

The Republic of Serbia

The Government of the Republic of Serbia

The Anti-Corruption Council

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BELGRADE TRANSPARENCY DAYS 2007

CONCLUSIONS AND RECOMMENDATIONS

Serbia is one of the few countries in the world still without the external state audit of the public finances. The Law on the State Audit Institution was adopted on November 14, 2005. In accordance with the Law the Institution should have been established within six months from the date of its entering into effect. The Law on the State Audit Institution, however, has not yet been implemented. Due to such circumstances, the Anti-Corruption Council in cooperation with the Swiss Embassy in Belgrade, and the Basel Institute on Governance organized a Conference Belgrade Transparency Days on March 6 and 7, 2007, discussing the issues of the budget transparency and the state audit.

The Supreme Audit Institutions are designed to enable the transparency and the integrity of the reports on public finances, representing a crucial link in the chain of institutions destined to create conditions for curbing corruption in the public finances. Two-day's Conference Belgrade Transparency Days 2007, tried to consolidate the principles for the establishment of the efficient and sustainable State Audit Institution in Serbia.

BELGRADE TRANSPARENCY DAYS 2007

Conclusions

The potential impact of the State Audit Institution on the fight against corruption is manifold:

- The chief task of the State Audit Institution (SAI) is to raise the transparency level as well as the integrity of the reports on public finances, which represents a key element of anticorruption initiatives, above all in the field of prevention of corruption and detection of the corruptive mechanisms;
- The professional quality of the SAI could enhance the professional level of other public institutions;
- If SAI is to be established in a corruption free fashion, and governed by laws and the Constitution of the Republic of Serbia, it may, in that sense, serve as an example for other state establishments;
- The results of the SAI's work may offer a significant backup for the judiciary and the National Assembly in control of the work of the executive power;
- Creating conditions for the transparency of public institutions, being one of the most important SAI's tasks should strengthen the role of the public in the control of the authorities and the fight against corruption. The participants of the Conference stand unanimous that the public, through free media, represents an important factor in the fight against corruption, and that the work of the SAI could offer a significant help to media in control of the public funds squandering. Also, we agree that the political will of the citizens (and not of the political parties on power!) represents a measure of the control of the authorities and the fight against corruption in the society and the state. We believe, therefore, that the work of the SAI in the field of the more transparent expenditure of public funds is to contribute the citizens of Serbia to express their will to live in a democratic state with strong and accountable institutions, which represents the most efficient framework for the fight against corruption.

RECOMMENDATIONS FOR THE ESTABLISHMENT OF THE STATE AUDIT AND ENHANCEMENT OF THE BUDGET TRANSPERENCY IN SERBIA

1. The independence of the State Audit Institution represents the chief principle of its work as follows:

- **Legal independence**

Legal grounds for the SAI's independence include not only the proclamation of its independence in the Law on the State Audit Institution, but also amendment to the pitfalls and shortcomings in the Law on the Budgetary System and the Law on Accounting and Audit, as well as the adoption of the necessary by-laws which would govern the field of audit in Serbia more clearly, thus enabling the SAI to operate on the basis of transparent and faithful principles.

The regulations and the principles of accounting and audit in Serbia are not precise enough, and are rather backward in comparison with the practice of the more developed market economies. Also, there are no capacities for their implementation (for example the Law failed to envisage the existence of the Certified Accountant, the criteria for the awarding of professional titles are not precise, translation of the international standards whose implementation is prescribed by the Law is not easy accessible, i.e. a timely translation of the current changes of these standards is not available, etc.)

- **Management independence**

The National Assembly should elect reputable individuals into SAI, people of personal and professional integrity, instead of delegating representatives of the parliamentary parties. This is of key importance for the assurance of the effectiveness of the work of the Institution. We deem, moreover, that the fashion the members of the Anti-Corruption Council have been elected may serve as a raw model for the election of the members of the Council of the SAI.

- **Operative independence**

The Law contains pitfalls and shortcomings concerning the issue of the competent human resource and logistics backup indispensable for the work of the SAI. These pitfalls need to be rectified in order to give SAI the full operative independence.

- **Independence in access to information**

SAI must have an unobstructed access to the information regarding public finances. On February 13, 2007, during the preparations for the Belgrade Transparency Days 2007, the Anti-Corruption Council requested the following reports from the Ministry of Finance: Budgetary Inspection Reports for 2004-2006, as well as the Reports on the Performance of the Budget, the Payment System Internal Control Reports, and the Plans for the Sale of the Republic Non-Financial and Fixed Assets for the same period. According to the Law all documents must be available to the public. However, we did not receive any of the requested documents till the beginning of the Conference. The Cabinet of the Ministry of Finance have said that the Budgetary Inspection Reports contain delicate information not to be disclosed in public, and the Treasure Department have informed us that they ‘‘have no obligation of external informing’’ when asked for the Payment System Internal Control Reports. Taking into account such an alarming state of the access to important information on the expenditure of the budgetary funds in Serbia, the State Audit Institution stands no chance to fulfil its mandate.

- **Financial independence**

Each of the specified aspects of the independence is of equal importance. If they fail to be established, the SAI’s independence although guaranteed by the Law shall not be achieved. Still, financial independence is the most important factor for the independent work of the State Audit Institution. Moreover, financing the work of SAI represents the easiest way to influence its independence.

2. SAI’s Cooperation with other Ministries, first of all with the Ministry of Finance has to be firmly established, i.e. the situation should be such that the Government acts in accordance with the findings of the State Audit Institution.
3. The connection with the National Assembly and its Committees has to be strengthened in each and every aspect, both formally and practically, bearing in mind that one of the chief tasks of the SAI is to assist the National Assembly in performing the most comprehensive control of the work of the executive authorities concerning the public finances.

4. The implementation of the best international practices and standards; the experience of the INTOSAI, the Global Association of the State Audit Institutions, could be of importance for the work of SAI, particularly in the beginning, until it learns from its own experience. We deem, nevertheless, that the INTOSAI standards should be incorporated into the SAI's Regulations.
5. The National Assembly should appoint the Council of the State Audit Institution as soon as possible. Afterwards, the SAI should start working in the shortest time possible. Subsequent to the establishment of the SAI's Council, its members should:
 - Start with the implementation of the Law on the State Audit Institution in practice;
 - Define the contracting conditions for private auditors in charge of the state budget audit in the near future, including the years not covered by the audit arrangements;
 - Elaborate a Draft of a Strategic Document and prepare preliminary documentation on polices in fundamental operative activities;
 - Prepare the necessary Regulations and other additional legal acts;
 - Define the Action Plan that would comprise the already specified actions, including the deadlines and the operative schedule.

Taking into account the pitfalls, which no doubt need to be rectified, the Law on the State Audit Institution and the Law on the Budgetary System represent a sufficient legal framework for the establishment of the trustworthy system of the state audit. We deem, therefore, that the State Audit Institution can and must start working soon, pursuant to the existing laws. Also, that in the next year it has to elaborate trustworthy reports, because that is the only way to win the public trust, both for its own work, as well as for the entire process of the modernization of the public finances.

6. The State Audit Institution has to fit in the broader context of the modernization of the public finances in Serbia; i.e. it must not remain detached from the process of reforms of the entire budgetary system.
7. Besides the State Audit Institution, the enhancement of the transparency of the expenditure of the public funds in Serbia would also benefit from the improved efficiency in penalizing corruption

criminal actions in the public sector. It would also benefit from the enhancement of the work of the investigation institutions and independence of the judiciary, for the experiences of the Western European countries point out that penalizing specific criminal actions (for instance abuse of power in public procurement) had a very important impact on curbing corruption in the public sector.

8. Transparency of the budget in Serbia has been seriously damaged by the National Investment Plan. It is, therefore, necessary that the Government annuls the NIP and suggests amendments to the Law on Budgetary System, namely to the provisions which, at this moment, enable the breach of the budgetary system in a way the NIP has been doing so far (prolonged financing of the projects initiated in one year in the next year, and with the funds from the last year's budget; also, continued financing of the projects partially initiated in one year, with the funds from the budget for the next year). In order to have the State Audit Institution operate properly, first of all the Institution must be familiar with the exact amount of the budget for one fiscal year. The existence of the National Investment Plan as such, financed from the successive budget, would invalidate the work of the State Audit Institution from the start. The State Audit Institution must have a precisely defined and time-limited subject of investigation.

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President of the Council
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