

Transparency Days Belgrade 2007: State Audit and Budget Transparency

Conference report

Belgrade, Serbia, 6 and 7 March 2007

Objectives

The principal objective of the two-day event organised by the Anti-Corruption Council of Serbia and the Swiss Embassy in Belgrade in cooperation with the Basel Institute on Governance was to enhance awareness and understanding of the key prerequisites for an efficient supreme audit institutions and its role in combating corruption and ensuring budget transparency. In doing so, the conference also intended to reinforce and strengthen knowledge about basic budgetary and financial management procedures. The issue of external audit of public finance continues to be of particular importance in Serbia where no such institution has yet been set up, despite the fact that the law that provides for it has already been passed. To support the establishment of adequate audit procedures and structures, the Belgrade Transparency Days sought to inform Members of Parliament, representatives of concerned ministries and government agencies, the media and other civil society groups about the impact of misguidance of and lack of control over public expenditure, and to provide more information on potential remedies.

Proceedings

During these two days, participants received theoretical and practical know how in the field of budget oversight and their potential role therein, with a particular emphasis on the role of state audit institutions. Additionally, they learnt about the importance of access to relevant information and best practices examples. As a related outcome, the transparency days allowed to forge contacts with experts and specialised institutions from abroad and as such established formal and informal long-term partnerships. Sustainability and long-term impact of the event will also be fostered by making expert contributions available on the internet.

Conclusions and recommendations for Serbia

To conclude the two-day event, selected experts were invited, based on the discussions over the two days of the conference, to comment on the current situation in Serbia and to recommend a number of priority measures that the Government of Serbia may wish to consider in establishing efficient external audit and ensuring transparency of public finance. These experts, whose comments are summarised below, included:

- Prof Gusztav Bager, Director General, Research and Development Institute, Supreme Audit Organisation of Hungary
- Francois-Roger Cazala, Principal Administrator, Support for Improvement in Governance and Management in Central and Eastern Europe (SIGMA), OECD
- Kurt Grüter, Director, Swiss Federal Audit Office

- Ian Hawkesworth, Administrator, Budgeting and Public Expenditure Division, OECD
- Prof Milić Milovanović, Faculty of Economics, University of Belgrade; Member, Anti-Corruption Council of Serbia
- Pierre-Christian Soccoja, Director-General, Central Service for Corruption Prevention, France

Key conditions:

In summary, all experts urged the Serbian authorities to go ahead quickly with the establishment of a supreme audit institution (SAO) and to make it operational at the earliest possible. A number of key conditions for the efficient functioning of such institution however must be fulfilled:

Experience shows that the **independence** of the supreme audit institution, especially with regards to its financial means, is of key importance. It is thus recommended that Serbia's state budget 2007, which has not yet been passed, provides for **adequate funding** for the institution to be established. Furthermore, given that Serbia has not had an audit institution in proper terms, it may be expected that the country lacks sufficient human resources. Initiating **capacity building** projects to overcome this gap is thus also strongly recommended.

Experts alerted the audience to the dangers of an **expectation gap** with regards to what an SAO can reasonably achieve in the short and medium run. The institution needs therefore to have a carefully elaborated **communication strategy** to fill this gap.

In doing so, the institution must also succeed in communicating that, while the work of the audit institution of course does contribute to the fight against corruption, **combating corruption is not its main mandate** and thus responsibilities for this issue should not be attributed to the audit institution. The audit institution's staff should however be particularly sensitised to this matter and the institution itself should be an example of a non-corrupt institution in the country. Furthermore, once the audit institution is in a position to execute performance (cf. section on 'operations') audits it could perform such performance audit on Serbia's anti-corruption system.

When establishing the SAO, it is recommended to take into account that the **legal operating environment** impacts greatly on the institution's efficiency. While setting up the institution certainly takes priority over potentially revising the law according to recommendations received from within the country as well as international experts and organisations, potential pitfalls in the existing law have to be carefully considered and institutional arrangements have to be taken to counter their possibly negative impact on the efficiency of the institution.

Finally, experts agree that even with the best possible institution and largely adequate resources at hands, **the efficiency of an SAO is dependent on the proper functioning of the state** it operates in. Two structural prerequisites seemed of particular importance, namely that the **Ministry of Finance** is operating properly and that the **state budget is transparent**. With regards the latter, some experts were rather pessimistic about the success of the audit institution in light of the fact that the country seems to lack almost all of the key principles of budget transparency as defined in the internationally acknowledged OECD Principles on Budget Transparency.

Operations:

As identified in country reports prepared by the “Support for Improvement in Governance and Management in Central and Eastern Europe” (SIGMA) Program, which were available to the audience, the scope of the mandate of the audit institution as foreseen in the law is considered too large. In order to better cope with this issue as well as with a likely shortage in financial and human resources, it is suggested that the audit institution uses **risk assessment methodologies to prioritise its work**. This will allow the institution to build capacity in the coming years pursuant to which the institution can both expand its working scope as well as method. This is indeed considered necessary in the medium to long term as it is becoming increasingly clear that financial audits alone are not sufficient and need to be complemented by **performance audits**, which in turn is a much more complex undertaking requiring extensive resources and experience.

It is further pointed out that lack of sufficiently detailed information on public finance is often one of the key problems of audit institutions, thus preventing it from fulfilling its role. **Efficient working relations with ministries**, especially with the Ministry of Finance and with the **Parliament** and its relevant committees, can help overcoming parts of this problem.

Budget transparency:

The existing law on the budget can generally be assessed rather positively and in some regards even reaches a quite advanced level, although it will require some fine-tuning and adjustments,. In implementing the law, experts warn however that one should not attempt to “do everything at once”. Rather it is suggested to **start with what can be implemented quickly** and with little resources while likely to achieve a high degree of efficiency in fulfilling the mandate. In particular one should **avoid too many complex and “creative” spending schemes** such as Public-Private-Partnerships or the establishment of special funds as they will add a degree of complexity to public finance which will at this stage be difficultly be absorbed in Serbia.

Combating Corruption in Public Procurement:

With regard to combating corruption in public procurement, it is agreed that SAOs have an important role to play, in particular with regard **prevention and detection**. Investigation and prosecution on the other hand should remain the task of law enforcement. However, given that these law enforcement institutions, in order to bring to court complex corruption cases, need to work with multidisciplinary teams, it is suggested that experts from the audit institution should be invited to participate in these teams. In general, a number of **convictions of high level corruption cases**, for which a strong and independent judiciary is key, are known to have a considerable **pedagogic impact** on politicians and public servants.

International cooperation:

All experts commend the work done by the **International Organisation of Supreme Audit Institutions** (INTOSAI) and recommend that Serbia should join this organisation as soon as it has established an SAO. INTOSAI's work is considered as best practice and key to good governance in the area of audit, and thus may usefully help in guiding the work of the new Serbian SAO.