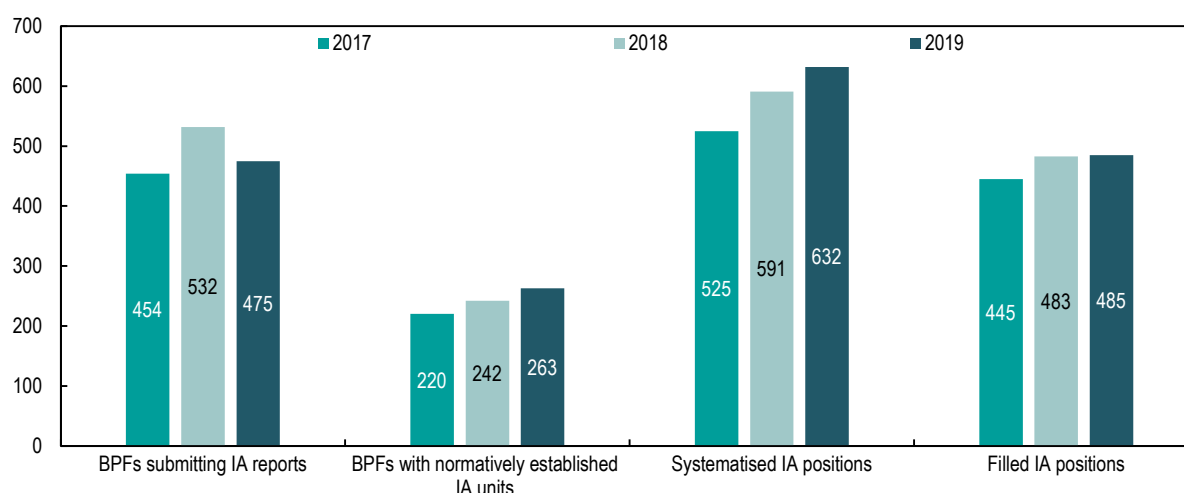
The well-managed debt management area, shows the same indicator value overall for the **quality of public debt management** despite a divergence in 2019 between the target and the actual outturn. Government debt had decreased steadily since the last monitoring in 2017, only increasing in 2020 with the impact of the COVID-19 pandemic.

The transparency and comprehensiveness of budget reporting and scrutiny has improved, given greater parliamentary consideration to the annual financial statement. However, more detail could be given in the financial report, particularly on divergences from the original budget. The current system for in-year budget reporting, however, has weaknesses, as it does not show deviations in administrative expenditure headings and reports budget execution only on an economic classification basis.

The regulatory and operational framework for IC is largely in place, and further development is supported by strategies, the latest one being the Public Financial Management Reform Programme for the Period 2021-2025 (PFM Reform Programme) and the Public Administration Reform in the Republic of Serbia for the Period 2021–2030 (PAR Strategy). In addition, the Central Harmonisation Unit (CHU) has considerably improved the operational framework for financial management and control (FMC) over recent years. **However, the effective functioning of IC in practice is lagging behind,** with managerial accountability and delegation of decision making, reporting on irregularities, management of arrears and alignment of management and budget structures needing improvement.

The regulatory and operational framework for IA is largely in place and broadly in line with the requirements of international standards. However, while the number of established IA units and internal auditors continue to increase, overall, the IA capacity remains weak. Only a low number of IA units are established effectively, and an even lower number of those meet the legal requirement of a minimum of three internal auditors. **Overall, the functioning of IA has improved** in comparison to 2017 as the number of functional IA units that prepare strategic and annual plans and the overall quality of plans have increased. However, most audits appear not to address systemic weaknesses and add only limited value regarding improving the management of public funds.

Steadily increasing internal audit capacity in the number of auditors since 2017



Note: BPFs stands for beneficiaries of public funds; IA for internal audit.

Source: Consolidated Annual Report on the Status of Public Internal Financial Control (CAR) 2019, Section 2.2.2.

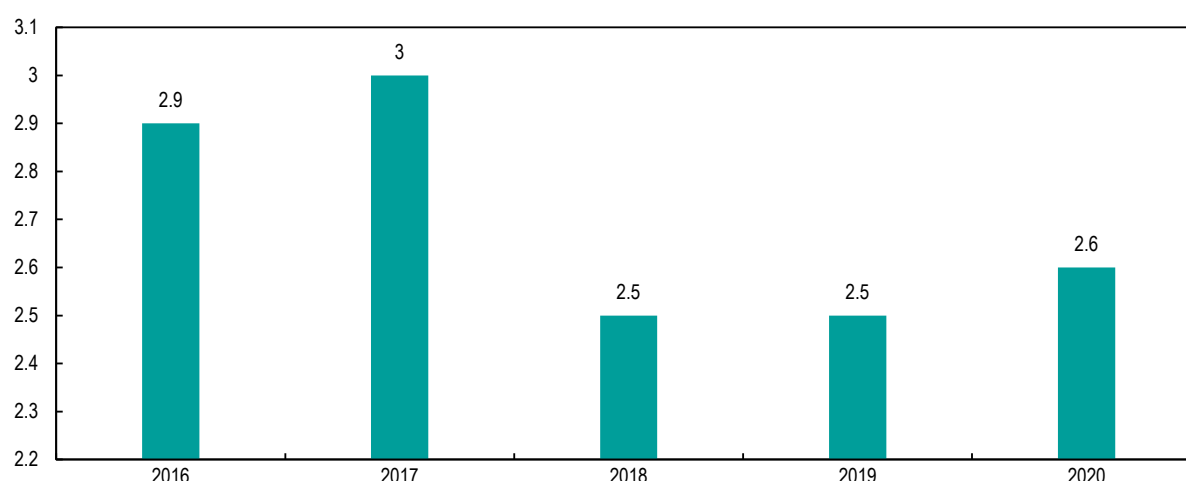
In December 2019, a new Public Procurement Law (PPL) was adopted. The new provisions are in force from 1 July 2020. The PPL covers the classic and the utilities sectors, as well as defence and security procurement. It regulates all stages of the public procurement procedure, including the preparation phase. All pieces of secondary legislation foreseen in the PPL were in place in July 2020. The new PPL is compliant to a very high level with the EU Directives.

However, this generally positive development was negatively affected by the adoption (in February 2020) of the Law on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia (Law on Special Procedures), which foresees a few major derogations from the PPL. This law applies to infrastructure projects of high monetary value and international interest. Exemptions and derogations provided in this special law significantly reduce the transparency of the contract award process.

The regulatory framework and institutional set-up for handling complaints are in place. The remedies system covers the classic and utilities sectors, as well as public-private partnerships (PPPs) and concessions.

A new advanced electronic Public Procurement Portal (PP Portal), launched in July 2020, enables e-submission of tenders and submission of requests for protection of rights. It provides access to good quality of monitoring and data collection on award procedures, but not on contract management and execution. It is also challenging to identify the contracts that were awarded under the Law on Special Procedures. The positive changes in the legislation do not translate to positive performance in daily practice. The public procurement market is not attractive for economic operators. The average number of tenders submitted for each competitive procedure is low (only 2.6), and in more than 40% of the procedures only one tender was submitted.

The average number of tenders per procurement procedure, 2016-2020



Sources: Annual Report on Public Procurement in the Republic of Serbia for the Period 1 January 2020-1 December 2020; Annual Report on Public Procurement in the Republic of Serbia for the Period 1 January 2019-1 December 2019.

The Public Procurement Office (PPO) provides a helpdesk facility to answer questions about the practical application of procurement rules for contracting authorities and economic operators. However, there is still a need for training and high-quality materials focusing on practical issues rather than legal compliance or technical instructions for using the PP Portal.

The independence of the supreme audit institution (SAI) remains well-protected and respected.

The constitutional and legal framework governing the SAI is generally aligned to international standards but could be strengthened in some aspects. Appreciation of the SAI's independence among the public, however, remains at a low level, although it has significantly increased since 2017. **The effectiveness of the external audit system has improved significantly, particularly because the SAI is ensuring better audit coverage through performance audits and an improved audit quality control and review system.** The increased transparency of the SAI's work through its website and engagement with civil society has also contributed. Parliament's recent interest in the SAI's reports is vital to the system's overall effectiveness and needs to develop and continue.

Short term recommendations (1-2 years)

- 1) The Ministry of Finance (MoF) should improve the FS by including actual figures for the estimates of revenue and expenditure and not just expressing them as a percentage of GDP, including detailed expenditure targets to guide the annual budgets of budget users. More sensitivity analysis should also be included to assess, for example, the impact of revenue or expenditure forecasts not being met.
- 2) The Government should respect its legal deadlines for submission of the budget to the Parliament, revise the budget calendar to allow more time for the parliamentary process and provide better information in budget documentation sent to the Parliament.
- 3) The Treasury department should improve cash flow forecasting with providing more detail and continue to expand the compass of the financial information system to include all outstanding bodies.
- 4) The MoF should gather information on arrears, both commercial and non-commercial and in the state-owned enterprise (SOE) sector, to establish a baseline to function as a starting point for a revised system for ongoing reporting.
- 5) The annual financial report should contain a commentary on significant divergences between the outturn and the plan for the annual budget by budget user and by the main revenue headings.
- 6) The upcoming strategic planning period should focus on measures to further develop the implementation of IC in the Public Funds Beneficiaries (PFBs) and ensuring it effectively becomes part of daily management practices. This would need to include activities such as an analysis of the coherence of FMC and other horizontal legislation, alignment between management and budget structures and further awareness-raising and capacity development of managers and ensuring

follow-up of Government conclusions regarding CAR, thereby also empowering the CHU in its role as coordinating and guidance-giving body.

- 7) The overall capacity of the IA system needs to be significantly enhanced to ensure that internal auditors' work effectively adds value to managers and to this effect, the CHU should support and guide internal auditors to make better use of the comprehensive guidance framework put in place.
- 8) The Parliament should repeal the Law on Special Procedures, and all contracts for line infrastructure projects should be awarded exclusively in accordance with the 2019 PPL.
- 9) The PPO should prepare and disseminate guidelines and models of tender documentation adjusted to the PPL, with a specific focus on practical examples and particular sectors (for example, for information technology services and supplies, health supplies, road construction, or office supplies), including model tender documents, standard technical specifications and methodologies for tender evaluation.
- 10) The PPO and the RCPRPP should establish a permanent, stable, and efficient mechanism for co-operation.
- 11) The Government and the Parliament should clarify and redefine within legislation the central functions and duties in the area of PPPs and concessions.
- 12) The SAI should further deepen and broaden its relationship with Parliament and other external stakeholders.

Medium-term recommendations (3-5 years)

- 13) Documentation for the annual budget should be improved by including a European System of Accounts (ESA) version of the budget.
- 14) In relation to capital expenditure, the new system introduced in 2019 should be reviewed and evaluated by the MoF to ascertain if the system has improved the assessment process of projects and led to improved project selection.
- 15) The Treasury and MoF, should establish a system to report to the Government on arrears on a quarterly basis – including SOE arrears - and to publish such reports in the Official Gazette. After that, appropriate commitment controls for managing payment arrears should be established and responsible public bodies assigned to carry out ongoing monitoring.
- 16) The MoF should compile a monthly budget execution profile at the beginning of the year based on inputs from budget users.
- 17) Reporting regarding large investment projects to the national bodies and to the donors should be harmonised to minimise bureaucracy.
- 18) The Government should ensure the sustainability of the future coherent, single framework for PPPs and concessions so that it fully serves its purposes.
- 19) The PPO should develop mechanisms for data gathering and monitoring on contract management and offer more support in this respect for contracting authorities by providing guidelines (supported with training sessions) and models of internal regulation referring to the contract management.
- 20) The Government and the Parliament should amend the legal framework to ensure contracting authorities can challenge RCPRPP decisions before the Administrative Court.
- 21) The Parliament should bring some details of the SAI law further in line with current international standards and good practice, like the term of appointment for Council Members; the requirement of the SAI to submit its proposed budget and staffing plans to the MoF; the provisions on reporting misdemeanours and criminal offences; and the provisions on the SAI's follow-up of audit recommendations.

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