

SERBIA – PUBLIC SECTOR ACCOUNTING REVIEW

REPORT ON THE ENHANCEMENT OF PUBLIC SECTOR FINANCIAL REPORTING

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REPORTING

June 2017

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EXECUTIVE SUMMARY

Background

The Government's public financial management (PFM) Reform Program 2016-2020 foresees the gradual transition of public sector financial reporting from a cash basis to an accrual basis of accounting and the application of International Public Sector Accounting Standards (IPSAS). This will significantly improve the quality of financial information and should enable better informed decision-making, more efficient use of public funds and resources and improved fiscal performance.

This Report on the Enhancement of Public Sector Financial Reporting is one output of the Serbia Public Sector Accounting Reform Technical Assistance project funded by the Swiss State Secretariat for Economic Affairs (SECO) through the Strengthening Accountability and Fiduciary Environment (SAFE) Trust Fund under the Public Sector Accounting and Reporting Program (PULSAR) which provides support for the development and implementation of public sector accounting standards. This report supports the development of a plan towards that goal by assessing the institutional framework for public sector accounting as well as the gap between Serbian public sector generally accepted accounting principles (PS GAAP)¹ and IPSAS.

Institutional framework

Composition of public sector

The Ministry of Finance (MoF) has overall responsibility for public financial management. Direct Budget Beneficiaries (DBBs), Indirect Budget Beneficiaries (IBBs), and Organizations for Mandatory Social Insurance have functional responsibilities for originating budget proposals, budget execution, and maintaining budget accounting at entity level. Local government units perform core public financial management functions such as budget preparation, budget execution and budget accounting in cooperation with the Treasury Administration and its local Branch Offices.

The Rulebook on the Public Funds users list² (December 2016) encompasses 11,040 public sector entities³, of which 3,769 are at the central government level and 7,271 at sub-national level (including public enterprises). **One of the prerequisite steps of the public sector accounting reform should be a review and redesigning of the accounting processes and optimizing the number of accounting units to fit into the institutional set up and governance structure of public sector, adequate to size of Serbia.**

¹ Serbian Public Sector GAAP (Serbian PS GAAP), though not an official term in Serbia, is defined for the purposes of this report as comprising the laws, decrees and rulebooks described in section 2.2. below that codifies Serbian public sector accounting requirements and is applicable to the entire Serbian public sector which for the purposes of this report excludes public sector owned companies.

² The Rulebook on the Public Funds users list, „Official Gazette 107/16”, December 2016.

³ There are some sub-national government entities which are not at the same time independent accounting units.

Statutory framework

Public sector accounting and financial management is regulated by various laws (the Budget System Law and the Law on Local Government Finance), decrees (the Decree on Budget Accounting and the Decree on Application of International Public Sector Accounting Standards) and rulebooks (such as on standard classification and chart of accounts; and on preparation and delivery of financial reports). **The legal framework is complex, fragmented, and to some extent inconsistent. It would benefit from simplification and harmonization.**

Staff levels

Treasury is responsible for budget execution, cash management as well as budgetary, fiscal and financial reporting. It has a central office in Belgrade, 34 regional offices, 110 local branch offices and 978 staff. **Treasury's Budget Accounting, Financial Reporting and ICT Sectors will need considerable strengthening in order to implement IPSAS.**

DBBs appear to have adequately staffed finance functions whereas IBBs and local government units do not. According to a recent survey, there are 12,316 accountants implying an average of 2.5 finance staff per accounting entity. **IBBs and local government units will need to staff up their finance functions.**

Academic Education, Professional Education, Training

Of Serbia's 8 public universities and 11 private universities, the oldest and arguably most respected, the University of Belgrade, offers undergraduate, graduate and PhD programs in economics and accounting through its Faculty of Economics. These programs have good coverage of private sector accounting issues but poor coverage of public sector topics including public sector financial reporting and IPSAS. **Universities should be encouraged to improve coverage of public sector accounting and financial reporting.**

Public sector units tend to set their own qualification requirements for their finance staff because there are no specific statutory or other regulatory requirements. **Specific statutory or other regulatory requirements regarding qualification of public sector finance staff should be established.**

There is neither a training needs analysis nor a plan to deliver training to support the PFM reform program. The Government Human Resource Management Service coordinates delivery twice a year of approximately eight public finance training courses to groups of 35. **There is a need for a training needs analysis as well as a plan to deliver training to support the PFM reform program for public sector finance staff as well as wider groups such as public sector management and members of the Parliamentary Finance Committee.**

Setting accounting standards

The Financial Reporting and Methodology Unit of Treasury is responsible for preparing proposals for changes and amendments to the accounting regulations. A formal commission for the Implementation of IPSAS is foreseen to advise the Minister of Finance on an appropriate policy framework, accounting standards, procedures and timeframe.

Budget system

There is a single budget classification and chart of accounts for government that includes administrative, functional, and economic categories reflecting main segments of GFS and Classifications of the Functions of Government (COFOG) as well as all standard classes of GFS/ESA economic segments with additional classes to capture cash outflows/inflows related to non-current assets and debt repayment. **However, at the detailed level there will be a need to supplement the chart of accounts in order to record all accounting events related to supplies and flows required by GFSM 2014.**

In addition, the institutional coverage of the budget is considered to be incomplete. **There is a need for a comprehensive register of units and institutions that are part of the general government sector and which are budget beneficiaries.**

Government Finance Statistics (GFS)

Serbia is in the process of implementing accruals-based statistical frameworks including GFSM 2014 and ESA 2010. **It is essential that the implementation of accruals-based statistical frameworks is closely aligned and carefully sequenced with the transition to IPSAS accrual accounting.**

Auditing, monitoring and enforcement

The SAI mainly performs financial and compliance (regularity) audits as well as some performance audits. Although the SAI has substantially increased its audit coverage since it began work in 2008, there remain many entities that have never been audited primarily because of the SAI's capacity constraints. **There is a clear and pressing need to continue strengthening the capacity of the SAI so that it can fulfill its mandate and also provide assurance on IPSAS financial statements.**

Consistent with the requirements of the EU, the MoF is leading the implementation of a Public Internal Financial Control (PIFC) strategy to strengthen Financial Management and Control (FMC) as well as Internal Audit (IA). **The Central Harmonization Unit (CHU) responsible for PIFC as well as the decentralized IA bodies form important stakeholders because of the impact on their work of the proposed IPSAS reforms and as such their needs, particularly with respect to training, should be considered during the planning of the reforms.**

Quality and availability of financial reports

Quarterly and year-end aggregated financial statements are prepared by Treasury's Budget Accounting and Reporting Department based on balance sheet and budget execution information submitted both electronically and manually by DBBs and IBBs. Cash-based budget execution data is captured in the TML. Information regarding non-cash assets and liabilities are captured in various other systems such as that maintained by the Property Directorate in respect of non-financial assets as well as spreadsheets maintained by Treasury in respect of liabilities. Reporting on arrears is highly fragmented, inaccurate and untimely despite the various efforts that have been made to improve the process. The quality of accounting information and financial reports is impaired by poor systems and processes, the need for many manual reconciliations and computations, as well as fragmented responsibilities between different governmental units and layers. **Systems, processes and responsibilities for**

financial reporting need significantly to be redesigned particularly given the complexity of the information required for IPSAS financial statements.

Business systems and Software Solutions

The Treasury ICT Sector is responsible for centralized systems including public payments, budget execution, accounting and financial reporting, financial planning, payroll, and Treasury management functions. As described in the previous section, aggregation of the information in these systems is partially automated and partially reliant on spreadsheets. DBBs and IBBs maintain their own systems using a variety of ICT-solutions with no link to the Treasury system. **An assessment of ICT systems and the resources, staff, efforts, and steps to upgrade them for IPSAS implementation, including a proposed sequencing of activities, should be performed as a matter of urgency.**

Comparison of Serbian PS GAAP with IPSAS

Areas of Serbian PS GAAP that are most consistent with IPSAS

IPSAS 1 – Presentation of Financial Statements although Serbian PS GAAP does not require the production of a statement of changes in net assets/equity nor disclosures of notes, key assumptions and risks.

IPSAS 4 – The Effects of Changes in Foreign Exchange Rates although Serbian PS GAAP is silent on a number of matters including: the treatment of exchange differences arising on the settlement or on translating monetary items at exchange rates different from those at which they were translated on initial recognition.

IPSAS 17 – Property, Plant and Equipment except in that depreciation charge is recognized directly as a decrease in equity rather than in surplus or deficit, there is no periodic review of the residual value and the useful life of an asset, and impairment losses are not considered.

Areas of Serbian PS GAAP that are most divergent from IPSAS⁴

IPSAS 2 – Cash Flow Statements particularly as regards the classification of transactions, the disclosure of interest and dividends or similar distributions received, the disclosure of the components of cash and cash equivalents, and the absence of a reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position.

IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors especially in that Serbian PS GAAP does not require accounting policies to be changed retrospectively with an explanation of the reason for the changes and there are no regulations on matters relating to changes in accounting estimates or the accounting treatment of prior period errors.

⁴ The list of divergence from IPSAS is not presented in the order of significant impact on faithfulness of the financial statement. As a result, real effect of some divergence might be not constituting material misstatement in the financial statements.

IPSAS 5 – Borrowing Costs in that in Serbian PS GAAP, borrowing costs are recognized as an expense on the date of payment rather than in the period in which they are incurred.

IPSAS 9 – Revenue from Exchange Transactions in that in Serbian PS GAAP, revenues are measured on a cash basis rather than by reference to stage of completion of services, or transfer of the significant risks and rewards of ownership, control and economic benefit, or service potential of goods.

IPSAS 12 – Inventories in that Serbian PS GAAP does not require: inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; nor inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value.

IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers) in that in Serbian PS GAAP, revenues from non-exchange transactions are recognized on a cash basis rather than when there is an inflow of a resource that meets the definition of an asset.

IPSAS 24 – Presentation of Budget Information in Financial Statements in that Serbian PS GAAP neither requires presentation of a comparison of original and final budget amounts nor explanations of material differences between the budget and actual amounts.

IPSAS 31 – Intangible Assets. Under Serbian PS GAAP, many basic definitions of intangible assets are too broadly defined to be considered consistent with IPSAS 31. Serbian PS GAAP also: requires depreciation charge on intangible assets to be recognized directly as a decrease in equity rather than in surplus or deficit for the period; and does not require the subsequent consideration of whether an intangible asset is impaired or has no future economic benefits or service potential. Finally, there are no disclosure requirements.

Serbian PS GAAP is silent in respect of the matters addressed by the following IPSAS: IPSAS 11 – Construction Contracts, IPSAS 13 – Leases, IPSAS 14 – Events After the Reporting Date, IPSAS 16 – Investment Property, IPSAS 18 – Segment Reporting, IPSAS 19 – Provisions Contingent Liabilities and Contingent Assets, IPSAS 20 – Related Party Disclosures, IPSAS 21 – Impairment of Non-Cash Generating Assets, IPSAS 26 – Impairment of Cash Generating Assets, IPSAS 27 – Agriculture, IPSAS 28, 29, 30 – Financial Instruments: Presentation, Recognition and Measurement, Disclosures, IPSAS 32 – Service Concession Arrangements: Grantor, IPSAS 34 – Separate Financial Statements, IPSAS 35 – Consolidated Financial Statements, IPSAS 36 – Investments in Associates and Joint Ventures, IPSAS 37 – Joint Arrangements, IPSAS 38 – Disclosure of Interests in Other Entities and IPSAS 39 – Employee Benefits. Of particular note is that Serbian PS GAAP is entirely silent on the matter of consolidation.

Conclusions and next steps

There are already significant ongoing activities in Serbia that will improve public sector financial reporting including those addressing payment arrears and commitment management as well as and the roll-out of FMIS and enhanced functionality. Thus, any additional activities to improve public sector accounting such as moving to IPSAS should recognize the value of ongoing PFM reform activities and also be mindful of capacity constraints to implement additional reform activities.

The recommended strategy for the adoption of IPSAS in Serbia is one of partial adoption. Thus, Serbian PS GAAP would be modified such that it is consistent with selected parts of selected IPSAS and the different parts of any new requirements in Serbian PS GAAP would be specified as being effective from different dates so as to allow for a phased implementation.

Suggested roadmap to strengthen Serbian PS GAAP

Create demand for reform of public sector accounting. Experience in other countries has shown the importance of commitment from senior management and politicians as well as the participation of key stakeholders to create demand for reform of public sector accounting.

Address institutional framework. There are a number of issues with the institutional framework that should be addressed including: clarifying the key responsibilities for financial reporting and accounting; analyzing staffing needs and accordingly staffing up; training and otherwise providing capacity-building for public sector finance staff; establishing the Commission for Implementation of IPSAS and its standard-setting as well as other working procedures; strengthening and up-skilling the Treasury's Budget Accounting, Financial Reporting and ICT Sectors; and performing a comprehensive review of the IT-landscape including of accounting systems across Treasury, DBBs and IBBs.

Address the legal framework for financial reporting. In conjunction with the above activities to address the institutional framework for IPSAS implementation, there are a number of matters relating to the legal framework for financial reporting that should be addressed including: streamlining and harmonizing the statutory framework for financial reporting; clarifying which reporting framework is applicable to which public sector entities including mapping with ESA 2010 and establishing which commercial public sector entities should follow the corporate accounting framework, which budget users are reporting entities; issuing new accounting legislation specifically for the public sector; developing a methodology and guidelines to ensure comparability and effective reporting for budgetary and statistical reporting purposes (ESA 2010, GFSM 2014); devising a revised unified chart of accounts; and developing transitional provisions with guidance on the adoption of the new standards.

Fully implement key ongoing PFM reforms. There are already significant ongoing activities in Serbia that will considerably improve public sector financial reporting and, as such, should be fully implemented as a matter of priority including: payment arrears and commitment management (for example through central register of invoices); and the roll-out of FMIS and enhanced functionality.

Budget. In conjunction with the above, a PFM reform budget for matters relating to accounting and reporting should be developed.

Implement selected aspects of selected IPSAS. The Serbian authorities might consider initially focusing on implementing the following aspects of the following IPSAS:

- a. IPSAS 1 – Presentation of Financial Statements.
- b. IPSAS 2 – Cash Flow Statements.
- c. IPSAS 5 – Borrowing Costs.
- d. IPSAS 17 – Property, Plant and Equipment.
- e. IPSAS 29 – Financial Instruments: Recognition and Measurement.
- f. IPSAS 31– Intangible Assets.

Main abbreviations and acronyms

| | |
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| ACCA | Association of Chartered Certified Accountants |
| AJSRB | Administration for Joint Services of the Republic Bodies |
| BEX | Budget Execution System |
| BSL | Budget System Law |
| CA | Certified Accountant |
| CEF | Centre of Excellence in Finance |
| CHU | Central Harmonization Unit |
| CIPFA | The Chartered Institute of Public Finance & Accountancy |
| CPA | Certified Public Accountant |
| CPD | Continuous Professional Development |
| DBB | Direct Budget Beneficiaries |
| EC | European Commission |
| EDP | Excessive Deficit Procedure |
| EPSAS | European Public Sector Accounting Standards |
| ESA | European System of National and Regional Accounts |
| ETP | ESA 2010 Transmission Programme of Data |
| EU | European Union |
| FINPLAN | Financial planning system |
| FMC | Financial Management and Control |
| FMIS | Financial Management Information System |
| GAAP | Generally Accepted Accounting Principles |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics |
| GoS | Government of Serbia |
| HR | Human Resource |
| IA | Internal Audit |
| IBB | Indirect Budget Beneficiaries |
| ICT | Information and Communication Technology |
| IFAC | International Federation of Accountants |
| IFMIS | Integrated Financial Management Information System |
| IFRS | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standards |
| IPSASB | International Public Sector Accounting Standards Board |
| JAFIN | Payment Processing and Treasury Office Management System |
| MFAD | Macro-Fiscal Analysis Department |
| MFS | Macro-Fiscal Sector |
| MIP | Macroeconomic Imbalance Procedure |
| MoF | Ministry of Finance |
| MOU | Memorandum of Understanding |
| MTBF | Medium-Term Budgeting Framework |
| NBS | National Bank of Serbia |
| P&L | Profit and Loss Statement |
| PACT | Public Accountants Certification Training |
| PAR | Public Administration Reform |
| PFM | Public Finance Management |
| PFMRP | Public Finance Management Reform Programme |

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|---------|---|
| PIFC | Public Internal Financial Control |
| PSDS | Public Sector Debt Statistics |
| PS GAAP | Public Sector Generally Accepted Accounting Principles |
| QBSW | Quality Business SoftWare |
| RATEL | Republic Agency for Electronic Communications and Postal Services |
| REPF | Report on the Enhancement of Public Sector Financial Reporting |
| RINO | Register of Settlement of Cash Liabilities |
| RoS | Republic of Serbia |
| RPD | Republic Property Directorate of the Republic of Serbia |
| SAAA | Serbian Association of Accountants and Auditors |
| SAFE | Strengthening Accountability and the Fiduciary Environment |
| SAI | Supreme Audit Institution |
| SAP | Systems, Applications and Products in Data Processing |
| SECO | Swiss State Secretariat for Economic Affairs |
| SOE | State owned enterprises |
| SORS | Statistical Office of the Republic of Serbia |
| SNA | System of National Accounts |
| TML | Treasury Main Ledger |
| TREZAR | Centralized Payroll Processing |
| TSA | Treasury Single Account |

1. INTRODUCTION

1.1. Rationale and demand for report

1. Accounting and financial reporting in Serbia is currently maintained on a modified cash basis. This form of accounting has been traditionally recognized for its emphasis on compliance with the annual budget law. Cash basis accounting has long been preferred for its simplicity and greater degree of objectivity. Several measures have been introduced into Serbian public sector accounting to supplement cash based data with non-cash information.
2. In 2015 the International Monetary Fund's (IMF) Fiscal Affairs Department provided technical assistance for the Treasury Administration including: (i) advice on formalizing the public sector accounting standard setting process by establishing an Accounting Commission together with its decision making working procedures, (ii) a gap analysis against cash basis IPSAS and assistance with producing trial 2015 cash based financial statements, (iii) preparation of a roadmap for transition to full IPSAS which was included in the Government's PFM Reform Program in an adjusted but consistent format.
3. The public financial management (PFM) Reform Program 2016-2020 was adopted by the Government in December 2015 and has three main objectives: (i) to support macro fiscal stability, (ii) mobilization and allocation of public resources, (ii) to support delivery of efficient public services. Additional objective is to achieve eligibility criteria for EU accession. Under the Program, the main medium-term goal is the gradual transition from cash basis to accrual basis accounting and financial reporting and the application of International Public Sector Accounting Standards (IPSAS). The Public sector accounting reform and transition to accrual accounting is a long term effort for the Government, best implemented applying a gradual approach. The Program envisages the gradual adoption of IPSAS standards with full adoption planned for 2020. Transition to accrual accounting and financial reporting will improve the quality of financial information and enable informed decision making, consequently ensuring the more efficient use of public funds and improved fiscal performance through expenditures savings and revenue mobilization. The reforms will also result in important improvements in the availability of complete and reliable financial information on assets and liabilities, which will enable better management of public resources.
4. This Report on the Enhancement of Public Sector Financial Reporting is the first output of the Serbia Public Sector Accounting Reform Technical Assistance project funded by the Swiss State Secretariat for Economic Affairs (SECO) under the Public Sector Accounting and Reporting Program (PULSAR). This project provides support for the development and implementation of public sector accounting standards in accordance with IPSAS. This report supports the development of a plan towards that goal. Specifically, this report assesses the institutional framework for public sector accounting as well as the gap between Serbian public sector generally accepted accounting principles (PS GAAP)⁵ and IPSAS and thereafter makes recommendations to sequence the strengthening of both the framework and the GAAP.

⁵ Serbian Public Sector GAAP (Serbian PS GAAP), though not an official term in Serbia, is defined for the purposes of this report as comprising the laws, decrees and rulebooks described in section 2.2. below that codifies Serbian public sector accounting requirements and is applicable to the entire Serbian public sector which for the purposes of this report excludes public sector owned companies.

1.2. Country context

5. The recent economic crisis experienced in the region has significantly impacted Serbia by limiting growth and increasing pressure on its macroeconomic situation and fiscal stability. The 2008 crisis, and the subsequent economic downturn in Serbia, highlighted the need for fiscal consolidation and acceleration of the unfinished transition to a market economy⁶. Serbia's rapid growth during 2001–08, driven by domestic demand and fueled by capital inflows, led to significant, and unsustainable, internal and external imbalances. As a result, in 2008 government spending was almost 45 percent of gross domestic product (GDP) with a sizeable state-owned and public enterprise presence adding to the state's economic footprint. Between 2009 and 2015, public debt doubled to 76 percent of GDP. At the same time, the stock of public guarantees, mainly to SOEs and public enterprises, rose from below 3 percent of GDP in 2008 to 7.2 percent in 2016.
6. Certain indicators point to economic recovery in recent years. Serbia reduced its fiscal deficit from around 6.5 percent of GDP (average 2012-14) to around 3.7 and 1.4 percent in 2015 and 2016, respectively. It is expected that the 2016 level of fiscal deficit will remain stable in 2017, with some further reductions in the medium-term. Avoiding excessive government spending will be needed to support macro-fiscal stability in line with IMF program targets. The Government has taken important steps on SOE and public administration reforms but implementation of key reforms, particularly relating to rightsizing, will require sustained commitment. Serbia faces the twin-challenge of a need for fiscal consolidation to put public debt-to-GDP (76.8 percent at end-2015 and 72 percent in September 2016) onto a downward trajectory, while boosting growth and job creation (with unstable growth figures averaging 0.4 percent over 2010-2015, increasing to 2.5 percent in 2016 with further increase anticipated to 3.5 percent in 2018). Labor market outcomes have slightly improved in recent years, though unemployment remains high at 15.2 percent in 2016, and the employment rate is low at 45.9 percent of the population above 15 years of age.
7. A number of structural and fiscal reforms, the backbone of an improved environment, are being implemented. The government's economic program, as set out in its Fiscal Strategy⁷, focuses on fiscal consolidation to ensure macroeconomic stability, improving financial sector stability and resilience, boosting competitiveness, and ensuring sustainable growth. Notwithstanding stronger-than-expected fiscal performance in 2015 and 2016, there is a need to continue PFM and public administration reforms to ensure fiscal sustainability. Improving the financial sustainability and efficiency of public enterprises and state-owned companies is also critical to reduce direct and indirect government support to these sectors, which weighs heavily on the budget. Successful implementation of reforms in public administration, the management of public finances, and of SOEs will improve public service delivery and economic efficiency and will create foundations for faster medium-term growth and private sector led job creation.
8. The combination of economic pressures, an improvement in relations with Serbia's neighbors, and domestic reform momentum, have provided an important opportunity to accelerate reforms. Following elections in March 2014, a government with a strong majority was formed, giving Serbia a new opportunity to overcome past fragmentation and build momentum for reform. The coalition of the Prime Minister subsequently won early Parliamentary elections held in April 2016, with a new government formed in August 2016. The government will be reshuffled in June 2017 following the Prime Minister's election as President of Serbia. The

⁶ For further analysis, see World Bank (2015), Serbia Systematic Country Diagnostic.

⁷ Fiscal Strategy 2017-2019, the Government of the Republic of Serbia.

government is committed to transforming the state administration, public finances, and the economy, along with pursuing the European Union (EU) accession process.

1.3. Benefits of accruals-based PS GAAP over a budget execution reporting framework

9. Serbian public sector decision-makers and government seem to refer to and rely on cash based budget execution reports. There is little evidence that they use financial statements produced in accordance with the modified cash basis of accounting underlying Serbian PS GAAP. It is these decision-makers who need to be convinced of the added value of financial statements prepared in accordance with an accruals based framework over cash based budget execution reports. This could in turn lead to a demand for accruals-based public sector financial information as well as to the eventual reform of Serbian PS GAAP. The remainder of this section outlines the benefits of preparing financial information in accordance with an accruals-based framework.
10. Although accrual accounting has been the *modus operandi* in the private sector for over a century, many governments continued using the cash approach as the primary method for preparing their budgets and accounts. A global shift to public sector accrual accounting is now underway and is expected to increase. According to an IMF report⁸, in 2015, 41 governments (21 percent) had completed a transition to accrual accounting, 16 government's accounts were on a modified accrual basis (8 percent), 28 governments (17 percent) were on a modified cash basis, and 114 governments (57 percent) remained on a pure cash accounting basis – see figure below. The latest PwC survey on accounting and reporting by central governments⁹ finds that by 2020, the percentage of governments applying accrual accounting will have risen to around 70 percent.
11. The move to accrual accounting is driven by a number of factors including growing awareness of the limitations of pure cash accounting, the increasing use of automated financial management functions, and advancements in the development of international accrual based standards in government statistics (GFSM¹⁰, ESA¹¹) and public accounting (IPSAS, EPSAS¹²). Financial statements prepared using accrual-basis accounting are complex and require professional judgment and accounting skills, but they offer a number of benefits over traditional cash accounting from the point of view of government transparency, accountability, and financial management.
12. Unlike budget execution reporting, accruals accounting is the only generally accepted information system that can provide a complete and reliable picture of the financial and economic position and performance of a government, by capturing in full the assets and liabilities as well as revenue and expenses of an entity including the whole-of-government entity. Accruals accounting recognizes economic events (which create, transfer, or lose economic value) as they occur, giving a much more comprehensive approach than mere cash flows. The basic concept underlying accrual accounting is a non-linear time component according to which such economic events may directly generate a corresponding or

⁸ *Implementing Accrual Accounting in the Public Sector*, International Monetary Fund (2016).

⁹ PwC Global survey on accounting and reporting by central governments 2nd edition (2015).

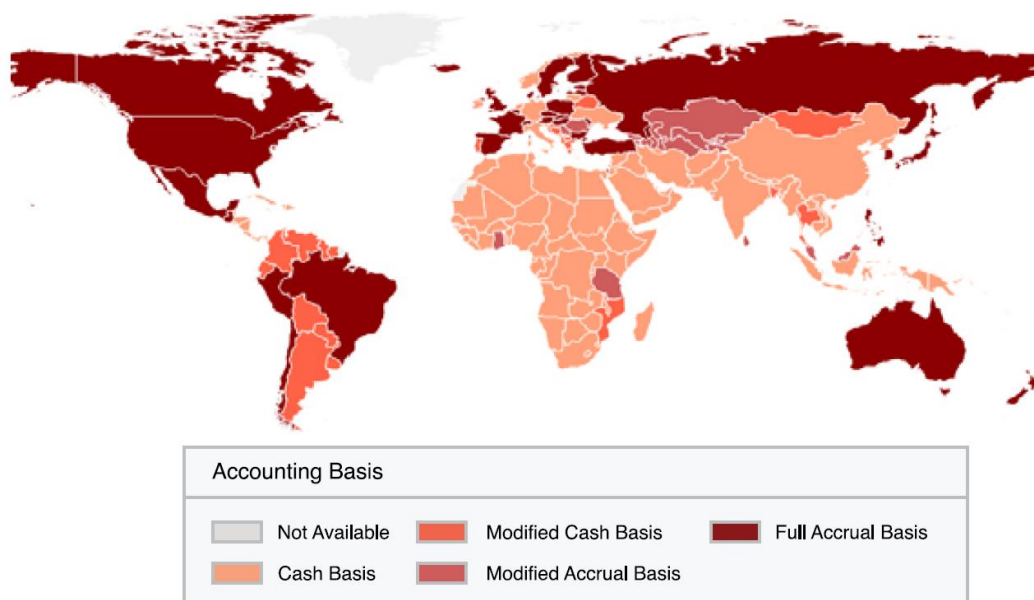
¹⁰ The IMF's Government Finance Statistics Manual.

¹¹ The European System of Integrated Economic Accounts.

¹² European Public Sector Accounting Standards.

simultaneous cash flow, or they can be connected to previous or subsequent cash impacts, such as depreciation, revaluations, or impairment.

Figure 1: Map of countries' accounting bases for annual financial statements



Source: OECD and IMF staff estimates, based on public information, including Blöndal and Moretti (2016) and Eurostat (2014).

13. Accruals accounting recognizes all assets and liabilities of the public sector, including financial and non-financial assets, liabilities other than debt securities and bonds such as payment arrears and pension obligations, as well as otherwise hidden costs such as contingent liabilities. This provides governments with a true and fair view of the financial position and its sustainability, greatly enhancing financial transparency and government accountability.
14. The degree of fiscal transparency has been shown to be an important predictor of a country's fiscal credibility and performance and positively correlates with market perceptions of fiscal solvency (such as credit default swap spreads on sovereign debt, credit ratings, and foreign equity investment)¹³. Fiscal transparency plays an important part in the evaluation and management of fiscal risks. Fiscal risks are factors that give rise to differences between a government's forecast and actual fiscal position. While improvements in fiscal transparency cannot eliminate these risks, they can help policymakers and the public to mitigate, make provisions and accommodate fiscal risks.
15. Government activity accounts for a major part of GDP and government assets and liabilities are usually substantial in all economies. It is therefore important that they are effectively managed and that governments are accountable for this management to their citizens, their representatives, investors, and other stakeholders. Government finance statistics provide information on the accounts of the different sub-sectors of general government so that policy makers and other stakeholders are able to analyze the financial position and performance of government and the long-term sustainability of public finances. The main sources of these statistics are the accounting records and reports of the various government entities, supplemented with financial information.

¹³ IMF (2012): Fiscal Transparency, Accountability and Risk. Prepared by the Fiscal Affairs Department in collaboration with the Statistics Department. Approved by Carlo Cottarelli, August 2012.

16. Common statistical frameworks, such as the European System of National and Regional Accounts (ESA 2010), the IMF's Government Finance Statistics Manual (GFSM 2014), and Public Sector Debt Statistics (PSDS) Compilation Guide 2013 record stocks and flows on an accruals basis. These statistical frameworks are usually the primary tool for fiscal monitoring at macro level and are the most deployed source of government financial records for policy analysis. The underlying data is compiled according to national government accounting standards. Having entity-level audited financial reporting data on an accruals basis would therefore substantially reduce the risk of systematic errors in the data used for preparing government finance statistics and hence in the data used for policymaking.
17. Notwithstanding these benefits, it is however important to note that implementation of full accrual accounting is a significant change which requires careful and realistic planning as well as a cost-benefit analysis to justify the reform rationale.

1.4. Scope and authority of IPSAS

18. The International Public Sector Accounting Standards Board (IPSASB) is an independent board under the auspices of the International Federation of Accountants (IFAC), setting standards for financial reporting by governments. Its objective is developing high-quality accounting standards that lead to transparent and comparable information in the general purpose financial statements of public sector entities. The members of the IPSASB have a diverse background: from central and local governments, supreme audit institutions, audit firms, institutes of auditors, development banks, and universities.
19. IPSAS are specifically designed for the public sector, but they are aligned with private sector standards. Most IPSAS were developed from IFRS (International Financial Reporting Standards) and only deviate from IFRS, which were designed for the private sector, to take account of the specific characteristics of the public sector. In developing IPSAS, the IPSASB seek convergence with international standards for the preparation of national accounts of the SNA 2008¹⁴, the ESA 2010, and related fiscal statistics according to GFSM 2014.
20. In view of Serbia's status as a candidate for EU membership, it is worth noting the EU's position on public sector accounting. The European Commission (EC) launched an initiative to improve the quality and comparability of fiscal reporting across EU Member States which includes the development and introduction of European Public Sector Accounting Standards (EPSAS). In its 2013 report, the EC considered the suitability of IPSAS for EU member states and described it as an "indisputable reference" in the development of EPSAS. For many governments initiating public sector accounting reform, and particularly in the absence of EPSAS for those governments with a view to EU accession, IPSAS is the logical reference for an accruals-basis of accounting.

¹⁴ The System of National Accounts, a statistical framework produced and released under the auspices of the United Nations, the European Commission, the Organization for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group.

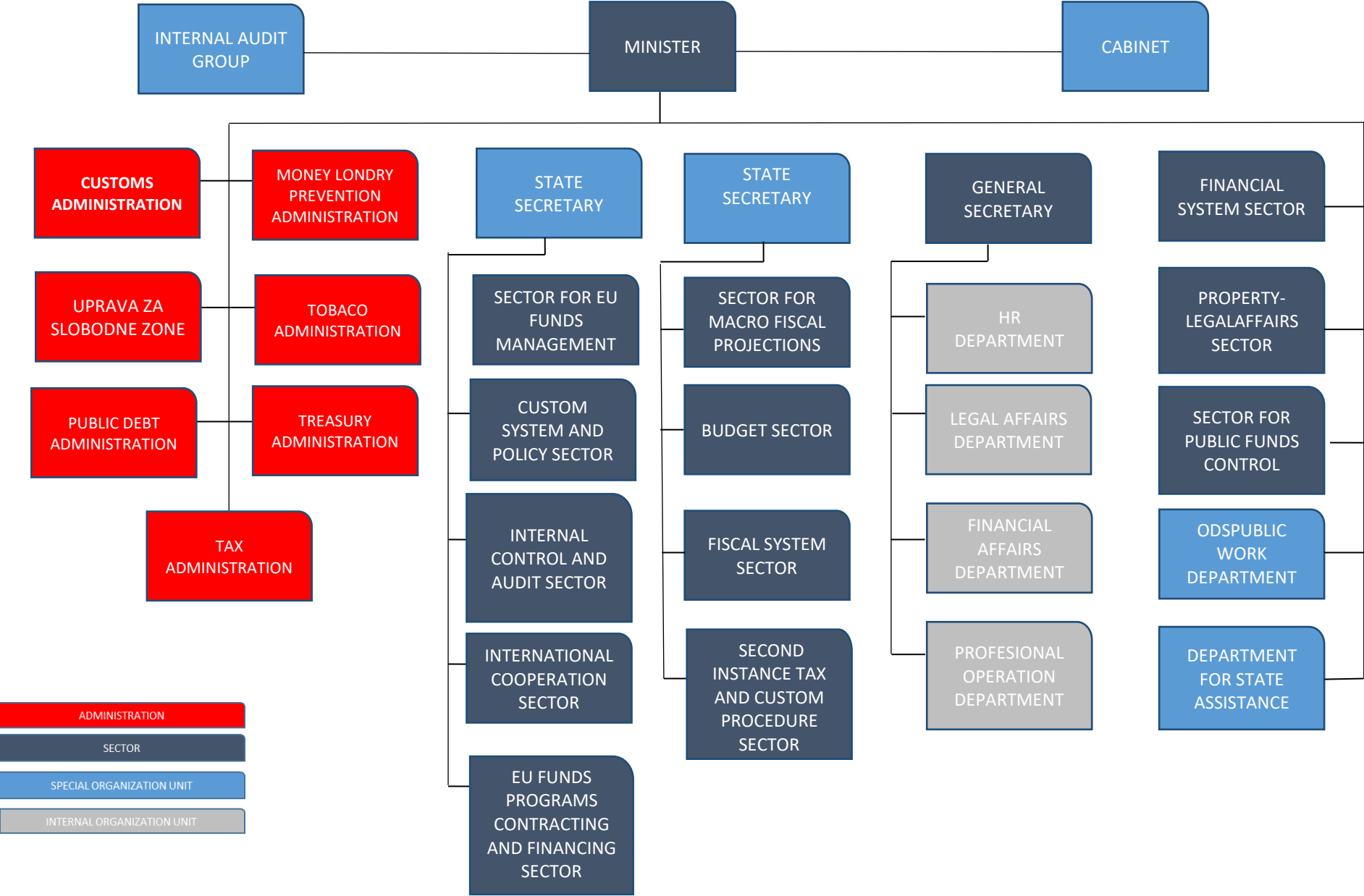
2. INSTITUTIONAL FRAMEWORK

2.1. Composition of public sector

21. The government, led by the Prime Minister, is the executive power according to the Constitution. Policies are implemented and public services delivered by Direct Budget Beneficiaries (DBBs), Indirect Budget Beneficiaries (IBBs), and Organizations for Mandatory Social Insurance, subordinated to the Prime Minister of the Republic. According to the Budget System Law (BSL), DBBs include authorities and organizations at the central level, for example line ministries. IBBs include judicial bodies, budget funds, local communities; funds, and directorates established by local government which are financed from public revenues and whose purpose is stipulated by a particular law; institutions founded by the government and/or local government, where the founder, through direct budget beneficiaries, executes legally prescribed rights in terms of management and funding.
22. The Ministry of Finance (MoF) has overall responsibility for public financial management operations in the RoS. It performs core public financial management functions that naturally belong to the Ministry. These include macro-fiscal coordination and policy, budget preparation, budget execution, public sector accounting and financial reporting, Treasury operations, public debt management, public internal financial control (PIFC), and tax administration and customs administration.¹⁵
23. The MoF is led by a politically appointed Minister and a second tier of four politically appointed State Secretaries and one General Secretariat. State Secretaries manage a heterogeneous mix of “sector portfolios”. These portfolios seem to have evolved over time rather than being assigned according to clear management and functional responsibilities. Each of these “sectors” is under the direction of a non-political Assistant Minister as the third tier of managerial hierarchy. The General Secretariat is responsible for support operations including human resource management, legal affairs, and other functions.

¹⁵ World Bank 2016, Draft Report Vertical Functional Review.

Figure 2: The Organization of the Ministry of Finance



24. DBBs, IBBs, and Organizations for Mandatory Social Insurance have functional responsibilities for originating budget proposals, budget execution, and maintaining budget accounting at entity level. Furthermore, the BSL stipulates that all entities are required to maintain Financial Management and Control (FMC) and Internal Audit (IA), coordinated through the Central Harmonization Unit (CHU) located within the MoF.¹⁶
25. Local governments constitute the second level of government. They consist of autonomous provinces, municipalities and cities. The institutional core element of local government is the municipality, which directly administers its responsibilities, through institutions funded by its budget and organized as separate institutions (DBBs and IBBs) or through local public enterprises/utilities. Local government entities perform core public financial management functions such as budget formulation, budget execution and budget accounting in cooperation with the Treasury Administration and its local Branch Offices. Local government entities are permitted to conduct procurements and enter into contracts.
26. Although local governments depend substantially on budget transfers from central government, the Law on Local Government Finance¹⁷ permits local governments to levy their own taxes and fees, i.e. property tax, inheritance tax, local administrative fees, local communal fees, and others. The share of own revenues in total revenues of Serbian local governments has varied over time, averaging approximately 30 percent between 2005 and 2012. The most important source of own revenues are property taxes (approximately 6 percent as a share of total revenues), followed by communal fees and compensation for land use.¹⁸ Overall, local governments account for about 15 percent of total general government spending, and about 20 percent of total public employment.¹⁹
27. [Figure 3](#) presents the composition of the public sector in Serbia. [Table 1](#) shows the approximate number of Serbian public sector entities, including public utilities and public enterprises, using data from a recent RoS inventory.²⁰ However, some uncertainty about the exact composition of public sector entities and their appropriate classification was noted during this Review. As also highlighted by the Fiscal Council²¹, this would need to be resolved in conjunction with any planned steps for IPSAS/GFS²² compliant consolidation of financial statements. One of the prerequisite steps of the public sector accounting reform should be a review and redesigning of the accounting processes and optimizing the number of accounting units in order to: (i) fit into the institutional set up and governance structure of public sector, adequate to size of Serbia, (ii) effectively use human resources and ICT, (iii) eliminate duplication of entry and maintenance of accounting registers. Such review would also clarify and streamline accounting functions which needs to be synergized with other functions of PFM budgeting, treasury, internal control, auditing, fiscal reporting.

¹⁶ See also SIGMA Report 2016, The Principles of Public Administration.

¹⁷ Official Gazette No. 62/2006, 47/2011, 93/2012, 99/2013, 125/2014, 95/2015, 83/2016, 91/2016 and 104/2016.

¹⁸ Đurović-Todorović and Đorđević (2014). Volume and structure of the own revenues in financing of the local governments in the Republic of Serbia. Proceedings from the International Scientific Conference, The Financial and Real Economy: Towards Sustainable Growth, Faculty of Economics, University of Nis, 17. October 2014.

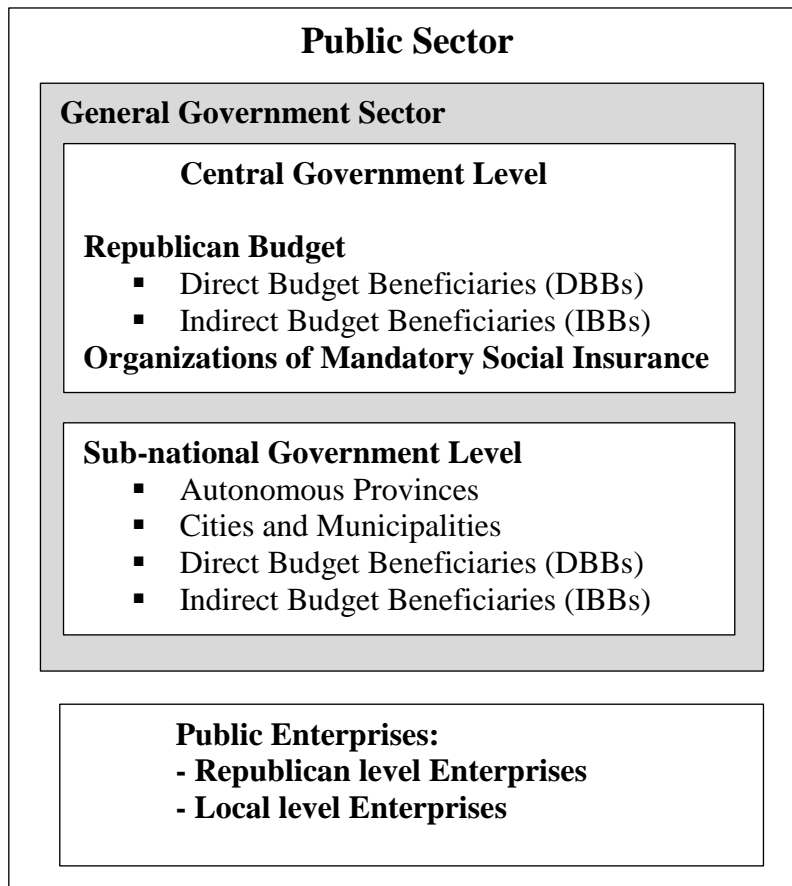
¹⁹ The World Bank 2014, Municipal Public Finance Review Serbia, p. 1.

²⁰ GoS Inventory of Users of Public Funds, conducted 31.01.2017.

²¹ Fiscal Council, 2014.

²² Government Financial Statistics.

Figure 3: Composition of the Serbian Public Sector



Source: The authors.

Table 1: Approximate composition of Serbian public sector entities including public enterprises

| Classification | Total No | Centr. Gov. | Description / Example Central Government | Subnat. Gov. | Description / Example Sub-national Government |
|--|--------------|-------------|--|--------------|--|
| 0 – Budget | 201 | 1 | Central Government | 200 | Autonomous Provinces, Municipalities |
| 1 – DBBs Direct budget beneficiaries, i.e. entities whose budget is part of Central / Local government level: | 1033 | 165 | Ministry of Interior, Ministry of Finance, Treasury Administration, Republic Geodetic Authority, Fiscal Council, Constitutional Court, Serbian Academy of Science and Arts, Statistical Office of RS | 868 | Government of AP, City Council, Mayor, City Parliament, City Administration for Budget and Finance, Municipal Administration for Economy |
| 2 – IBBs Entities financed through their parent DBBs | 7857 | 2872 | Museums, Theatres, Belgrade Philharmonic, Schools and Faculties, Higher court in Niš, Office for Human Rights, Penitentiary in Smederevo, Student Center in Užice, Social Center in Valjevo | 4985 | Museums, Theatres, Kindergartens, Library, Wards, Sport Center, Fund for Environmental Protection |
| 4 – Regional Organizational units of DBB | 136 | 136 | 30 Health Funds, 35 Pension Funds, 29 Police entities, 6 Regional Tax Administrations, 35 Employment Service, 1 Serbian Academy of Science | 0 | |
| 5 –Special Purpose funds of DBB; Exist as a budget chapter, administered by relevant DBB | 592 | 28 | Cultural organizations, Courts, Higher Courts, Commission for elections, Public Attorneys, Primary education, Secondary education, Students standards, Children’s protection | 564 | Cultural organizations, Security and emergency situations, Commission for elections, Children’s protection, Local development, Local self-financing, Local housing development |
| 6 – Secondary users of public funds: Governmental Agencies funded by specific law, with an account in Treasury | 43 | 43 | RATEL – Republic Agency for Electronic Communications and Postal Services, Development Fund of RS, PE “Roads of Serbia”, Energy Agency of RS, Institute of Virology, Vaccines and Sera | 0 | |
| 7 – Other users of public funds: public utilities, SOEs | 1178 | 524 | Public utilities including railways, State Lottery, Institute for Food Technology, National Council of Hungarian National Minority, Security Commission, Belgrade Fair | 654 | Public utilities, Development Fund of Vojvodina, Newspaper and Publishing Institution “Croatian Word” Touristic Center “Zemun” inc. |
| Total | 11040 | 3769 | | 7271 | |

Source: Official Gazette No. 107/16, Inventory of Users of Public Funds.

2.2. Statutory Framework

28. The Constitution of the Republic of Serbia, confirmed in a referendum in October 2006, is the highest general legal act in the Republic of Serbia. The governing system of the RoS is based on the division of powers, including an executive, legislative and judiciary branch. The President of the Republic of Serbia represents the Republic at home and abroad and proposes to the National Assembly candidates for the Prime Minister. His mandate lasts five years and is constitutionally limited to two terms. The Prime Minister manages and directs the work of government. The National Assembly represents the supreme holder of constitutional and legislative power in the RoS. The National Assembly consists of 250 members, directly elected by a secret ballot, in accordance with the law. Members of Parliament serve a four-year term.
29. Judicial power, independent from the executive and legislative, is exercised by the courts. The courts are public authorities, independent and autonomous in their work. The courts of general jurisdiction are the basic, higher, and appellate courts, and the Supreme Court of Cassation. Courts of special jurisdiction are the Commercial Appellate Court, the Misdemeanor Appellate Court, and the Administrative Court. The Supreme Court of Cassation is the highest court in the RoS. As of July 1, 2014 the court had 36 elected judges, including its president. The judicial staff consists of 199 employees. In July 2013, at the proposal of the Ministry of Justice and Public Administration, the Government of the RoS passed a resolution on the adoption of an action plan for the implementation of a National Judicial Reform Strategy. The aim was to allow the judicial system to prepare for new challenges and align with European standards and values, to take account of EU law and the recommendations and standards of the European Council. The National Judicial Reform Strategy is aligned with the National Plan for the Adoption of EU Acquis.²³
30. Serbia has a tradition of written law. The supreme legislation is the Constitution and the principles contained therein are elaborated in a comprehensive policy framework including laws, decrees, and rulebooks. According to this tradition, there is no stand-alone law on accounting principles to be applied by users of public funds. Rather public sector accounting and financial management is for the most part regulated by the following set of laws, decrees, and rulebooks: the BSL, the Decree on Budget Accounting, the Decree on Application of International Public Sector Accounting Standards, the Rulebook on Standard Classification Framework and Chart of Accounts, the Rulebook on the Method of Preparation, Compiling and Submitting of Financial Reports of the Budget Beneficiaries, Beneficiaries of Funds of Mandatory Social Insurance Organizations and Budget Funds, the Rulebook on Methods and Terms of Inventory and Reconciliation of Accounting Records and Actual Data, and the Rulebook on Common Basis, Criteria and Tasks for Functioning of Direct Budget Beneficiary Financial Services. With respect to public finances of local governments the relevant law is the Law on Local Government Finance.
31. Written law is a prerequisite for the adoption of any principles or rules by public sector entities. As is common in Continental European countries, a formal legislation comprising at least one constitution-based law is required, usually together with additional decisions and instructions, to adopt standards or other principles in public-sector entities. For the purposes of this report Serbian PS GAAP are defined as the aforementioned policy framework (further described below).
32. The BSL prescribes inter alia: (i) the planning, preparation, adoption, and execution of the budget of autonomous provinces and local self-government units; (ii) the preparation and

²³ www.vk.sud.rs (accessed, 1/3/2017).

adoption of financial plans of the Republican Fund for Pension and Disability Insurance and the Organizations for Mandatory Social Insurance; (iii) budget accounting and reporting, financial management, control, and audit of entities that are publicly funded, including DBBs and IBBs and beneficiaries of budget funding at the state or local government level, and the financial plans of Organizations for Mandatory Social Insurance; (iv) the scope of work and organization of the Treasury, as an authority within the MoF, at central and local government level, and other issues relevant for the functioning of the budget system.

33. The Decree on Budget Accounting establishes inter alia: budget accounting and the Treasury general ledger in compliance with the BSL; the basis for budget accounting, which is cash basis as defined by IPSAS; the consolidation scope of annual financial statements of the RoS; periodic reporting; the responsibility of the Treasury to maintain the general ledger of the RoS; the responsibility of DBBs and IBBs to maintain their own financial accounts and general ledgers; reconciliation of the general ledger with subsidiary ledgers such as receivables and payables; reconciliation of assets and liabilities at the end of the year; the responsibility for accounting documents to be signed by both the preparer and the management responsible for transactions; professional requirements for keeping financial accounts; and punitive provisions if the decree on budget accounting is breached.
34. The Decree on Application of International Public Sector Accounting Standards establishes inter alia: that the preparation, presentation, submission, and disclosure of financial statements of the direct and indirect budget beneficiaries, beneficiaries of funds of mandatory social insurance organizations, the budget funds of the RoS, and the budget funds of autonomous provinces and local self-government units, shall be IPSAS cash basis compliant as of January 2010.
35. The Rulebook on Standard Classification Framework and Chart of Accounts establishes inter alia: the chart of accounts to be used for budgeting and accounting purposes.
36. The Rulebook on the Method of Preparation, Compiling and Submitting of Financial Reports of the Budget Beneficiaries establishes inter alia: the preparation, compilation, and submission of financial reports using distinct financial forms, particularly Form 1 (Balance Sheet), Form 2 (Income and Loss Statement), Form 3 (Report on Capital Expenditures and Revenues), Form 4 (Report on Cash Flow) and Form 5 (Report on Budget Execution).
37. The Rulebook on Methods and Terms of Inventory and Reconciliation of Accounting Records and Actual Data establishes inter alia: the procedures related to inventory and reconciliation of accounting records and actual data. The inventory encompasses non-financial assets, financial assets, and liabilities. The report on inventory contains the actual value (i.e. fair value) and the book value of assets and liabilities, eventual differences, and a proposal for deficit and surplus settlement, as well as the treatment of impaired property.
38. The Rulebook on Common Basis, Criteria, and Tasks for Functioning of Direct Budget Beneficiary Financial Services establishes inter alia: the common basis, criteria, and tasks for functions of direct budget beneficiary financial services. Activities and tasks of the financial service unit are: preparation of the draft financial plan; allocation of funds to the subordinate indirect budget beneficiaries according to approved appropriations; preparing documentation for budget execution; managing state properties within their responsibility; accounting and reconciliation with the Treasury general ledger; and preparation of annual and periodical financial reports.
39. The Law on Local Government Finance establishes inter alia: the financing and legal permission to levy certain taxes and fees of municipalities, cities, and the capital city of Belgrade for performing original and delegated functions.

40. The legal framework outlined above is complex, fragmented, and – to some extents – contradictory. Streamlining and harmonizing would significantly reduce the number of policies dealing with public sector accounting and financial reporting. It would also improve overall policy consistency by addressing inconsistencies in the current framework (among different legal acts or even within the same act), including for example:
- i. Inconsistency between the Budget System Law and the Decree on Budget Accounting: The Budget System Law (Article 11) requires that “transactions and business events, including revenues and expenditures, as well as balance and all changes regarding assets, liabilities and equity, shall be recorded in the Treasury general ledger”. However, the Decree on Budget Accounting (Article 5) stipulates that the basis for budget accounting is the cash basis. Transactions and other events are recognized when cash is received or paid. Financial statements are prepared based on the cash-basis principles defined by IPSAS.
 - ii. Inconsistency between the Budget System Law and the Rulebook on the Method of Preparation, Compiling, and Submitting of Financial Reports of the Budget Beneficiaries: The Budget System Law (Article 79) defines that annual financial statements shall contain a report on budget execution, an annual report on program performance, as well as an external audit report. The Rulebook on the Method of Preparation, Compiling, and Submitting Financial Reports (Article 3) declares that the annual financial statement is prepared and submitted in the following form: “balance sheet, income and loss statement, report on capital expenditures and revenues, report on cash flow, report on budget execution”.
 - iii. Inconsistency within the Decree of Budget Accounting: Article 5 stipulates that “financial statements are prepared based on the cash-basis principles as defined by IPSAS.” However, Article 7 stipulates that in addition to a cash-based budget execution report the following must be submitted: a balance sheet, an income and loss statement, a report on use of funds from the current permanent budgetary reserve, and a report on guarantees provided during fiscal year. Furthermore, Article 9 states that “business books must include the overall records on financial transactions including the balance and changes to assets and receivables, liabilities, sources of finances, expenses, spending, revenues, and proceeds”.

2.3. Staff levels

MoF / Treasury

41. The Treasury is the key administration responsible for budget execution, cash management, budgetary accounting, and fiscal and financial reporting as defined in Article 93 of the BSL. The Treasury was established as a separate administration in 2005. The Treasury has a central office in Belgrade and a country-wide network of 34 regional and 110 local branch offices. As of 2015, the Treasury has 1,023 systematized positions and 978 full-time staff which makes it the third largest administration under the MoF.²⁴
42. The overall turnover rate in the Treasury is rather low, an estimated 5 percent of the total number of staff in 2015. However, a recent survey reveals the challenge of an ageing and unbalanced age structure within the MoF and its subordinate administrations. This may be

²⁴ World Bank 2016, Draft Report Functional Review, pp. 43-46.

attributed to a long period of recruitment freezes and downsizing efforts, and the loss of skilled junior staff to the private sector due to higher salaries and benefits, and more flexible working schemes.²⁵ As a result there are very few staff aged between 20 and 39, but many in the 50 plus age group.²⁶

43. While beneficial in terms of operational efficiency, gained from staff experience and retention of institutional memory, the current age profile may become problematic over the long term as existing staff near retirement. The labor market situation in Serbia allows public sector entry level staff to be hired at higher than average private sector salaries, but it seems to remain challenging to retain well-educated and motivated junior staff that could play an active role in the envisaged PFM reforms. Since the Law on civil servants is applicable to the MF and all Administrations, there is little flexibility to offer improved terms and conditions to staff with specific skills that are in short supply and/or to retain talented junior staff.²⁷

MoF / Commission for the Implementation of IPSAS

44. Establishment of a formal commission for the Implementation of International Public Sector Accounting Standards is envisaged, as proposed through a separate, draft bylaw.²⁸ The Commission shall act as a standard setting body, but with restricted functional independence, i.e. it would advise the Minister of Finance and propose a relevant policy framework, procedures, means, and timeframes of IPSAS implementation. A timeframe for the formal establishment of the Commission currently remains uncertain, it requires amendments to the BSL which have not yet been passed/enacted (for an overview, see also the section on [Setting Accounting Standards](#)).
45. It was proposed that the Commission should be composed of representatives of the Treasury's Budget Accounting and Financial Reporting Unit, DBBs, autonomous provinces, the National Bank of Serbia, National Assembly, Supreme Audit Institution (SAI) Universities, and professional education bodies such as the Serbian Association of Accountants and Auditors (SAAA).
46. Administrative support for the Commission has not yet been taken into account within proposed legislation. It is likely that Commission proposals and/or decisions will lead to substantial managerial, administrative, and organizational tasks needing to be implemented through some form of dedicated body. In terms of operational efficiency, it is recommended to locate this administrative support within the Budget Accounting and Financial Reporting Unit.

Treasury / Budget Accounting and Financial Reporting Unit

47. Responsibilities for both policy and operational functions related to accounting and financial reporting for the central government are concentrated in the Budget Accounting and Financial Reporting Sector of the Treasury. The Sector has 19 staff in total, roughly evenly distributed between two organizational units; one for accounting operations (10 staff), and one for financial reporting and methodology (9 staff).
48. In order to create additional capacity required to implement the planned public sector accounting reform, a new organizational unit will be formed within the Sector for Budget Accounting and Reporting. The newly established unit will be mainly in charge of the IPSAS

²⁵ World Bank 2015, Public Finance Review, p. 119.

²⁶ World Bank 2016, Draft Report Functional Review, p. 36.

²⁷ World Bank 2015, Public Finance Review, pp. 25-30.

²⁸ IMF 2015, Consolidated TA Reports Republic of Serbia, pp. 43-46.

reform and implementation process within the Budget Accounting and Financial Reporting Sector. Key functions might include improvement of the legislative framework, development and improvement of accounting policies, scrutiny and development of the chart of accounts, preparation and development of new accounting procedures and rulebooks, as well as the preparation of training materials and/or delivery of training.

49. Staff levels within the Budget Accounting and Financial Reporting Sector clearly need to be strengthened to continue with the envisaged accounting reform, however the establishment of a separate organizational unit, responsible for the IPSAS implementation process, is not recommended. The envisaged accounting reform is likely to affect all units to similar extents. It is therefore recommended to strengthen staff levels within existing organizational units and boundaries and locate IPSAS project ownership at the top of the Budget Accounting and Financial Reporting Sector. This would reduce organizational interfaces and boundaries, increase project ownership for both the operational accounting and the accounting methodology units, while also being beneficial in terms of operational efficiency gained from staff experience and retention of institutional memory.
50. If an overall increase of staff levels within the Budget Accounting and Financial Reporting Sector can only be achieved by splitting financial reporting and accounting methodology into two separate units, strong project collaboration within the Sector needs to be ensured. This is a further reason to assign ownership for IPSAS implementation to the top level of the Budget Accounting and Financial Reporting Sector, making the whole Sector accountable for IPSAS reform progress and ensuring close collaboration and cooperation.

Treasury / ICT Unit

51. The Treasury ICT Sector is organized into 7 units, namely: Department for Analysis, Design and Support to Software Solutions, Department for Application Development, Processing and Information Center, Department for Server Infrastructure, Center for Communication and Network Infrastructure, Section for Technical and System Support, and Center for Project Harmonization and Logistics.²⁹
52. The Treasury ICT Sector is responsible for: managing tasks in the field of IT, as well as harmonization of work of the smaller internal units in the Sector; control of implementation of business processes and risk assessment in business operations from the scope of work of the Sector; defining the IT development strategy in accordance with the business needs of the Treasury Administration; conducting application development, implementation and integration projects in line with the business needs of the Treasury Administration; planning and implementation of information systems architecture; defining, maintaining and continuous control of the protection of information in line with the IT management policy of the Treasury Administration; integration of analyzes, information and reports, as well as harmonization of other materials from the scope of work of the Sector; cooperation with other internal units of the Treasury Administration.
53. Treasury IT system is heterogeneous system of different technologies mutually connected and integrated in unique IT system maintained by IT Sector staff or external suppliers (e.g. accounting systems in place within DBBs or IBBs).
54. It is necessary to strengthen the structure of IT in terms of number of employees and their training to meet the needs of current and planned IT projects. There is an evident lack of human

²⁹ Review of IT Function at the Treasury Administration (TRE), Working Paper, May 15, 2016, p. 5.

resources in the IT sector, which is due to the large number of projects related to implementation and production.

55. The significant senior staff turnover seen in the ICT Sector is in contrast to general staff turnover in the Treasury. Recent staffing patterns show a 17 percent net loss of senior staff over the 2013-2015 period, attributed by management primarily to uncompetitive compensation. This is not surprising considering that ICT salaries in the public sector have the largest gap compared to the private sector.³⁰

Accounting Staff within DBBs, IBBs and Mandatory Social Insurance

56. For the purpose of public financial management, DBBs, IBBs, and Organizations of Mandatory Social Insurance are subordinated to the MoF with responsibility to prepare and submit financial statements according to the policy framework. Article 12 of the BSL requires all DBBs to establish a Finance Unit, which shall prepare draft financial plans and requests for the execution of appropriations, compile reports on their execution, and perform other activities stipulated by the law. Finance Units of DBBs may perform activities for other DBBs as well. The current policy framework for public sector accounting does not explicitly require IBBs to establish a Finance Unit.
57. Further regulations relating to PFM responsibilities include:
- The Decree for Budget Accounting (Article 16) specifies that DBBs, IBBs, and Organizations of Mandatory Social Insurance shall define by virtue of an internal general act: the organization of the accounting system; internal accounting control procedures; people responsible for the rule of law; and the preparation and accuracy of documents on business transactions and other events.
 - The Decree on Budget Accounting (Article 16) establishes three key public finance management positions which shall sign accounting documents: the person responsible for business transactions, i.e. the Head of the Entity; the person verifying it, i.e. the Head of the Finance Unit; and the person preparing the document, i.e. the operational accountant.
58. Anecdotal evidence gained during interviews with DBBs, IBBs, and the SAI reveal that public sector accounting and budgeting is maintained and staffed differently within different organizational settings. Larger entities, i.e. DBBs, tend to run a designated Finance Unit according to the BSL with adequate staffing. The Ministry of Education and Science (DBB), for example, currently operates two distinct accounting units (one for science and one for education), each of these units has a staff of 6, including chief accountants. There are currently 19 employees of the Accounting Services Unit of the Treasury Administration (DBB). IBBs and other local government units tend to operate within less developed accounting units while, reportedly, facing partially inadequate staffing.
59. A survey conducted by the MoF/Treasury revealed that as of June 03, 2016 the RoS employed around 12,316 accountants within approximately 9,500 beneficiaries of public funds, excluding SoEs, which apply IFRS. As not all government entities maintain separate accounting the estimated number of accounting units is around 4,600 which gives average of 2.5 finance staff per accounting entity. The following table summarizes available information about the current numbers of accountants:

Table 2: Number of accountants in the public sector

³⁰ See World Bank 2015, Public Finance Review, p. 119, for an overview; and Review of IT Function at the Treasury Administration (TRE), Working Paper, May 15, 2016, p. 11.

| | Overview | | Secondary School (or equivalent) | | Undergraduate | | Graduate | |
|--------------------------------------|---------------|-------------|-------------------------------------|-------------|---------------|-------------|--------------|-------------|
| | No. | in per cent | No. | in per cent | No. | in per cent | No. | in per cent |
| Republic budget users | 6,084 | 49% | 3,175 | 52% | 1,046 | 17% | 1,863 | 31% |
| Local Government Units | 3,578 | 29% | 1,588 | 44% | 600 | 17% | 1,390 | 39% |
| Organizations of Mandatory Insurance | 2,654 | 22% | 1,517 | 57% | 491 | 19% | 646 | 24% |
| Total Accountants | 12,316 | 100% | 6,280 | 51% | 2,137 | 17% | 3,899 | 32% |

Source: MoF Treasury Administration 2016 – internal documentation

60. The survey reveals that DBBs and IBBs currently employ an estimated 6,084 finance staff which equals 49 percent of the whole population, compared to 3,578 accounting staff for local government units (29 percent), and 2,654 accountants for Organizations of Mandatory Social Insurance (22 percent). Furthermore, existing survey data reveals an educationally balanced staff distribution within different governmental layers. Roughly half of the staff population (i.e. 51 percent) has finished secondary school while 49 percent of staff has some sort of academic background.
61. Using the educational level as a proxy for the functional distribution of accountants, there seems to exist an equal distribution between operational/supporting staff (i.e. the 51 percent share of staff with secondary education) and more senior staff levels including managerial positions (i.e. the 49 percent share of staff with an academic background). However, smaller entities frequently employ only one finance/accounting staff, fulfilling both operational and managerial tasks.
62. The low percentage of undergraduate staff within all governmental layers (i.e. 17 – 19 percent) indicates difficulties in recruiting associate and junior staff levels from universities. This issue is well-known and has been widely discussed in other reports.³¹ Given existing remuneration constraints within civil service regulation, it is believed that a large share of undergraduate accounting or economics students choose to enter the private rather than the public sector. The World Bank Public Finance Review (2015) reveals significant lower base salaries for junior experts in the public sector compared to the private sector, whereas administrative and support staff in the public sector tend to be offered higher salaries than in the private sector. This stands in stark contrast to senior and managerial public officials who score significantly higher within the remuneration index, even compared to private sector counterparts.
63. Combating an ageing and unbalanced workforce within the MoF³² (and presumably also within other finance/accounting units³³) the Government of Serbia (GoS) faces the prospect of actively recruiting staff at a junior level and training them to replace more experienced (retiring) staff. Although, to some extent, the MoF might be able to use its prestige and its ability to provide a stepping stone to more senior positions in other government departments as an incentive, there will be a constant need to attract and retain talented and motivated junior staff. Considering the already low share of undergraduate experts combined with ongoing difficulties to recruit into such positions, this prospect might prove to be challenging.
64. The envisaged public sector accounting reform may act as a window of opportunity to enrich historically developed accounting functions with more sophisticated tasks and responsibilities, that might also be required by private sector accounting firms and consultancies thereby

³¹ See World Bank 2015, Public Finance Review, for an overview.

³² World Bank 2016, Draft Report Functional Review, p. 36.

³³ Fiscal Council 2014, p. 14.

increasing the demand for public sector accounting positions. Other countries applying IPSAS, for example Switzerland, found it easier to recruit accounting staff from the private sector once the IPSAS transition was completed.

2.4. Academic Education, Professional Education, Training

Academic Education

65. Higher education in Serbia is available at 8 public universities and 11 private universities, a total of 41 faculties and high schools offer accounting and auditing courses. Approximately 80 percent of all students are admitted to public universities, of which by far the largest, oldest, and arguably most respected is the University of Belgrade. This section of the report on academic education in Serbia focuses on the University of Belgrade's Faculty of Economics, drawing on the findings of the recent World Bank report: EU REPARIS Education Community of Practice: Accountancy Education Benchmarking Study (2016).
66. The Faculty of Economics of the University of Belgrade was founded in 1937, originally as the Economic-Commerce Higher Education School. It was transformed into a faculty of the university in 1947 and offers undergraduate, graduate, and PhD programs in economics and accounting. The major sources of funding are student fees, making up to 53 percent of the available budget. Government budget transfers account for roughly 37 percent of available resources. Admission quotas are decided by the GoS. The overall number of admissions to the undergraduate program is around 1,500 students, with 1,000 students graduating annually.³⁴
67. In the field of accounting, the Faculty offers: a four-year undergraduate degree in economics with a specialization in accounting, auditing and financial management; a one-year master's program in accounting, auditing and business finance; a 4 year PhD program with the possibility to write the thesis on an accounting topic, as well as other specialized courses in accounting and finance. The University of Belgrade also offers tailor made accounting courses for organizations and practitioners upon request (for example the Red Cross Organization of Serbia) and often contributes to certified public accountant training courses offered by SAAA.³⁵
68. The figures below show how the undergraduate and masters syllabi compare against those proposed by the ACCA³⁶ and CIPFA³⁷. While both undergraduate and graduate programs score relatively well against the ACCA benchmarks, they compare poorly against the CIPFA public sector syllabus because of low coverage of public sector financial reporting, including IPSAS. Universities should consider offering more detailed courses in public sector accounting and auditing in order that undergraduates may better understand the challenges of the public sector and can bring with them into public sector employment a basic knowledge of the subject, thereby helping facilitate an improvement in public sector financial management.

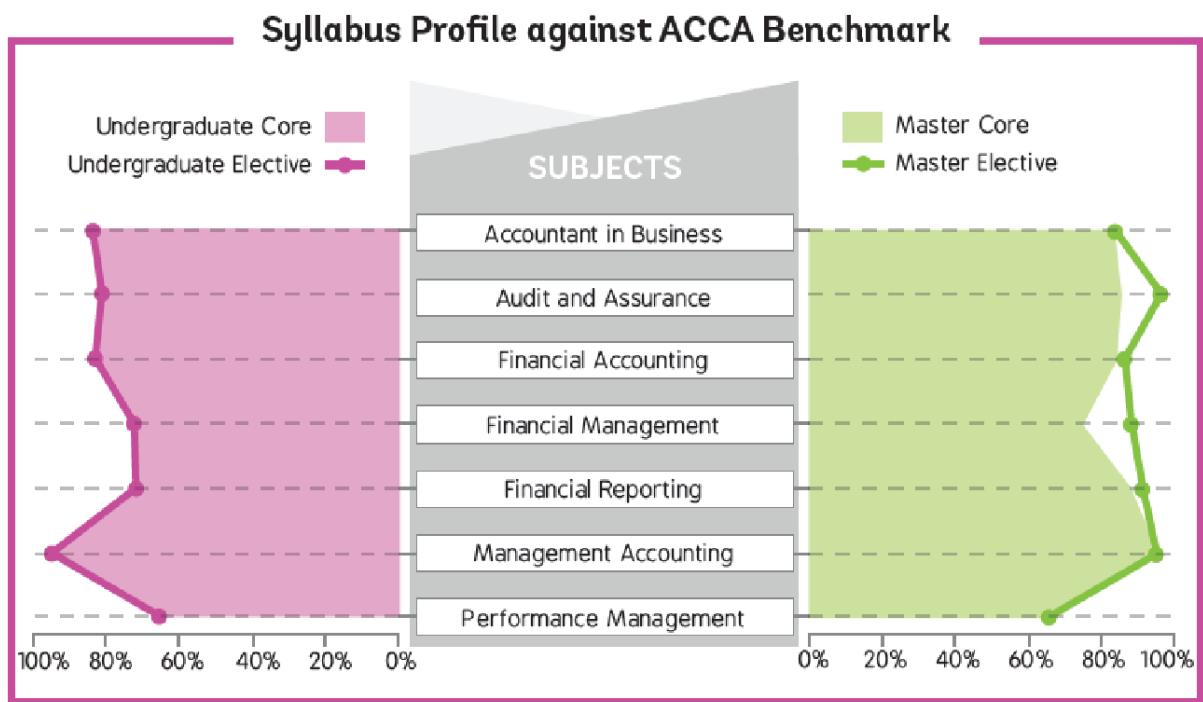
Figure 4: Syllabus Profile against ACCA Benchmark

³⁴ Centre for Financial Reporting Reform 2016, pp. 137-157.

³⁵ World Bank, Centre for Financial Reporting Reform 2016, Accountancy Education Benchmarking Study, pp. 137-157.

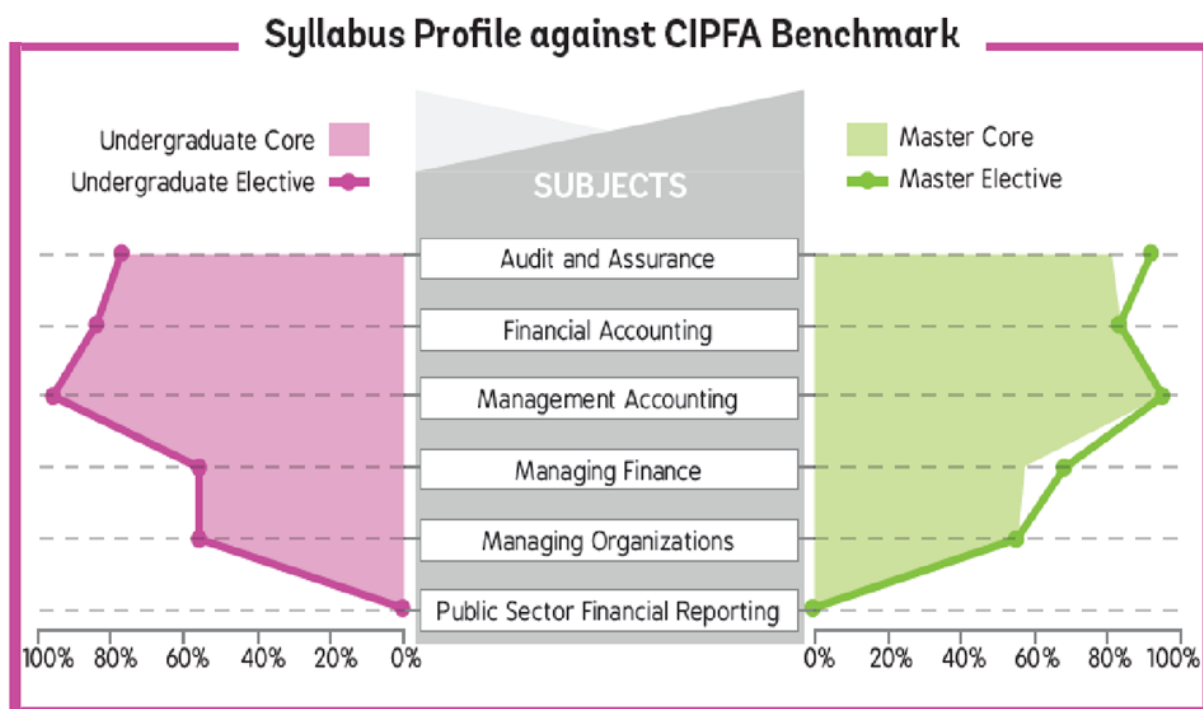
³⁶ Association of Chartered Certified Accountants, the global body for professional accountants.

³⁷ Chartered Institute of Public Finance and Accountancy, a professional institute for accountants working in the public services.



Source: The World Bank, Centre for Financial Reporting Reform (2016).

Figure 5: Syllabus Profile against CIPFA Benchmark



Source: The World Bank Centre for Financial Reporting Reform (2016).

69. There is high demand for accountancy programs, which has been growing at about 7 percent annually with approximately 30 percent of students choosing the accounting and audit program. The average period for graduation for accounting students is roughly four and a half years, with

a low drop-out rate at about 4.6 percent. On average, 60 percent of graduates are employed within six months of graduation. More than 65 percent of graduates choose private sector accountancy firms or similar, while only 20 percent are employed within government after graduation.³⁸

Professional Education Bodies

70. The Serbian Association of Accountants and Auditors (SAAA) is the oldest professional education body in the region, founded in 1955. It is a voluntary membership, professional, non-governmental organization for both accountants and auditors. The SAAA's activities mostly involve organizing professional certification as well as education and training of members. The SAAA has been a full member of IFAC since 1997 and became a member of Accountancy Europe³⁹ in 2013.
71. The SAAA offers three professional qualifications: Accountant, Certified Accountant (CA) and Certified Public Accountant (CPA). The SAAA education programs were intended throughout their long existence for private sector accounting practitioners and are largely based and aligned with ACCA programs. Currently, the SAAA is in discussions with CIPFA with the goal of introducing certain public sector accounting programs. To enroll on the CPA qualification program, individuals are required to have a university undergraduate degree (240 ECTS) and hold the CA professional designation. Demand for professional education programs has remained stable and moderate. There are about 700 admissions annually, of which more than half are for the CA qualification. Annually, around 230 candidates successfully complete the professional education programs.
72. The SAAA has over 4,000 members. Roughly 49 percent of these members hold the professional Accountant qualification, while 47 percent hold the Certified Accountant qualification. Only 2 percent of the member population are Certified Public Accountants. The largest group of SAAA members (48 percent) report being employed within the corporate sector, only 23 percent currently work for a government entity.
73. Other bodies offering professional education with respect to public sector accounting exist throughout Serbia, however they are neither internationally accredited nor a member of an international accounting profession such as IFAC.
74. The Association of Non-Market Sector Accountants offers training and education services in the area of public financial management and related ICT-Solutions, but does not demonstrate a comprehensive track record of past training activities with the central GoS.

Professional Qualification and Training Needs

75. There are no distinct and harmonized statutory requirements relating to the professional education of accountants, chief accountants, or directors of accounting units. Although Article 19 of the Decree on Budget Accounting specifies that bookkeeping shall be maintained by professionals without any criminal track record as a minimum requirement, it does not stipulate any further professional qualification conditions.
76. As a result, users of budgetary funds tend to set their own professional qualification requirements with respect to public sector accountants. The Ministry of Education and Science (DBB), for example, requires operational accountants to hold a secondary school degree with

³⁸ Centre for Financial Reporting Reform 2016, pp. 137-157.

³⁹ European organization for accountants, auditors, and advisors previously known as Federation of European Accountants (FEE).

an economic profile as a minimum precondition. These conditions, as set out in an internal handbook are applied more or less rigorously within the Ministry of Education and Science, but are not binding on other governmental entities. Discussions with the SAI and the government human resources (HR) service support the impression of heterogeneous, less-comprehensive, and less-aligned educational requirements for public sector accountants throughout the GoS.

77. To date, there has been no comprehensive training needs analysis with respect to the envisaged Public Sector Accounting reform project. However, other donor projects, such as the Public Accountants Certification Training in Serbia (PACT Serbia 2016-2018) funded by the Emerging Donors Challenge Fund does incorporate an in-depth assessment of local capacity and localization aspects within the next years. There is a need to incorporate these findings within any capacity building concept and align it to the subsequent, recipient-executed activities following this REPF report.
78. As the GoS has a past track record of modified cash or modified accrual accounting, there is a need for a well-designed and targeted professional capacity building approach, to introduce the concept of accrual accounting and particularly IPSAS. Although the concept of accrual accounting might be well known from theory and (restricted) practice within different types of entities (i.e. Treasury or certain DBBs) and within distinct peer groups (i.e. Chief Accountants), overall professional capacity needs to be developed and increased throughout all governmental entities, in order to proceed with the envisaged accrual accounting reform. [Annex 4](#) describes key recommendations on how to introduce a sustainable capacity-building approach.
79. A well-designed and targeted approach takes into account existing knowledge of basic accrual accounting principles to deliver specific and relevant IPSAS know-how to distinct user and peer-groups in a sustainable manner. This might include the following stakeholders (ordered by relevance and intensity of professional capacity building needs):
 - The Treasury: The accounting methodology and operational accounting units are key target groups for training. As these two units will be in charge of the envisaged accounting reform both from a policy (i.e. drafting new legislation) and operational (i.e. consolidation procedures) perspective, and will act as an IPSAS competence center throughout the GoS, the training must be comprehensive and include, for example, internationally recognized IPSAS certification.
 - Chief Accountants/Directors of Finance Units: Chief accountants within government entities are a second target group. They are usually responsible, and held accountable, for the quality of financial statements so must be able to deliver on key IPSAS requirements and principles, including for example IPSAS 1 (Presentation of Financial Statements), 2 (Cash Flow Statement), 3 (Accounting Policies, Changes in Accounting Estimates and Errors), 14 (Events after the Reporting Date), 24 (Presentation of Budget Information in Financial Statements), 34 (Separate Financial Statements), and 36 (Investments in Associates and Joint Ventures).
 - Operational Accountants: Operational Accountants within government entities are another relevant target group, given their role as technical support staff conducting accounting on a daily basis. Operational accountants need to have an overall understanding of key IPSAS principles and in-depth knowledge of specific IPSAS', relevant to their entity and function. An operational accountant within the tax administration, for example, needs to comprehensively understand IPSAS 23 (Revenues from Non-Exchange Transactions) while an accountant within debt management in the Ministry of Finance or an entity issuing bonds need to be aware of IPSAS 28-30 (Financial Instruments).

- SAI/Internal Audit (IA): The SAI must develop its IPSAS capacity in parallel to capacity building activities within the GoS. An efficient approach could be that delegated SAI members/IA staff join government (i.e. Treasury) staff in their training. Another way is to develop a specific syllabus designated for SAI/IA staff, addressing IPSAS accounting principles and additionally taking into account relevant auditing procedures and change management aspects.
- Public Sector Management: The implementation of IPSAS aims to improve overall decision making, but to be effective public sector management must be able to understand and use the financial information in its new form and content of financial statements. Short, focused training activities for decision makers might introduce key IPSAS and principles, emphasizing practical, decision-making aspects.
- Parliamentary Finance Committee/Parliament: Parliament is responsible for approving year-end financial statements of the GoS. Some training for the parliamentary finance committee and – to a lesser extent – Members of Parliament, as practiced in other countries, may be beneficial. Again, it might be kept short (half a day, or so), focusing on the changes in available financial information, key IPSAS principles, and practical, decision-making aspects.

Government Training Facilities

80. The Government Human Resource Management Service coordinates training delivery and provides training facilities to the GoS. The Department for HR Selection and Development (HR Department), with a permanent staff of 7, is in charge of the professional development of civil servants within central government.
81. The general professional training program, mostly financed through the HR Department, encompasses various 1 to 3 day training courses in the areas of state administration, public policies, civil service system, European integration, management and planning in state administration, and also public finance. Under current legislation, only central government DBBs are covered by the professional training program, while IBBs and Local Governmental Units are excluded.
82. The thematic area of public finance encompasses approximately 8 training courses. These include basics of the budget system, budget preparation and planning, strategic/program budget, budget execution, budget accounting and reporting, public procurement, tax operations, and auditing. Each course syllabus clearly defines objectives, expected outcomes, content, target group, type of training, duration, group size, and the funding.
83. Public financial management training normally takes place twice a year, with a maximum group size of 35 trainees. There exists a backlog in demand, which cannot be met due to restricted training capacities, funding, and trainer availability.
84. Trainers are usually selected from within the GoS and are remunerated for their training activities. The HR Department recruits trainers, through public announcement, based on their relevant academic and/or work experience, subject to the respective Line Minister's approval. The HR Department maintains a comprehensive database of existing trainers, including their previous training activities and quality control procedures.
85. In addition to the annual general professional training program, the HR Department acts as a coordinating unit for ad-hoc and tailor-made capacity building programs at the request of line ministries. It has a vast track record of capacity building programs, following the train-of-trainers (ToT) approach. The most recent example relates to a comprehensive training delivery in the area of program budgeting, which was funded by USAID.

86. Ad-hoc and tailor-made capacity building programs usually rely on available funds from donor organizations, and are being developed in close collaboration with Line Ministries' requests and training needs. Currently, the HR Department is involved in coordinating the PACT training program 2016 – 2018 together with the Treasury and the Centre of Excellence in Finance (CEF), funded by the Emerging Donors Challenge Fund. Besides other activities, this project entails the delivery of a first (certificate) level for the first generation of 25 students (or possibly designated trainers) in the areas of management accounting, financial accounting, national public finance, as well as accounting legislation and taxation.
87. Any (recipient-executed) capacity building activities following up this REPF report shall therefore:
- Closely collaborate with the Government Human Resource Management Service Unit in charge of coordinating training delivery activities and providing training facilities;
 - Align to current, ongoing training activities, as for example the PACT-project;
 - Taking into account existing professional capacities and needs of different stakeholders (including: politicians, civil society, media, students);
 - Be implemented in a sustainable manner, i.e. following a Train-the-Trainers approach;
 - Take place after relevant accounting legislation has been enacted, but before actual implementation activities take place;
 - Take into account key recommendations as outlined in [Annex 4](#) of this report.

2.5. Setting Accounting Standards

88. The Financial Reporting and Methodology Unit of the Treasury Administration prepares proposals for changes and amendments to the accounting regulations. The Unit, consisting of 9 staff, plays an active role in the process of formulating accounting policy by drafting amendments to relevant laws, decrees, and rulebooks. The general procedures for obtaining the opinion on the draft law and the draft regulations are prescribed by the Government Rules of Procedures, and for the lower acts, procedures are defined in the internal documents of budget beneficiaries. Draft amendments are usually sent to the Director of the Treasury Administration for signature and then forwarded to the MoF, requiring the state secretary to sign. The Secretariat for Legislation receives a copy in order to provide its opinion and to check whether the draft amendments being proposed for adoption are in compliance with existing law. Proposed changes need to be legitimated and justified by the Accounting Methodology Unit. If approved by the Secretariat for Legislation, a final draft is sent to the Minister for final approval before being published in the government's official gazette. The Financial Reporting and Methodology Unit punctually involves other stakeholders by submitting draft amendments before final submission. They usually include the MoF and, depending on the topic, also other line ministries at their discretion.
89. The Public Financial Management Reform Program (PFMRP) 2016-2020 stipulates the establishment of a government sector accounting standard setting council, responsible for the issuance of accrual accounting rules and regulations, by mid-2016. This has not yet been achieved. Hence, the accrual accounting policy formulation remains within the sole operational responsibility of the Accounting Methodology Unit of the Budget Accounting and Financial Reporting Sector (see [Section 2.3.](#) of this report, for more details).

90. The legal basis for the establishment and functions of a Public Sector Accounting Commission has not yet been adopted.⁴⁰ Adoption of a legal basis and formalization of the standard setting process including the establishment of the Public Sector Accounting Commission would underpin the political commitment and support of the accounting reform project (see [Section 2.3.](#) of this report, for more details).
91. The creation of a third unit in the Treasury Administration, responsible solely for accrual accounting methodology and accrual accounting policy, is currently under consideration. Successful transformation to accrual accounting builds on the accomplishments in cash accounting. To ensure a gradual and smooth transformation it is highly advisable to build on existing knowledge, retaining one single unit responsible for accounting methodology. Not only does this help to constrain costs of the Treasury administration, but it also ensures alignment of reform efforts. In any case, it is recommended that IPSAS implementation ownership is located at the level of the Budget Accounting and Financial Reporting Sector, in order to ensure close collaboration and coordination (see [Section 2.3.](#) of this report, for more details).

2.6. Budget System

Budget formulation

92. The main responsibility for budget preparation functions is vested with the Budget Sector of the central Ministry of Finance. The Budget Sector is led by an Assistant Minister reporting to one of four State Secretaries. The Budget Sector consists of 46 positions, of which 34 are currently filled.⁴¹
93. The tasks and responsibilities of the Budget Sector include: the preparation and drafting of laws, bylaws and regulations governing the budget system; the formulation and dissemination of budget preparation instructions and scrutiny of appropriation levels; the management of the information system for budget formulation; the analysis of revenues and expenditures of local authorities; and the monitoring of the execution of local government budgets.
94. Different assessments in recent years report a severe lack of HR capacity in the case of the MoF/Budget Department, which adversely impacts the budget process of the RoS.⁴² Salary levels have been identified as one factor deterring recruitment, particularly for more experienced candidates. The Budget Department of the MoF is the “operational center”, managing and improving the overall budget system in the Republic, as well as supervising the functioning of budget sectors of other state institutions. Considerable efforts should therefore be made to strengthen its HR capacity.
95. The calendar for preparation of the annual budget is outlined in Article 31 of the BSL, including specified tasks and deadlines for the involvement of relevant stakeholders. They are summarized in the following table:

Table 3: Key activities and deadlines as outlined in the BSL

| Deadline | Activity |
|----------|----------|
|----------|----------|

⁴⁰ In the Appendix of the consolidated report of the IMF Fiscal Affairs Department (FAD) on accounting and fiscal reporting in Serbia, a bylaw for the establishment of a Public Sector Accounting Commission was drafted.

⁴¹ Information Booklet, Ministry of Finance, May 2017.

⁴² See Fiscal Council of the Republic of Serbia 2014, p. 15; World Bank 2016, Fiduciary Assessment Serbia, p. 1.

| | |
|-------------|--|
| 15 March | DBBs shall submit proposals for determining priority areas of financing for the budget year and the two following years. |
| 1 April | The Government, at an agreed proposal of the MoF shall determine priority financing areas, including national investment priorities. |
| 30 April | The Minister of Finance, in cooperation with Ministries and Institutions in charge of Economic policy, shall prepare a Memorandum including the economic and fiscal policy of the Government for the budget year and the two following fiscal years. |
| 15 May | Government shall adopt the Memorandum. |
| 1 June | The Minister of Finance shall adopt the instruction for the preparation of the draft budget of the Republic of Serbia. |
| 1 September | DBBs and Organizations of Mandatory Social Insurance shall submit draft medium-term and financial plans to the MoF. |
| 1 November | The Government shall adopt the Proposed Law on the Budget of the Republic of Serbia and submit it to the National Assembly. |
| 15 December | The National Assembly shall adopt the Law on the Budget of the Republic of Serbia. |

Source: BSL.

96. As outlined in Table 3, the budget preparation process stipulates a combination of top down budgeting instructions by the Ministry of Finance (i.e. spending and investment priorities, economic and fiscal policy projections) and bottom-up budget proposals by budget beneficiaries. However, the substantive intent of the law is considered to be rendered ineffective because information from budget beneficiaries – even if promptly sent and received – seems not to actually influence the final content of the budget, i.e. with respect to spending and investment priorities.⁴³
97. Implementing entities have submitted their financial plans to the MoF on time and in line with the budget calendar over the last years. There is a good track record for timeliness in government submission of the annual budget proposal and its approval by the National Assembly. Budgets for the years 2012 – 2015 have always been approved by the legislature before the beginning of the new fiscal period.⁴⁴
98. However, in-year deviations from the prescribed budget preparation deadlines have been noted in past years. Combined with limited staffing of the MoF Budget Department, the delays in adherence to the deadlines meant that there was insufficient time for thorough analysis of budget beneficiaries’ requests and setting of adequate annual appropriation levels by the MoF.⁴⁵ This issue is also reflected in the PEFA 2015 report which reveals substantial budget reallocations among budget beneficiaries during the budget year, contributing to significant variance in expenditure composition.⁴⁶
99. Another weakness is that the fiscal strategy is not being prepared and submitted on time and therefore fails to play the intended role as the strategic precursor for budget preparation and the setting of medium term expenditure ceilings. Although the budget calendar stipulates that the Government shall submit the draft fiscal strategy to the Fiscal Council by the end of April, this deadline has frequently not been met. Fiscal strategies are usually drafted at the end of the year, together with the draft budget for the coming year.⁴⁷

⁴³ World Bank 2016, Fiduciary Assessment Serbia, p. 1 and PEFA 2015, p. 35.

⁴⁴ See PEFA 2015, p. 36. and World Bank 2016, Fiduciary Assessment Serbia, p. 2.

⁴⁵ World Bank 2016, Fiduciary Assessment Serbia, p. 1.

⁴⁶ PEFA 2015, p. 14.

⁴⁷ Fiscal Council of the Republic of Serbia 2014, p. 11.

100. A medium-term budgeting framework (MTBF) was introduced in 2010, however it has various deficiencies. The annual process begins with a draft fiscal strategy, due in April, outlining aggregate budget ceilings for the medium term, which is reviewed but not adopted by the National Assembly. This means the budget ceilings are not legally binding and, in practice in the past couple of years, are not respected.⁴⁸ As the fiscal strategy does not include a breakdown of the budget ceilings by ministries/sectors it limits managerial responsibility to comply. Another weakness is that out year estimates are re-generated on a yearly basis rather than on a rolling basis, resulting in the MTBF being a standalone instrument with no clear linkages to the annual budget preparation process.

Budget classification, documentation and coverage

101. The Rulebook on Standard Classification Framework and Chart of Accounts establishes a single budget classification and chart of accounts for the government. This classification includes administrative, functional, and economic reflecting main functional dimensions of GFS.
102. The Serbian Standard Classification Framework and Chart of Accounts for the budget system includes all general traditional classes of GFS/ESA economic segments with additional classes to capture cash outflows/inflows related to non-current assets and debt repayment. However at the detailed level there will be a need to supplement the chart of accounts in order to record all accounting events related to supplies and flows required by GFSM 2014. The chart of accounts does not directly capture all accounting events related to stocks and flows required for GFSM 2014. Off balance sheet items are included in class 3 “Capital, Business Results and Off Balance Sheet Items”. Revisions should be made to produce a chart of accounts, to be applied by all budget sector users, that is consistent with IPSAS and GFSM 2014/ESA 2010 and meets the information needs of decision makers. A comprehensive review of the chart of accounts/budget classification system (see table below) would set the structure of the public sector system and could be embedded in the financial management information system (FMIS) to allow for easier processing, access, and monitoring of financial information and performance.

Table 4: Example of Segments of Chart of Accounts/Budget Classification

| Source of Funds | Administrative / Organization | Sector/ Function | Results/ Program | Project/ Task | Geographic Location | Economic |
|-----------------|-------------------------------|------------------|------------------|---------------|---------------------|-----------|
| X- Levels | X- Levels | X- Levels | X- Levels | X- Levels | X- Levels | X- Levels |

Table 5: General Structure of an Integrated Economic Segment (GFS/ESA based)

| Class | Description |
|-------|-------------|
| 1 | Revenues |

⁴⁸ Fiscal Council of the Republic of Serbia 2014, p. 12.

| | |
|---|----------------------|
| 2 | Expenses |
| 3 | Non-Financial Assets |
| 4 | Financial Assets |
| 5 | Liabilities |

Table 5a: Serbian Chart of Accounts

| Class | Description |
|-------|--|
| 0 | Non-Financial Assets |
| 1 | Financial Assets |
| 2 | Liabilities |
| 3 | Capital, Business Results and Off Balance Sheet Items |
| 4 | Current Expenditures |
| 5 | Outflows for Non-Financial Assets |
| 6 | Outflows for Principal Repayment and Acquisition of Financial Assets |
| 7 | Current Revenues |
| 8 | Proceeds from Sale on Non-Financial Assets |
| 9 | Proceeds from Borrowings and Sale of Financial Assets |

103. The BSL describes the documentation that must be submitted to the National Assembly for scrutiny and approval of the Annual Budget. This includes information on revenues and expenditures as well as the following⁴⁹:

- Macroeconomic assumptions;
- Fiscal deficit;
- Deficit financing;
- Debt stock;
- Explanation of the budget implications of new policy initiatives.

104. Budget documentation compared to good practice⁵⁰ is missing certain elements such as comparable budget outturn information for previous years. There are also doubts about the adequacy of government deficit calculation due to methodological differences between national methodology included in BSL and GFS. The Fiscal Council believes that the official calculation of the deficit within the Budget Law is not in accordance with international standards and significantly underestimates the actual deficit at the national level. This is based on the fact of various “below the line”⁵¹ transactions not taken into account within official deficit figures such as the recapitalizations of insolvent state-owned banks or expenditures for the repayment of loans on behalf of public enterprises with state guarantees.⁵² A move towards accrual based IPSAS will significantly contribute to the accuracy of fiscal balance and debt calculation, while restricting the erroneous recording of “below the line” transactions. It is worth emphasizing that IPSAS does not always perfectly align with GFS on the reporting of the fiscal balance which generally do not record provisions, revaluations as transactions

⁴⁹ Refer pages 21-22 of *Serbia - Public Expenditure and Financial Accountability (PEFA) Performance Report: Repeat Assessment June 29, 2015*, World Bank report no. 100372-YF.

⁵⁰ 2015 PEFA indicator 6 – Budget Comprehensiveness and Transparency

⁵¹ GFS data “above the line” shows revenue and expenditure while “below the line” explains how deficits are financed or surpluses invested, and positions data (assets, liabilities). *Net acquisition of financial assets* and *net incurrence of liabilities* (“below the line”) explain how this balance is financed or invested.

⁵² Fiscal Council of the Republic of Serbia 2014, p. 8.

(revenues or expense) but as economic flows. IPSAS 29 Financial Instruments: Recognition and Measurement contributes to the accuracy of debt calculation however GFS compilation often requires three debt valuation – face value, nominal value, and market value.

105. The institutional coverage of the budget is considered to be incomplete. Problems are rooted in the absence of a comprehensive register of entities and institutions that are part of the general government sector which also influences the coverage of public fund beneficiaries within the budget. Entities currently not covered by the annual Budget Law include mainly agencies, such as the National Agency for Regional Development, Republic Housing Agency, Agency for Accreditation of Healthcare Institutions, and the Road Traffic Agency⁵³. Depending on the level of budget transfers, there might be reasons not to include such agencies within the annual budget law as also practiced in other countries (i.e. Switzerland) but clear regulations still need to exist addressing the governance and monitoring of such entities. It can be useful to analyze and define various organizational forms of public sector entities to register them in a proper group, define their detailed reporting requirements (public and/or private sector accounting standards), assign consolidation level, decide whether each budget user is a reporting entity, and finally to map entities/groups with ESA 2010 as far as possible.
106. There are references to the existence of unreported government operations within the annual budget law. While most own-source revenues of DBBs have been included in the budget, most own-source revenues and expenditures executed with such funds by IBBs remain beyond the scope⁵⁴. Due to the huge number of IBBs and various types of own-source revenues, there are no accurate estimates about the level of unreported government operations.

Current reform plans

107. Based on the 2015 PEFA Repeat Assessment, three main reform elements have been identified for the area of budget formulation and included in the 2016-20 PFM Reform Program: improving the comprehensiveness of the budget; program budgeting; and further development of the MTBF. In addition, the PFM Reform Program contains measures to improve the operational capacity of main actors, including institutional strengthening of the Budget Sector and creation of planning units in line ministries.

2.7. Government Finance Statistics (GFS)

108. The three institutions producing GFS in Serbia are the Macro-Fiscal Sector (MFS) in the MoF, the Statistical Office of the Republic of Serbia (SORS) and the National Bank of Serbia (NBS). MFS is the only institution that publishes fiscal statistics in the form of the monthly Bulletin of Public Finance, available in Serbian and English, which provides data and basic statistics on public revenue and expenditure. The methodology employed for the Bulletin is GFSM 86, the cash basis statistical framework of the IMF according to which only debt data is reported. A Memorandum of Understanding (MoU) was agreed between MFS, SORS and NBS to establish the modus operandi for the compilation of statistical information.
109. Within this framework, the SORS has been assigned the responsibility to compile and report the official government deficit and debt within the context of the Excessive Deficit Procedure (EDP) to Eurostat. Within the context of EU regulations, the SORS is the official compiler of national statistics, and the guardian of macroeconomic statistics according to ESA 2010 and

⁵³ Fiscal Council of the Republic of Serbia 2014, p. 4-5.

⁵⁴ See PEFA 2015, p. 13 and Fiscal Council of the Republic of Serbia 2014, p. 6.

the Manual on Government Deficit and Debt. This largely relates to the fact that the SORS can act as an independent agency within the national statistical system as regulated by the National Statistics Law. Previously it was convention to accept the fiscal data published by the MoF under the guise of the Budget Systems Law to contain the official fiscal deficit. The shift in responsibility to SORS includes the adoption of a new methodology using accrual-based instead of cash-based fiscal data. To accurately compile data **a registry of public entities must be created that fit the Eurostat general government definition, which differs from the current national legal definition.**

110. The NBS (as well as MFS) supports the SORS in the collection of EDP data and compiling of financial information for the macroeconomic imbalance procedure (MIP), another statistical reporting requirement of the EU. In the medium-term, however, it is envisaged that SORS will be the main provider of GFS and be responsible for EU statistical reporting according to the EDP, for the MIP, and for compilation of ESA 2010 data. Furthermore, SORS is working on the transition to and implementation of GFSM 2014 to provide input for the IMF Statistical Yearbook. This will be reflected in a new MOU, currently being negotiated.
111. In general, the most frequently deployed source of data used for the production of GFS is the information compiled according to (national) government accounting standards. Fiscal statistics may be compiled on an accrual basis despite financial accounts being recorded on a cash basis, through making ad-hoc adjustments to cash data (bridging). However, an underlying accrual based accounting system helps ensure the comprehensiveness and accuracy of accrual based fiscal statistics.
112. Both main statistics frameworks to be implemented, GFSM 2014 and ESA 2010, record flows on an accruals basis. Hence, the intention of the RoS to transition to IPSAS compliant accrual accounting would leverage significant synergies in the production of financial information. Having such entity-level audited financial reporting data would substantially reduce the risk of systematic reporting errors in the data used for preparing GFS in Serbia.
113. As Serbia is to implement accrual based statistical frameworks and plans, at the same time or shortly thereafter, to transition to accrual accounting it is essential that the two initiatives are closely aligned and carefully sequenced, while establishing mutually inclusive work streams. It would be advisable to include a representative of the SORS on the Accounting Committee being set-up as part of PFM strategy measure 17.

2.8. Auditing, monitoring and enforcement

External Audit

114. The constitution of the ROS stipulates that budget execution of all budget users (DBBs, IBBs and Organizations of Mandatory Social Insurance) will be audited by the SAI. Audited financial statements of the central government are submitted to the National Assembly, nevertheless they appear to remain with the parliamentary Committee for Finance, Budget and Control of Use of Funds and does not get to the plenary sessions for discussion or adoption. In addition, there is no evidence of the deliberation of the audit report by the Committee or any follow up actions thereof. General government consolidated financial statements are prepared for information purposes only, they are not audited and the Budget System Law envisages delivery of this set of financial statements to the government and the National Assembly only for information purposes.

115. The Law on State Audit Institution⁵⁵, determines the legal status of the SAI as an autonomous and independent state body and is the main underlying legal framework for the organization's mandate in auditing public funds in the RoS. The SAI is assigned through performance of audit to obtain reasonable assurance for expressing an opinion with respect to financial statements, regularity of operations, appropriate use of public funds, as well as effective and efficient financial management, and control of users of public funds.
116. The SAI has a mandate to adopt and publish auditing standards concerning its audit competencies, and shall perform the auditing activities in accordance with the generally accepted auditing principles and rules, and in accordance with the selected internationally accepted standards on auditing. According to the Law on State Audit, the mandatory audit program includes: budget of RoS, mandatory social insurance organizations, appropriate number of local government entities, appropriate number of public utilities or other legal entities founded or controlled by direct or indirect budget beneficiary, operations of National Bank of Serbia in the part related to the use of public funds. In accordance with Art. 47 of the Law on SAI, the SAI shall submit to the National Assembly the audit of the financial statements of the central government budget, mandatory social insurance organizations and general government financial statements in accordance with the BSL. However the BSL does not require audit of general government financial statements⁵⁶. Article 78 of BSL includes in the calendar the requirement for the Treasury Administration to submit the *general government accounts* to the government and then subsequent submission to the National Assembly for "informational purposes only". Effectively the general government financial statements are not audited and submitted to the scrutiny of the National Assembly.
117. In addition, the Law on SAI does not specify any deadline for the completion of audit and provision of the audit opinion and report, nor is such a deadline specified in the BSL. In practice in the previous years the audit of the final accounts of the RoS was submitted within 12 months of the end of the reporting period⁵⁷.
118. External audit is still at a relatively early stage of development, as the SAI only began audit work in 2008. However, the SAI has made substantial progress in fulfilling its mandate, including the coverage of audited public expenditures, number of entities audited, and internal capacity.⁵⁸ The SAI has elaborated and adopted rules of procedure, a code of ethics, a staff certification program, and a strategic development plan. According to this strategic development plan for 2016 – 2020 the SAI is striving to further increase its independence by harmonizing the Law on SAI with the International Standards of Supreme Audit Institutions, which has an implementation deadline of the end of 2020.
119. The SAI has audited the execution of the Serbian state budget for the seventh time and is gaining in experience and profile. The (legally required) responses of auditees on the elimination of detected irregularities or inappropriateness indicate that auditees have started to take compliance audit reports seriously. Although the Finance Committee of the National Assembly has started discussing these reports, the Parliament's capacity to fulfill its budgetary oversight role remains very weak.

⁵⁵ Law on State Audit Institution (Official Gazette 101/2005, amended 36/2010).

⁵⁶ Art 79 of Law on SAI. The annual financial statement shall contain: The annual financial report on budget execution, containing annual report on program performance, including also performance in terms of gender equality, with additional notes, explanations and statement of reasons; External audit report. (...).

⁵⁷ Public Expenditures and Financial Accountability (PEFA), World Bank, 2015.

⁵⁸ MoF (2017), Annual Report on Implementation of Public Financial Management Reform 2016 – 2020, p. 43.

120. As of March 31st, 2017, the SAI had 299 staff, comprising 60 auditors, 5 council members and 239 support staff. This is a substantial increase in staff compared to 2013, where SAI counted roughly 200 employees⁵⁹. With an increase of staff, the SAI was able to substantially extend the coverage of audits. While the SAI issued approximately 66 audit opinions in 2013⁶⁰, it published 185 audit opinions in 2016. However, although the SAI's coverage increased substantially over the past 10 years, there remain many entities that they still have not audited, primarily because of the SAI's capacity constraints.
121. As per the Law on SAI⁶¹ all public sector entities are in the scope of the SAI audits, nevertheless due to limited capacity the SAI decides on the work program in line with the annual plan and risk assessment. For example, the SAI published so far around 100 audit reports of local governments, while there are over 170 local governments in Serbia, therefore not all local governments were audited by the SAI. Budget System Law prescribes that government annual financial statements (the final account), financial statements of state funds and local governments must be audited annually, however the SAI is allowed to provide consent that local governments' financial statements are audited by commercial auditors due to lack of the SAI's capacity to respond to the scope.
122. The SAI performs financial and compliance (regularity) audits, with the performance audit being in early stages development with several performance audits conducted to date. Modified opinions dominate in the SAI reports, and in particular with the compliance audit there are cross-cutting issues which represent a frequent weakness, such as compliance with public procurement law, internal audit, financial management and control. For audits of financial statements there is less common pattern of identified weaknesses. The SAI issued 156 opinions on financial statements and 158 on compliance with laws and regulations in 2015⁶². Out of that, 143 and 149 respectively were modified opinions, however in 98% of cases modified qualified opinion with rare instances of adverse opinion and disclaimers.
123. The SAI audit report for 2015 concerning financial and compliance audits contains modified opinions for both parts. Additionally, it contains findings from all Central Government entities audited in 2015. With regard to the financial audits the modified opinion was issued due to limited scope and inability of auditors to confirm the value, structure and changes of non-financial assets of Republic of Serbia recorded in the General Ledger based on the report from Property Directorate of RoS since it contains incomplete information, that is information for only 8% of the users of public funds.
124. SOEs are required to apply the Law on Accounting and Law on Auditing as in the private sector⁶³. Thus, large SOEs are required to apply IFRS; small and medium SOEs apply IFRS for SMEs, with the option to apply full IFRS. Medium and large companies (including SOEs) per Law on Auditing are subject to mandatory statutory audit and they appoint their external private sector auditor through a public tender process in line with the public procurement law, applying least cost selection method and with little regard for auditor competence, experience, or commitment of sufficient work to perform an adequate audit. Typically, appointment of auditors for SOEs occurs late in the financial reporting process, potentially leaving inadequate time for an effective audit. Both of these factors have compromised audit quality and reliability of financial reporting of SOEs.

⁵⁹ PEFA 2015, p. 91.

⁶⁰ PEFA 2015, p. 92.

⁶¹ Law on State Audit Institution (Official Gazette 101/2005, amended 36/2010), article 10.

⁶² Annual report on the work of the SAI for 2015.

⁶³ The World Bank Report on Observance of Standards and Codes in Accounting and Auditing (A&A ROSC) 2015 update, the Republic of Serbia.

125. The MoE Sector for oversight over public enterprises and the MoF's fiscal risk team monitor operations and performance of public enterprises and there is regular reporting towards the MoE. However, there appears to be no follow-up on issues raised by external auditors in their audit reports of SOE financial statements. Thus, if the auditor's opinion is qualified or some disclosures are improper, there appear to be no follow up procedures or consequences for management. There is no formal system established to perform oversight over other SOEs.

Internal Audit

126. Public Internal Financial Control (PIFC) is at the center of EU accession chapter 32 "Financial controls". A new PIFC strategy and associated action plan were adopted by the government in May 2017. Key elements of the PIFC framework, namely FMC and IA, are decentralized and within the responsibility of the budget beneficiaries. The underlying regulatory framework for the IA function is specified in the BSL, the FMC Manual, and the IA Manual.
127. The BSL provides a high-level framework for FMC. Secondary legislation for FMC includes the Rulebook on FMC and the Rulebook on IA. Article 4 of the Rulebook on IA requires FMC to be introduced by users of public funds (DBBs and IBBs) with more than 250 employees. Furthermore, the Rulebook on FMC provides overarching guidance on each element of FMC, includes the requirement of an organization-level implementation plan, and forms the basis for subsequent training. However, the legal framework lacks detailed guidance on how different level of organizations are required to comply with the implementation of FMC.⁶⁴
128. The current FMC framework does not take into account changes in international best practice.⁶⁵ The MoF acknowledges that the overall framework for FMC requires further amendment to eliminate current deficiencies and has included the necessary actions in the PFM RP. Hence, there is a hierarchy of plans for the development of FMC, including a complex set of actions.⁶⁶
129. The Sector for Internal Control and Internal Audit is an overarching special organizational unit of the MoF and acts as Central Harmonization Unit (CHU). As such it is mandated to enable and ensure effective FMC and efficiency of the internal control environment by formulating policies for budget beneficiaries.
130. The manner and the extent of the implementation of the FMC legal framework in budgetary entities vary widely. Although decentralized IA bodies within budgetary entities are required to report annually the state of FMC and IA within their assigned entities, there is no comprehensive information about the current development of FMC and IA. One reason is that annual CHU survey response rates tend to be low, and the CHU has no enforcement power to demand the information. The CHU also lacks capacity to validate received information.
131. Nevertheless, analysis of the 2014 survey presented in the annual CHU report shows progress in overarching FMC arrangements between 2013 and 2014, for example with respect to appointing FMC managers or formalizing/tacking stock of business procedures. There was little progress, however, with detailed elements of FMC, as recommended by COSO, for example in the establishment of a control environment, implementation of risk management mechanisms, definition of control activities, or the establishment of sound monitoring features.
132. Overall, the SIGMA 2016 report on FMC and IA concludes that: "Information on FMC implementation within the largest organizations is based on a self-assessment exercise which

⁶⁴ SIGMA monitoring report, May 2016, p. 32.

⁶⁵ As an example, COSO issued an updated Internal Control – Integrated Framework in 2013 and will release another revised version in 2017.

⁶⁶ Public Financial Management Reform Program 2016 – 2020.

shows slight improvement from 2013 to 2014, but the independent work of the SAI indicates that the progress can be weaker than shown in the self-assessment.”⁶⁷

133. The envisaged public sector accounting reform is likely to affect underlying accounting, reporting, and auditing processes and might therefore also affect FMC and IA procedures. Hence, the CHU and decentralized IA bodies form important stakeholders within the accounting reform agenda and need to be addressed properly, also with respect to training delivery.

2.9. Quality and availability of financial reports

Legal requirements on the quality and availability of financial reports

134. The calendar for preparation of the government’s reports (annual accounts) and consolidated report of the RoS is outlined in Article 78 of the BSL, including specified tasks and deadlines of involved stakeholders. The following table summarizes key activities and reporting deadlines as outlined in the BSL:

Table 6: Key activities and reporting deadlines prescribed by the Budget System Law

| Deadline | Activity |
|-------------|--|
| 28 February | IBBs shall prepare annual FS of the prior fiscal year and submit it to the DBB they are associated with or to the relevant state body. |
| 31 March | DBBs shall prepare annual FS of the prior fiscal year and submit it to the TA. |
| 30 April | Mandatory social insurance organizations Adopt their reports on the execution of financial plans and submit them to the TA. |
| 20 June | The Ministry shall prepare the draft law on the final account of the budget of the Republic of Serbia and, together with the decisions on the final accounts of mandatory social insurance organizations, shall submit them to the Government. |
| 15 July | The Government shall deliver to the National Assembly the draft law on the final account of the budget of the Republic of Serbia and the decision on final accounts of the mandatory social insurance organizations. |
| 1 October | The MoF shall draw up the consolidated report of the RoS and submit it to the government. |
| 1 November | Submission of the consolidated report of the RoS to the national assembly for information purpose. |

Source: BSL.

135. As specified within the constitution of the RoS, budget implementation is subject to external scrutiny and is audited by the SAI (see paragraph [116](#) of this report). Independent and reasonable assurance for FMC and reported accounting information is provided annually for central government, and DBBs and organizations of mandatory social insurance. IBBs are audited less frequently due to constrained SAI capacities.
136. According to article 79 of the BSL the Republic Property Directorate (RPD) of the Republic of Serbia keeps a single registry of the immovable property and aggregate registry of movable property owned by the Republic of Serbia, and it shall submit, until March 31 of the current year, a report on the structure and value of property of the Republic of Serbia to the Ministry – Treasury Administration.

⁶⁷ SIGMA 2016, p. 37.

Quality and availability of consolidated financial statements

137. Year-end consolidated (or rather aggregated) financial statements of the GoS are prepared by the Budget Accounting and Reporting Department within the Treasury. DBBs and IBBs maintain auxiliary records and based on that report balance sheet and budget execution information both electronically and manually to the Treasury by submitting Forms 1 to 5 as prescribed by the Rulebook on the Method of Preparation, Compiling and Submitting of Financial Reports of the Budget Beneficiaries (see also paragraph 36 of this report). Therefore, the Treasury derives cash based accounting transactions from the TML, while other information is collected from other sources, e.g. The legislation mandates that the Republic Property Directorate of the Republic of Serbia delivers data on non-financial assets to the Treasury, information on liabilities is manually consolidated through Excel spreadsheets by the Treasury from the financial reports delivered by budget users etc.
138. The accounting information necessary for preparation of the financial reports is registered in the TML, but is limited to budget execution transactions and does not include data on assets or liabilities of budget beneficiaries. While the TML automatically captures budget execution data from all entities connected to the Budget Execution System (which are all DBB's and selected IBB's), there remain a wide range of entities (and underlying transactions) not captured by the BEX/TML. Roughly 10,000 IBB's, mainly local level, are not connected, giving rise to complex and fragmented manual aggregation steps at Treasury level.
139. The quality of accounting information and financial reports is also influenced by limited functionalities of present information systems and less efficient accounting processes, giving rise to many manual reconciliation and aggregation steps. Furthermore, responsibilities for accounting tasks are fragmented within different governmental units and layers, particularly for accounting information on assets and arrears. Hence, the current complex and less automated institutional setting for public sector accounting, including various manual aggregation steps and the lack of distinct process ownerships, heavily challenges the availability of timely and reliable accounting information.
140. Balance sheet information included in the year-end report is entered manually on the basis of a report compiled by the Republic Property Directorate the Republic of Serbia. DBBs and IBBs maintain an asset register as part of their auxiliary ledgers, comprising capital, financial, and non-financial assets. As part of their reporting duties, DBBs and IBBs previously submitted asset information directly to the Treasury. This changed from 2016, with the Treasury now relying wholly on asset information received from the RPD. There is evidence that aggregated accounting data on assets from RPD and DBBs auxiliary ledgers is contradictory, which questions the comprehensiveness and accuracy of the non-financial asset information included in the year-end financial statements. In order to obtain more reliable data on consolidated financial accounts, there is a need to streamline the current fragmented accounting processes, to significantly reduce the number of agents involved in consolidation procedures, to avoid current double loops, and to set clear responsibilities for accounting and financial reporting operations, also with respect to consolidation activities. The current inaccuracy of (consolidated) accounting data is not solely a financial reporting and accounting weakness, but also due to the complex composition and structure of the public sector with many agents involved, and a lack of clear responsibilities.
141. The process of reporting on arrears is highly fragmented. Accurate and timely information on arrears and accounts payable do not yet seem to exist, although different efforts have been made to increase the comprehensiveness of arrears information. The BEX and RINO systems capture assumed commitments (i.e. ex post), deadlines for payment and settlements of

liabilities but they are not able to effectively prevent creation of arrears. Furthermore, neither system supports multi-year commitment control functionalities.

Quality and availability of financial statements within DBB's and IBB's

142. Budget beneficiaries are required to manage auxiliary ledgers, which may also capture accrual accounting information depending on the level of their sophistication. Interim (quarterly, with the exception of the first quarter) budget execution reports are delivered by budget beneficiaries to the Treasury. Budget beneficiaries prepare the reports based on their accounting records after reconciling the data with the TML. Full set of reports (including balance sheet etc.) is prepared only annually.
143. Fragmented legal framework and diffuse financial reporting and accounting responsibilities for various agents involved increases the probability of inefficiencies and data inaccuracies. Furthermore, as outlined in Section 2.10., different budget beneficiaries use different ICT-software to maintain financial accounting and reporting, which increases the complexity of the financial reporting and accounting environment even more. Anecdotal evidence gained during the mission showed that financial and non-financial asset information seems to be captured by auxiliary ledgers in a limited way, but nevertheless revealing a solid starting-point for further transition towards full accrual accounting. However, this might not be the case for every entity, as the SAI was repeatedly questioning the reliability of asset information, particularly with respect to local government entities. A full switch towards accrual accounting, including comprehensive information about assets and liabilities, would require entities within all governmental entities to regularly scrutinize their assets by adapting homogenous recognition, measurement, and disclosure requirements, which does not correspond to current practice.

Financial Reporting of SOEs

144. Law on Public Enterprises⁶⁸ regulates organizing and operations of enterprises which operate in the areas of public interest. These companies are mostly organized in the legal form of “public enterprise”, but it could be also other legal forms if the company is defined by the government to operate in an area of public interest. There are around 600 local public enterprises and at this moment 37 public enterprises at the central level (out of around 1,200 state owned enterprises in total). The list of users of public funds includes likewise other SOEs which receive budget financing. All these companies are in the accounting sense subject to the Accounting Law for corporate sector and as such they apply IFRS and are not in the scope of the public sector accounting reform.
145. Based on the ROSC A&A 2015 the quality of financial reporting in SOEs is lower than in private companies. SOEs are subject to the Law on Accounting like any other legal entities and must apply IFRS or IFRS for SMEs depending on their size. Although each SOE has its specific characteristics, there are some recurring issues in SOE financial reporting. For example: (i) poor methodology and calculations of transfer pricing impacts the measurement and recording of intercompany transactions, (ii) deficient valuation and impairment of fixed assets and inventories, (iii) questionable classifications of assets (under construction vs. in-use), (iv) biased and inconsistent provisions and penalty interest calculation on outstanding and overdue trade receivables, (v) insufficient or inadequately supported provisions for contingencies and management estimates, (vi) low quality of specific disclosures related to business and financial risks, (vii) low quality of auditing driven in part by low audit fees.

⁶⁸ Law on Public Enterprises, Official Gazette 19/2016, February 2016.

2.10. Business Systems and Software Solutions

Operating systems and software solutions at the MoF / the Treasury level

146. The Treasury operates and maintains a heterogeneous portfolio of ICT-software for public payments, budget execution, accounting, financial reporting, financial planning, payroll, and Treasury management functions. At the moment, after payments are executed from the consolidated treasury account, the data flows to budget execution systems for budget beneficiaries which are included in the system, and further on it flows to SAP for accounting purposes. The most important software relating to financial accounting and reporting are listed below and subsequently discussed in more detail:
- Financial management information system (FMIS);
 - Treasury general ledger and budgetary accounting system (SAP);
 - Budget execution system (BEX);
 - Payment processing and Treasury office management system (JAFIN);
 - Financial planning system (FINPLAN);
 - Register of settlement of cash liabilities (RINO);
 - Centralized payroll processing (TREZAR).
147. The SAP was introduced in 2008 as part of a new government wide FMIS. The Treasury General Ledger is linked to the BEX and captures all covered transactions automatically and electronically, on a daily basis. However, only a limited number of government entities are currently connected to the BEX, covering the central level with all DBBs (165 entities) and selected IBBs (247 are integrated at the moment with the plan to include 526 in total by the end of 2018), therefore the automated and ICT-supported data transferred into the Treasury main ledger is limited. The current situation hinders an efficient, automated way of aggregating (or consolidating) budget execution information at Treasury level. Furthermore, only a restricted number of 30 Treasury staff have direct access to the Treasury main ledger, with licensing issues preventing further roll-out.
148. The BEX is also part of the FMIS, managing commitment controls and budget execution with a direct link to the payment processing and Treasury office management system (JAFIN, see below). As mentioned, currently all DBBs of the Republican Budget are connected to the BEX, while only a limited amount of IBBs are covered. In 2016, there were an additional 247 IBB access linkages to the BEX, including courts, public prosecution, and judicial institutions.⁶⁹ There are ongoing plans to further roll-out online access to the BEX for the remaining IBBs within the next couple of years. Capacity constraints within the Treasury ICT Sector and ICT constraints within remaining IBBs are preventing a faster roll-out, licensing issues, reportedly, do not hinder further roll-out. Overall, it is estimated that only 10 percent of the remaining IBBs will be included in the BEX within the next three years.
149. The payment processing and Treasury office management system (JAFIN) is the interface between the BEX and the Treasury single account (TSA), providing for the electronic payment of invoices. JAFIN has no commitment control services, executing payments only if there is sufficient money in the TSA. JAFIN has almost full coverage of budget users, i.e., DBBs, IBBs, local governments, and other users of public funds as all these entities are included in the consolidated treasury account. However, there is no automatic transfer of information to the

⁶⁹ MoF 2016, Annual Report on Implementation of the Public Financial Management Reform Program 2016-2020, p. 41.

Treasury Main Ledger for IBBs that are not yet included in BEX, which, again, hinders the automatic, ICT-supported compilation of budget execution data at Treasury level.

150. The financial planning module (FINPLAN) was introduced for cash planning purposes. Essentially, it is a centralized data base enabling the compilation of spending and revenue plans on a monthly basis, including revenues and proceeds from debt instruments. All DBBs and IBBs connected to the BEX are also covered by FINPLAN. These entities submit their quarterly cash plans online (and update them monthly) through FINPLAN. The system verifies that cash plans are within budget appropriations taking into account the full budget classification code. In essence, FINPLAN serves as the basis for the issuance of quotas/expenditure ceilings and to exercise funds control over payments. FINPLAN does not capture cash plans of IBBs not yet covered by BEX. Hence, processing all IBB payments through BEX will clearly improve both budget and funds control over these payments.
151. The register of settlement of cash liabilities (RINO) is one further step towards better commitment control, oversight, and management of arrears. RINO covers all IBBs not yet covered within the BEX, and based on amendments and supplements to the Law on the Settlement of Financial Obligations in Commercial Transactions it includes all commercial transactions with and between public sector entities. A further deficiency is that RINO only registers assumed commitments (i.e. ex-post) and is therefore unable to support effective prevention of arrears. Furthermore, RINO does not support multi-year commitment control functionality. These issues might be the reason that other governmental bodies such as the Fiscal Council have been constantly raising the issue of limited data coverage on arrears and the lack of adequate commitment control system including the full range of governmental entities as well as the full range of transactions while including ex-ante, ex-post, and multi-year commitment control facilities.⁷⁰ A medium-term objective might be to harmonize current fragmented data pools on arrears, supported through a streamlined and automated financial reporting and accounting environment.
152. Payroll is processed in two systems: (i) TREZAR operated by the Treasury that calculates the payroll for 125 DBBs and also processes (without calculation) the payroll payments for the military and the police sector employees; (ii) PayRoll used for employees of primary and secondary schools. Centralized payroll is a large and sensitive system that requires high levels of security, confidentiality, and reliability from both software and ICT infrastructure.⁷¹

Operating systems and software solutions at DBB / IBB level

153. Both DBBs and IBBs are required by law⁷² to undertake financial accounting and reporting at entity level, requiring them to keep auxiliary ledgers. However, it is unclear to what extent these entities bear managerial responsibility for their financial reporting and accounting. This needs to be clarified and clearly stipulated within the legal framework.
154. Within the wide range of DBBs and IBBs there exists a heterogeneous portfolio of ICT-solutions to conduct accounting at entity level. These are completely stand alone softwares with no link to the Treasury system. Budget beneficiaries prepare the reports based on their accounting records after reconciling the data with the TML. The SAI has reportedly raised the issue of inadequate accounting software solutions, particularly at IBB level, questioning their reliability, accuracy, and capacity for accrual accounting. There has been no comprehensive assessment of accounting software currently in use, including a stock take of system

⁷⁰ Fiscal Council 2014, Budget Process in the Republic of Serbia: Deficiencies and recommendations, p. 13.

⁷¹ Review of IT Function at the Treasury Administration (TRE), Working Paper, May 15, 2016, pp. 22-23.

⁷² Cf. Decree on Budget Accounting, Article 9.

functionalities and readiness for accrual accounting. An in-depth ICT-assessment should be undertaken before any further action is taken to design and implement IPSAS in the RoS.

155. Accounting software used by budget users include (with the first two on the list being used by around 80% of budget beneficiaries):
- BitImpex (users include the Ministry of Education, Health Insurance Fund, Hospitals);
 - Sirius (users include the Treasury Accounting Services Unit as a DBB);
 - Institute for Business Improvement (according to SAI, approximately 120 local governments use this software);
 - Educational informer;
 - Team Agency (users include the Physiotherapy School in Belgrade).
156. Many DBBs and IBBs appear to use either BitImpex or Sirius for their accounting operations at entity level. Both software applications were originally developed for corporate accounting and contain, by default, double entry accounting, journals, sub-ledger, and carryover of initial and closing balances. Depending on the supplier, there are additional features specific for budget execution, like automatic generation of commitment and payment orders for direct export to the BEX Treasury system or payment orders to JAFIN for IBBs outside the BEX system.

Linking Treasury and DBB / IBB level

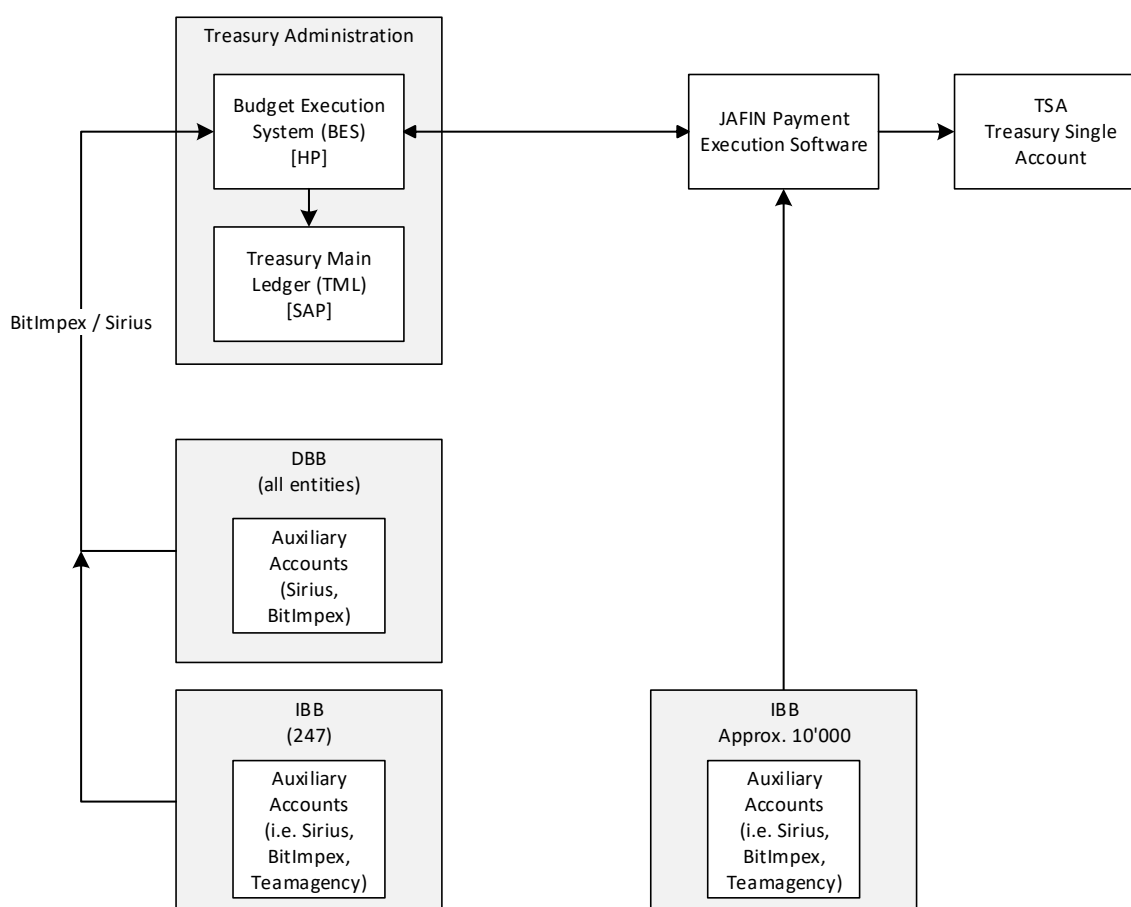
157. [Figure 6](#) illustrates the current ICT-linkages between Treasury and DBB/IBB level and summarizes the status-quo. Small number of integrated IBBs in overall financial planning, budget execution and financial reporting operations is obvious. This creates a time-consuming need for manual data aggregation at Treasury level, which adversely affects data reliability. The Treasury derives cash based accounting transactions from the TML which captures budget execution/cash based information, while other information is collected from other sources, e.g. such as manually consolidating through Excel spreadsheets by the Treasury from the financial reports delivered by DBBs. Dues to this, reliability of such data in DBBs (which include IBBs data) is crucial, yet at this stage highly uncertain. A huge area of concern is small number of integrated of IBBs, whose payment requests do not have budget classifications codes, and are not subject to ex-ante budget and fund controls. An integrated PFM system for budget tracking across Treasury, DBBs and IBBs is sin-quo non for supporting any accounting reforms in Serbia.
158. Gaining a comprehensive understanding of the current ICT-landscape should begin as soon as possible through a combined business process, accounting practices, and accounting systems assessment study across the Treasury, selected DBBs and IBBs. An essential first step will form the definition of a distinct financial reporting and accounting practice strategy. As outlined in [para 26](#) above, this might require a fundamental review and redesign of existing accounting processes and accounting units in order to clarify and streamline current accounting functions. The ICT environment and any subsequent ICT modifications should align with and fit within the financial reporting and accounting strategy (structure follows strategy; i.e. the ICT landscape should support and enable efficient accounting processes and practices and not be a constraining factor).
159. While a strong integration of government entities in overall financial planning, budget execution and financial reporting operations is necessary to proceed with the accounting reform, there exist different options on how to tackle this issue (i.e. DBBs/IBBs are directly transacting in the Treasury BEX/TML or DBBs/IBBs run their separate systems and are

subsequently consolidated in the BEX/TML). There is no best practice in that respect, while both practices remain on a global landscape (i.e. in Ecuador and Peru government entities are directly transacting in the central ERP while in Colombia they are consolidated).

160. As to date, the RoS was following a combined practice. While some entities (i.e. all DBBs and selected IBBs) were given full access to execute cash transactions through the BEX/TML, a fair share of IBBs (cf. [Figure 6](#)) still remain outside the BEX/TML and are deemed to be consolidated. Although the Treasury ICT Sector has managed to significantly improve the coverage of beneficiaries in the recent years, there is still considerable number of Republican Budget IBBs which are not connected to BEX. Paras [139-142](#) above discuss key challenges and vulnerabilities arising from current system capacities and practices.
161. A further integration and centralization of the ICT environment is highly advisable, at least for the national government. Given the unitary constitutional structure and close linkages between national and local governments, even a full centralization of IT systems might be realistic. Essential first steps to improve efficiency and reliability in favor of a further integration/centralization of the ICT environment to support the envisaged accounting reform include, among others:
 - A further integration of IBBs within the Treasury BEX to directly account for cash transactions, ex-ante budget and fund controls;
 - Establishing interfaces between DBBs/IBBs and the TML to allow for automatic information transfer on assets and liabilities (i.e. by using Citrix Clients);
 - A significant reduction of applied accounting software at entity level;⁷³
 - Harmonizing applied accounting software between DBBs and their subordinated IBBs;
 - Prescribing key functionalities of accounting software at entity level monitored through the Treasury and audited through SAI/IA.

⁷³ Although, reportedly, a majority of budget users use similar accounting applications (i.e. BitImpex and Sirius), it is to be expected that many other accounting applications are still in use.

Figure 6: Public Sector Accounting and Financial Reporting ICT-Architecture, Government of Serbia



Source: The authors.

Suitability and readiness of ICT systems to implement IPSAS

162. A key consideration for any strategy to implement IPSAS is the suitability and readiness of public sector ICT systems to maintain the required accounting books and records. The existing ICT related to the financial reporting has a complex structure. An in-depth assessment will be needed of ICT systems and the resources, staff, efforts, and steps that might be required to upgrade them to a state of readiness for IPSAS implementation, including a proposed sequencing of activities, is required. It is therefore recommended that such an assessment be performed as a matter of urgency following-up the dissemination of REPF results. This should review the capabilities of existing ICT tools and their scope to respond to growing information needs, and identify requirements for improving or changing ICT including costing and staff implications, also of accounting and financial management staff in budget sector users.
163. The assessment would be a good opportunity to review how successfully existing ICT addresses the information needs of public sector stakeholders. The ICT infrastructure has developed heterogeneously, and rather than continue to plug information gaps by setting up another ICT tool, it might be beneficial to understand and define the actual financial reporting information needs and gaps. Information needs should include not only basic information for preparation of the main IPSAS reports but also disclosure and other relevant requirements flowing from GFSM/ESA and good financial management applicable for budget users. As observed in practice, budget users are preparing financial statements in the required format but

they often use their own report formats with financial information broken down by segments, program and comparisons with budget. Information needs should be also reflected in the updated chart of accounts and budget classification system. In addition to the chart of accounts, ICT systems should store additional information and have other functionalities, such as generation of standard and ad hoc reports, budget appropriations, commitments (current and future years portions), contract authorization and monitoring, and work flow related to financial transactions etc. The GoS might draw on the experience of other countries in which accounting reform was synergized with budget system reform and an overall streamlining of work flow and internal control processes, including for example clear authorization routes via budget officers and management for orders and commitment including computer controls, reduction of paper documentation by requiring vendors to submit electronic invoices which reduced manual entries, moving away from line by line budgeting towards agreeing on larger budget envelopes for line ministries, and program budgeting.

164. A review of the ICT landscape for this report suggests that existing systems need to be substantially upgraded and/or expanded to proceed with the envisaged accounting reform. With financial management decentralization, PFM performance will depend increasingly on the quality of ICT systems for accounting and resource management in all entities involved in the consolidated financial reports of the government. Devolution of financial reporting and accounting responsibilities to a fragmented public sector complicates effective planning and roll-out of ICT-supported data flows. Key issues which drive complexity and/or impose a challenge for preparing the ICT-landscape for the envisaged accounting reform include:

- *Understanding and defining information to be provided by accounting and financial management information systems.* Data stored in accounting systems is a source of valuable information not only for preparation of statutory financial reports but also for fiscal and budgetary reporting, decision making, strategic and operational planning, monitoring, and performance measurement. ICT changes should aim to meet the identified needs for financial and financial management information of public sector stakeholders.
- *Data and information are stored in various systems, not all dedicated solely to accounting.* A detailed assessment could advise on optimal methods of gathering, processing, and using data, whether through gateways from external systems or using more integrated systems. Currently, various specialized systems focused on resolving the most significant information gaps require additional manual entries into the system. This is labor intensive and entities are not always able to assure completeness, accuracy, and timeliness of input. Additionally, separate auxiliary systems require reconciliation with other systems, which is not often undertaken. Accounting systems usually provide the most reliable financial information because of their clear allocation of responsibility for entry of data, and high compliance by professional accountants. Any other separate module would need to undergo similar scrutiny to assure the reliability of data, ideally using automated exchange of data and business rules checking the integrity of data rather than manual entry and reconciliations. An important consideration is the extra demand any additional system places on already scarce accounting and financial management staff in the public sector.
- *Decentralized responsibilities for public sector reporting and accounting:* The complex composition of the public sector with a huge amount of entities to be connected/integrated in a government-wide financial reporting and accounting architecture requires a well-designed and targeted roll-out plan. It involves a large and diverse number of stakeholders throughout the country and a requirement for them to change their financial

management processes and potentially use ICT systems that they are not familiar with. A careful process of re-engineering and change management is therefore vital.

- *Weak understanding of decentralized ICT-hardware and accounting software:* While the strengths and deficiencies of Treasury governed ICT-Systems, including the FMIS, are well-known there is less knowledge of decentralized ICT-hardware and accounting applications. Anecdotal evidence suggests a heterogeneous portfolio of accounting software in use, while the readiness for accrual based accounting cannot be fully verified at this stage. Different stakeholders, among others the SAI, repeatedly questioned the reliability and feasibility of these accounting systems (including both hardware and software) to implement the envisaged accounting reform.
- *Technical architecture/functionalities of FMIS:* The technical architecture of FMIS developed and has been added to (see [paragraph 138](#)) without any clear vision/strategy on how to achieve vertical (i.e. between different entities) and horizontal (i.e. between different FMIS modules) integration of FMIS functionalities. Hence, various diagnostic studies point out a significant number of gaps. Although some progress has been made in increasing the number of entities connected to the FMIS (i.e. vertical integration), some 12,000 entities remain outside it. The weak horizontal integration between core financial management functions such as financial planning, accounting, financial reporting, financial control, commitment, and arrears management is obvious. From a mere financial reporting and accounting perspective, the FMIS would need to be drastically expanded to include accounts receivable, accounts payable, inventory control, fixed assets management, etc. Again, the ICT landscape and any subsequent ICT modifications should align with and fit within the financial reporting and accounting strategy as outlined in para [161](#).
- *Comprehensive and targeted ICT-strategy would support public sector accounting reform:* The Treasury should develop/revise current strategies and action plans on how to improve the current suite of FMIS applications systems in order to proceed with the envisaged accounting reform. While proposed measures and activities in the PFM reform agenda 2016-2020 might form a solid starting point to prepare the ICT-environment for IPSAS reform, the ICT-strategy needs further alignment with the envisaged accounting reform. This should follow and support the implementation of any newly developed accounting policies and processes, and not vice versa. Formulating and implementing an ICT-strategy without taking into account envisaged accounting reform activities risks creating almost irreversible structures, processes, and ICT-data flows, which might not be in compliance with key accounting principles.
- *Role and responsibilities of the Treasury ICT Sector:* There is a need to actively involve key Treasury IT Sector staff in formulating/revisiting the activities supporting transition to accrual accounting project. They should also participate in the review of major ICT procurement and system maintenance contracts to help identify long-term strategies to enhance strategic control and to reduce long-term cost and risk of system maintenance.⁷⁴ Treasury ICT staff should also be involved in prescribing key functionalities of accounting software at entity level.
- *Capacity of the Treasury IT-Sector:* Given the complexity, importance, and urgency of ICT reforms the capacity of Treasury ICT Sector staff needs to be increased to proceed with envisaged accounting reforms. There is a sense of the Treasury ICT Sector being in a permanent process of maintenance and improvement of information systems, at a pace

⁷⁴ See also Review of ICT Function at the Treasury Administration (TRE), Working Paper, May 15, 2016, p. 31.

determined by the availability of budgetary resources and, most importantly, of qualified staff.⁷⁵ This makes it unlikely that deliverables needed to substantially increase readiness for the envisaged accrual accounting reform will be produced.

165. Gaining a comprehensive understanding of the current ICT-landscape should begin as soon as possible through a combined business process, accounting practices, and accounting systems assessment study across the Treasury, selected DBBs and IBBs. Careful priorities and limits should be defined for this study, lest it becomes too complex and contentious. Its results, conclusions, and recommendations should be disseminated and discussed widely. It is highly recommended to engage with internationally recognized public sector ICT experts to address issues presented above, in close collaboration with the Treasury. Its main outputs should include:
- A profile of the ICT systems being used for financial management by DBBs/IBBs and implications for long-term reform and sustainability.
 - An assessment of the accounting capacity gaps at Treasury, DBB, and IBB level and a view on ways, costs, and priorities to reduce them or to offset their impact on consolidated financial reporting.
 - A set of recommendations on the scope, content, and cost of formulating and implementing a program for Government-wide strengthening of public accounting and ICT systems capacity (i.e. horizontal and vertical integration of FMIS).
 - A review of the role and responsibilities of Treasury ICT staff with respect to the envisaged accounting reform.

⁷⁵ See also Review of ICT Function at the Treasury Administration (TRE), Working Paper, May 15, 2016, p. 31.

3. COMPARISON OF SERBIAN PS GAAP WITH IPSAS

3.1. Requirements of Serbian PS GAAP compared with IPSAS

166. Serbian PS GAAP has significant elements of accruals-accounting and as such the fundamental principles underlying Serbian PS GAAP are consistent with the fundamental principles underlying IPSAS. Examples of this include: capitalization of and accounting for fixed assets, depreciation of fixed assets, and accounting for receivables and payables.
167. This section summarizes the consistencies and inconsistencies between Serbian public sector GAAP as designed and IPSAS based on performed analysis documented in the REPF diagnostic toolkit. Annex 1 provides more detailed information, which however is not a comparison of actual practice but is rather a comparison of the prescribed requirements of Serbian PS GAAP with IPSAS. The issue of compliance with prescribed requirements of Serbian PS GAAP is dealt with separately in section [3.2.](#) below.
168. The *italicized* text immediately following the narrative description of how consistent or inconsistent Serbian PS GAAP is with each IPSAS describes the main steps required in order to effect a change in Serbian PS GAAP to make it fully consistent with IPSAS. In addition, any changes made to Serbian PS GAAP are likely also to require specific guidance and examples to be issued as well as training to be delivered across all affected public sector entities.

3.1.1. Areas of Serbian PS GAAP that are most consistent with IPSAS

169. IPSAS 1 – Presentation of Financial Statements. Serbian PS GAAP conforms with IPSAS 1 in terms of responsibilities for the preparation and presentation of financial statements, main principles underlying the preparation of the financial statements, the basic definitions of assets and liabilities and the presentation of line items on the face of financial statements. However, Serbian PS GAAP does not require the production of a statement of changes in net assets/equity nor disclosures of notes, key assumptions and risks. In respect of the various qualitative characteristics required by IPSAS 1, Serbian PS GAAP does not require nor the consideration of the true and fair or going concern principles, nor the disclosures of notes, key assumptions and risks. *In order to further conform to IPSAS 1, Serbian PS GAAP would need, as a first step, to require the production of a statement of changes in net assets/equity, notes to the accounts and additional disclosures of key assumptions and risks. Further steps would include a change in the way the financial statements are structured because although they indeed present much of the information required for compliance with IPSAS 1, that information is not presented in the order and manner suggested by IPSAS 1.*
170. IPSAS 4 – The Effects of Changes in Foreign Exchange Rates. Serbian PS GAAP is broadly in line with IPSAS 4 because, primarily, initial recognition of foreign currency transactions is calculated by applying the spot exchange rate at the date of the transaction, foreign currency monetary items are translated using the closing rate, and non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. However, Serbian PS GAAP is silent on a number of matters including: the treatment of exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were translated on initial recognition and specifically whether they should or should not be recognized in surplus or deficit in the period in which

they arise; and when a gain or loss on a non-monetary item is recognized directly in net assets/equity, whether any exchange component of that gain or loss is also recognized directly in net assets/equity. *In order to further conform to IPSAS 4, Serbian PS GAAP would need additionally to specify the treatment of exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were translated on initial recognition, and whether any exchange component of a gain or loss on a non-monetary item recognized directly in net assets/equity should also be recognized directly in net assets. It is understood that the IMF recommends foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.*

171. IPSAS 17 – Property, Plant and Equipment. Serbian PS GAAP is broadly moderately in line with IPSAS 17 save in that depreciation charge is recognized directly as a decrease in equity rather than in surplus or deficit, there is no periodic review of the residual value and the useful life of an asset, and impairment losses are not considered. *In order to further conform to IPSAS 17, Serbian PS GAAP would need to change to require: that depreciation charge is recognized in surplus or deficit for the period rather than as at present directly as a decrease in equity; and a periodic review of the residual value and the useful life of an asset.*

3.1.2. Areas of Serbian PS GAAP that are most divergent from IPSAS⁷⁶

172. IPSAS 2 – Cash Flow Statements. The classification of transactions within the cash flow statement required by Serbian PS GAAP is rather different from that required by IPSAS 2. In addition, interest and dividends or similar distributions received are disclosed as operating income and not also, where appropriate, as investing or financing activities, and amounts paid are not accounted for separately. There is also no disclosure of the components of cash and cash equivalents nor any presentation of a reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position. Finally, there are no notes or disclosures of significant cash and cash equivalent balances that are not available for use. *In order to conform to IPSAS 2, Serbian PS GAAP would need to change considerably the classification of transactions within the cash flow statement and also require notes and disclosures.*
173. IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors. Though Serbian PS GAAP is consistent with IPSAS 3 in that it requires accounting policies to be applied consistently and only changed if required by the GAAP, Serbian PS GAAP does not require accounting policies to be changed retrospectively with an explanation of the reason for the changes and there are no regulations on matters relating to changes in accounting estimates or the accounting treatment of prior period errors. *In order to conform to IPSAS 3, Serbian PS GAAP would need to: require accounting policies to be changed retrospectively with an explanation of the reason for the changes; specify the accounting treatment of prior period errors; and clarify the regulations in respect of the accounting treatment of changes in accounting estimates.*

IPSAS 5 – Borrowing Costs. Serbian PS GAAP is not consistent with IPSAS 5 in that borrowing costs are recognized as an expense on the date of payment rather than in the period

⁷⁶ The list of IPSAS is not presented in the order of significant impact on faithfulness of the financial statement. As a result, real effect of some divergence might be not constituting material misstatement in the financial statements.

in which they are incurred or even in the period in which they are incurred except to the extent that they are capitalized as part of the acquisition, construction, or production cost of a qualifying asset. However the real impact of this divergence on financial statements might be not significant if most of borrowing costs are paid upfront and interests are paid in frequent intervals. *In order to conform to IPSAS 5, Serbian PS GAAP would need to require borrowing costs to be recognized as an expense in the period in which they are incurred except to the extent that they are capitalized as part of the acquisition, construction, or production cost of a qualifying asset. This is likely also to require specific guidance and examples to be issued as well as training to be delivered but only across those public sector entities with borrowing costs.*

174. IPSAS 9 – Revenue from Exchange Transactions. Serbian PS GAAP is not consistent with IPSAS 9 in that revenues are measured on a cash basis rather than by reference to stage of completion of services, or transfer of the significant risks and rewards of ownership, control and economic benefit, or service potential of goods. *In order to conform to IPSAS 9, Serbian PS GAAP would need to require revenues to be measured by reference to stage of completion of services, or transfer of the significant risks and rewards of ownership, control, and economic benefit or service potential of goods.*
175. IPSAS 12 – Inventories. Serbian PS GAAP is consistent with IPSAS 12 in terms of definition of inventories and the recognition of the carrying amount as an expense in the period when those inventories are disposed. However, Serbian PS GAAP differs from IPSAS 12 in many respects including in that it does not require: inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; nor inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value. *In order to conform to IPSAS 12, Serbian PS GAAP would need to require: inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; and inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value.*
176. IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers). Serbian PS GAAP diverges from IPSAS 23 regarding revenues from non-exchange transactions in that such revenues are recognized on a cash basis rather than when there is an inflow of a resource that meets the definition of an asset. *In order to conform to IPSAS 23, Serbian PS GAAP would need to change to require that revenues are recognized on an accruals basis. In addition, Serbian PS GAAP would need to specify the treatment of a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset once that obligation is satisfied.*
177. IPSAS 24 – Presentation of Budget Information in Financial Statements. Consistent with IPSAS 24, Serbian PS GAAP requires that the budget implementation report includes a comparison between the budget amounts for which it is held publicly accountable and actual amounts. However, they neither present separately a comparison of original and final budget amounts nor explanations of material differences between the budget and actual amounts. *In order to further conform to IPSAS 24, Serbian PS GAAP would need to change to require separate presentation of a comparison of original and final budget amounts as well as explanations of material differences between the budget and actual amounts.*
178. IPSAS 31 – Intangible Assets. Serbian PS GAAP is consistent with IPSAS 31 in some respects however its basic definition of intangible assets as computer software, literary and artistic works, patents, goodwill, development expenses, intangible assets in preparation, prepayment

for intangible assets, as well as other non-material property is too broadly defined to be considered consistent with IPSAS 31. IPSAS 31 additionally requires an intangible asset to be defined in terms of whether it is separately identifiable, whether the entity exerts control, and the future economic benefits. Serbian PS GAAP also: requires depreciation charge on intangible assets to be recognized directly as a decrease in equity rather than in surplus or deficit for the period; and does not require the subsequent consideration of whether an intangible asset is impaired or has no future economic benefits or service potential. Finally, there are no disclosure requirements. *In order to conform to IPSAS 31, Serbian PS GAAP would need significantly to revise its definition of an intangible asset. It would also need to require that depreciation charge is recognized in surplus or deficit for the period, rather than directly as a decrease in equity as currently; and there would need to be a periodic review of the value of the asset as long as it continues to provide future economic benefits or service potential.*

179. Serbian PS GAAP is silent in respect of matters addressed by the following IPSAS. It is particularly worth noting that Serbian PS GAAP is entirely silent on the matter of consolidation. As such, *Serbian PS GAAP would need to adopt wholesale the requirements of IPSAS 11, 13, 14, 16, 18, 19, 20, 21, 26, 27, 28, 29, 30, 32, 34,35, 36, 37, 38, 39. In addition, the chart of accounts and relevant ICT systems might need to be revised to allow for the separate accounting and reporting of the relevant types of transactions.*
- a. IPSAS 11 – Construction Contracts. Serbian PS GAAP does not address the issue of Construction Contracts per IPSAS 11.
 - b. IPSAS 13 – Leases. Serbian PS GAAP does not address the issue of leases per IPSAS 13.
 - c. IPSAS 14 – Events after the Reporting Date. Serbian PS GAAP does not address the issue of Events after the Reporting Date per IPSAS 14.
 - d. IPSAS 16 – Investment Property. Serbian PS GAAP does not address the issue of investment property per IPSAS 16 and specifically makes no distinction of assets held as investment property from other assets.
 - e. IPSAS 18 – Segment Reporting. Serbian PS GAAP does not address the issue of segment reporting per IPSAS 18.
 - f. IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets. Serbian PS GAAP does not address provisions, contingent liabilities and contingent assets per IPSAS 19 in that it makes no recognition or disclosure of such matters.
 - g. IPSAS 20 – Related Party Disclosures. Serbian PS GAAP does not address the issue of related party disclosures per IPSAS 20.
 - h. IPSAS 21 – Impairment of Non-Cash Generating Assets. Serbian PS GAAP does not address the issue of non-cash generating assets per IPSAS 21.
 - i. IPSAS 26 – Impairment of Cash-Generating Assets. Serbian PS GAAP does not address the issue of impairment of cash-generating assets per IPSAS 26
 - j. IPSAS 27 – Agriculture. Serbian PS GAAP does not address the issue of agriculture per IPSAS 27.
 - k. IPSAS 28 – Financial Instruments: Presentation. Serbian PS GAAP does not address the issue of financial instruments: presentation per IPSAS 28 (other than for the most basic of financial assets and liabilities).

- l. IPSAS 29 – Financial Instruments: Recognition and Measurement. Serbian PS GAAP does not address the issue of financial instruments: recognition and measurement per IPSAS 29 (other than for the most basic of financial assets and liabilities).
- m. IPSAS 30 – Financial Instruments: Disclosure. Serbian PS GAAP does not address the issue of financial instruments: disclosure per IPSAS 30.
- n. IPSAS 32 – Service Concession Arrangements: Grantor. Serbian PS GAAP does not address the issue of Service Concession Arrangements: Grantor per IPSAS 32.
- o. IPSAS 34 – Separate Financial Statements. Serbian PS GAAP does not address the issue of Separate Financial Statements per IPSAS 34 [in accounting for investments in controlled entities, joint ventures and associates when presenting separate financial statements].
- p. IPSAS 35 – Consolidated Financial Statements. Serbian PS GAAP does not address the issue of Consolidated Financial Statements per IPSAS 35 except with respect to consolidating subordinate units' cash flows for the purposes of preparing and presenting consolidated budget implementation reports.
- q. IPSAS 36 – Investments in Associates and Joint Ventures. Serbian PS GAAP does not address the issue of Investments in Associates and Joint Ventures per IPSAS 36.
- r. IPSAS 37 – Joint Arrangements. Serbian PS GAAP does not address the issue of Joint Arrangements per IPSAS 37.
- s. IPSAS 38 – Disclosure of Interests in Other Entities. Serbian PS GAAP does not address the issue of Disclosure of Interests in Other Entities per IPSAS 38.
- t. IPSAS 39 – Employee Benefits. Serbian PS GAAP does not address the issue of Employee Benefits per IPSAS 39.

3.1.3. IPSAS that are not applicable to Serbia

180. For the sake of the completeness of this comparative analysis of Serbian PS GAAP with IPSAS, the following IPSAS are not applicable to Serbia and therefore there is neither consistency nor inconsistency between them and Serbian PS GAAP:
- a. IPSAS 10 – Financial Reporting in Hyperinflationary Economies. IPSAS 10 is not applicable to Serbia as it is not a hyperinflationary economy. Full compliance with IPSAS is possible without including IPSAS 10 in the national standards of economies which are not hyperinflationary.
 - b. IPSAS 22 – Disclosure of Information About the General Government Sector. IPSAS 22 is not applicable to Serbia as it does not prepare and present consolidated financial statements under the accrual basis of accounting as well as [GFS-type] financial information about the General Government Sector. IPSAS 22 is however a voluntary standard and thus even if Serbia eventually prepares and presents consolidated financial statements under the accrual basis of accounting, it can still claim full compliance with IPSAS without complying with IPSAS 22.
 - c. IPSAS 33 – First-time Adoption of Accrual Basis International Public Sector Accounting Standards. IPSAS 33 is not applicable to Serbia. Where a country chooses to transition to IPSAS by selectively adopting certain parts of certain IPSAS over a prolonged period (as is the transition path proposed in this report), then they would not be complying with IPSAS 33 and therefore cannot make reference to having adopted IPSAS. This is because

IPSAS 33 applies only to those who choose to adopt IPSAS by making use of the specific 3-year and other transitioning provisions of IPSAS 33. It will likely take longer than 3 years for Serbia to implement IPSAS. IPSAS 33 might be regarded as being of greater relevance for well-resourced and equipped countries with higher capacities intending to move faster towards full compliant IPSAS.

- d. IPSAS 6, 7, 8, 15, 25. These IPSAS have been withdrawn.

3.2. Compliance with Serbian PS GAAP

3.2.1. Presentation compliance with Serbian PS GAAP

181. The team reviewed a sample of financial statements to assess the extent to which they complied with Serbian PS GAAP. The review process included prima facie reviews of the financial statements as well as discussions with the preparers of the financial statements. The selected sample comprised seven sets of Serbian PS GAAP financial statements as at and for the year ending 31 December 2015 representing seven types of government institutions: central government, local governments, line ministries, budget beneficiaries (DBBs and IBBs), autonomous regulatory agencies and social security funds. General conclusions in respect of compliance with Serbian PS GAAP should be regarded with a degree of caution given both the limited sample size as well as the inherent problems in examining the compliance gap. More specifically in respect of the latter, a reviewer of financial statements cannot be certain that everything that should have been disclosed was indeed disclosed. Furthermore, financial statements could reasonably be expected to have similar formats and disclosures and therefore it is reasonably easy for those preparing financial statements to make them appear good simply by conforming to a standard format without regard to the entity's underlying financial transactions and position.
182. The review indicated a reasonable degree of compliance with the requirements of Serbian PS GAAP. The main observations regarding non-compliance with Serbian PS GAAP in respect of the reviewed financial statements included:
- i. *Proper classification of financial statement items.* Line items in profit and loss (P&L) of three reviewed entities were not properly classified as per the Rulebook on standard classification framework and chart of accounts of the budget system. Furthermore, in one case balance sheet receivables were recorded as off-balance sheet items. Review of a limited sample of SAI audit reports revealed that classification of revenues and expenses is a relatively frequent issue in audit reports of public entities and that the prescribed format is apparently complex for the preparers of financial statements.
 - ii. *Proper reconciliation between balance sheet and cash flow.* The closing and opening balances were not reconciled in the cash flow statement of one entity. Opening and closing balances are not reconciled to the net change in cash presented in the cash flow statement and balance sheet cash position in two entities. Cross referencing of other items mostly confirmed consistency of the data within financial statements (balance of debit and credit entries, assets equals liabilities plus equity in the balance sheet, summary items corresponding to components) and with other statements (result in P&L statements equals the change in net value in the balance sheet).

iii. *Disclosure of the depreciation of assets as current expenditure.* This weakness was identified in one reviewed entity. Regulation previously allowed this procedure, used by entities with own sources of revenue to utilize depreciation (as non cash expense) as the source of funding, usually for acquiring new equipment. This procedure is no longer available since the assets are depreciated over the useful economic life.

183. **However, the compliance with GAAP does not necessarily imply or guarantee quality of the financial information.** This is mostly related to the value of property, plant, and equipment where implementation of historical cost over the long term, with periods of considerable high inflation, distorted the book value of the assets.

3.2.2. SAI findings re compliance with Serbian PS GAAP

184. The review included eleven audit reports of budget entities issued by the SAI in relation to 2015 financial statements. The SAI is mandated by law to audit all public sector entities. Due to capacity constraints, the SAI performs certain key audits on an annual basis (audit of the government's final account) and applies a rotation principle for the rest of potential auditees. This review included entities from the categories listed previously, ie. central government, local governments, line ministries, subordinated budget beneficiaries (DBBs and IBBs), autonomous regulatory agencies and social security funds. The most common audit findings include:

- i. Fixed assets reporting. Audit reports of five entities reveal that the inventory count of fixed assets was often not properly addressed, and fixed assets values in balance sheets could not be confirmed by audit techniques. (This questions whether entities have the skills and capacity to properly perform the count and valuation of its assets).
- ii. Financial reporting calendar and procedures. From the sample of selected entities, one entity did not provide the balance sheet in prescribed format by the due date. A consolidated income statement was issued based on incomplete accounting records, since the general ledger was not closed at the prescribed date. The entity could not therefore account for net income for the period. The same entity did not properly classify items in the statement on capital revenues and did not properly classify items in the cash flow statement.
- iii. Third party reconciliation. Lack of reconciliation of receivables and payables with third parties is a frequent issue that the SAI has drawn attention to. As one of the main control functions in providing accurate financial statements, reconciliation should be one of the priorities of providers of financial statements.

185. Out of eleven entities subject to this review, the SAI issued unqualified opinions on seven entities while the other entities have audit opinions with qualifications on different grounds.

3.2.3. Other audit findings about the quality of financial reporting

186. The SAI conducts financial and compliance (regularity) audits. Certain findings made by the SAI are therefore not directly related to the accuracy of financial statements but focus on legal compliance, giving an insight to the quality of current and future periods' financial statements. These findings include:

- i. The issue of financial management and control was raised by the SAI in a number of examined audit reports. Departments of financial management and control are not fully

established or organized on various levels of users of public funds, in a way that secures implementation of rules and procedures and achievement of other goals in accordance with PIFC. Accounting and information systems are not uniform or compatible in all segments which creates additional difficulty in maintaining accurate accounting records, especially in segment movement of assets, liabilities, and revenues.

- ii. Internal audit departments required to be established by the Law on Budget System are often either not established or not yet fully functional in a way that allows full achievement of goals set by laws and guidelines regulating this area.
- iii. Inconsistencies within the legal framework create further difficulties in properly addressing the accounting treatment of different transactions. For example, revenues from public goods, among others, are revenues from the lease of goods owned by state, province and local municipality. The Law on Budget System states that all revenues arising from lease or use of state property by state institutions, organizations and military, belong to the state. Contrarily, the Law on Public Property states that the state and province, its organizations and municipalities, can own the right of use of immovable and movable state property and as such, with the permission of the Republic Property Directorate, may also lease such property to obtain revenues. Paragraphs in the Law on Public Property relating to the lease of state property and paragraphs in the Law on Budget relating to the lease of property of state, provinces, various state and province organizations, and municipalities are not consistent.

4. ONGOING PFM AND PUBLIC SECTOR ACCOUNTING REFORMS

187. This section describes ongoing PFM reform activities focusing on those with an impact on public sector accounting and makes various observations and recommendations.

4.1. PFM Strategy

188. The Public Administration Reform (PAR) Strategy was adopted in January 2014 as the overarching roadmap for supporting further improvement of public administration in Serbia. The overall objective is to improve the ability of the public sector to deliver high quality services to citizens and businesses as well as significantly contribute to economic stability and increase of living standards. The PAR Strategy also sought to enhance PFM, providing a support framework which developed into the adoption of a separate and more detailed PFM strategy. The PFM Reform Program 2016-2020 is a PAR Action Plan activity which complements the PAR Strategy by further detailing objectives and activities within the PFM pillars.

189. The PFM Reform Program refers to revising public sector accounting standards, and there are already significant ongoing activities that will positively contribute to this. These include: the improvement of payment arrears and commitment controls; the rollout of the FMIS to IBBs; the compilation of a fixed assets registry, and the implementation of a centralized payroll system (see below for more details). Once completed and, more importantly, successfully implemented, these activities will not only considerably improve the value of public sector financial reporting but can be seen as the necessary groundwork for the eventual transition to full accrual accounting.

4.2. PFM Reform Program 2016-2020

190. The PFM Reform Program 2016 – 2020, adopted by the GoS in December 2015, aims to support in the long run achievement of the following key objectives: to underpin fiscal and macroeconomic stability, to develop sound system of public finances and practices, to increase efficient in the management of public resources to national priorities, improve efficiency on service delivery, to increase transparency of public funds and accountability. The PFM measures have been defined with the aim to improve transparency and accountability, and strengthen cooperation among the Ministry of Finance, line ministries and all other relevant stakeholders. The overall objective of the PFM Reform Program is to achieve a sustainable budget with a reduced debt to GDP ratio through stronger financial management and control and audit processes and linking budget planning to Government policies, and also to fulfil the necessary requirements for European Union (EU) accession.

191. The PFM Reform Program strongly relies on a number of assessments by the European Commission, the OECD (SIGMA) and the World Bank (PEFA) and covers six broad areas of action/pillars:

- I. Sustainable Medium Term Macro-fiscal and Budgetary Framework
- II. Planning and Budgeting of Public Expenditures
- III. Efficient and Effective Budget Execution

IV. Effective Financial Control

V. Accounting, Monitoring and Financial Reporting

VI. External Scrutiny of Public Finances

192. Each pillar is accompanied by a set of objectives and is underpinned by more detailed strategies and action plans prepared by the respective responsible entities, such as the PAR Strategy, the Tax Administration Transformation Program, the Arrears Clearance and Prevention Strategy, the National Anticorruption Strategy, the Public Procurement Development Strategy of the Republic of Serbia for the period 2014 – 2018, etc.
193. The governance structure to manage the implementation process, established in the Program document, could be improved. The Steering Committee should include government officials to enable it more effectively to perform the high level, political coordination it is tasked with. The Program envisages the Committee being chaired by the Minister of Finance and comprising internal MoF PFM Pillar coordinators (whose roles are not clearly defined in the strategy). The State Secretary responsible for overall PFM reform coordination left the MoF at the end of 2016 and his role was not reassigned to the remaining State Secretaries. Nevertheless, regular monitoring reports are being produced in the Sector for International Cooperation and European Integration and approved by the Government.
194. Frequent changes in the Government's composition threaten the sustainability of reform implementation as momentum could be lost due to changed priorities. Reform initiatives are significantly linked to international funding and cooperation; proper management is essential to ensure that sustainable results are achieved in terms of transferred know-how and continued implementation benefits.
195. While the government has made progress in strengthening the PFM system, across the various PFM subsystems, over the last decade, implemented activities were not fully aligned or sequenced. This has led to uneven progress in several key PFM areas, fragmented, non-communicating systems and processes, unclear responsibilities, as well as duplications in work streams. The current PFM Reform Program is characterized by well-targeted efforts and a clear and realistic vision, but political coordination and implementation management should be improved.

4.3. Connecting public sector accounting with PFM

196. PFM focuses on mobilization, allocation and use of public resources and should be treated as a complementary part of the public sector management (PSM) responsible for functioning of the entire public sector ensuring its efficient and effective work and a government's ability to deliver planned results. Poor public sector management leads to poor public sector performance: the suboptimal provision of public services, in terms of equity, access, and or quality. To this extent PFM reforms should have positive impact on the core functioning and performance of the public sector. Otherwise reform efforts might not bring expected results and outcomes.
197. Accounting standards are shared element in both PSM and PFM. Being a core feature of PFM, accounting standards systematize otherwise disparate accounting policies, allow for the presentation of comparable and transparent financial information, and minimize subjectivity and opacity in financial information. They are also necessary tool in monitoring and evaluation of public sector performance. The structure of accounting processes has significant impact on the overall state of its PFM systems. And vice versa PFM organization structure is reflected in

organization of accounting whether clear or complicated. Comprehensive financial information based on accounting standards consistently applied across the entire public sector and its entities is a key tool that governments can use to ensure macroeconomic stability, optimize use of limited resources for improved service delivery, and build transparent and accountable institutions.

198. **Benefits of accrual basis accounting for public sector performance could be classified into the three broad categories:**

- **Management of Fiscal Risks:** Provides a more comprehensive view of the government's financial performance and the full cost of government activities, allowing for improved management of fiscal risks;
- **Delivery of Public Services:** Allows for the consolidation of financial statements from subnational governments and other government entities, clearly linking resource allocation and service delivery;
- **Transparency and Accountability:** Facilitates external oversight of government expenditures, boosting trust in government and improving policy outcomes.

199. **Management of Fiscal Risk.** Governments require comprehensive, reliable, and timely information to be able to identify, mitigate, and manage fiscal risks in a timely fashion. This includes data on the performance of PPPs, state-owned enterprises (SOEs), and subnational governments, as well as a wider range of transactions stemming from the government's economic activities. The fiscal crisis that shook the world over the past decade has shed light on the size and potential significance of previously unreported or underreported fiscal deficits and debts, as well as on the crystallization of contingent government liabilities on a massive scale. From this experience, consensus is now developing in the financial community on the need for strengthening, promoting, and monitoring international accounting standards within the developing and developed world to allow for better fiscal risk management. The IMF 2017 Report [*Analyzing and Managing Fiscal Risks—Best Practices*](#) argues for the need of governments to obtain and analyze more complete information on fiscal risks to be able to better manage them. Crucial to this is the development of comprehensive public sector balance sheets that cover financial and non-financial assets and liabilities. Such balance sheets need to capture changes not only in the volume and value of current assets and liabilities, but also in the present value of future revenue and expenditures stemming from long-term assets and liabilities.

200. **Improving delivery of public service.** A second benefit linked to the adoption of accrual accounting is improved reporting of accurate financial information from decentralized public service delivery units. This is critical to be able to assess performance, address bottlenecks, and improve the quality and coverage of public service delivery. Over the past several decades, governments throughout the developed and developing world have increasingly transferred responsibilities for the delivery of public services to subnational levels of government. The objective behind this decentralization has been to ensure that decision-making around the allocation and use of public resources is made at the subnational level, closer to the actual beneficiaries. This functional decentralization has generally been accompanied by fiscal decentralization including financial transfers from the central level to decentralized levels of government. Without a clear picture of such financial flows it is difficult to hold government to account for public service delivery. "Following the money" is complicated by the fact that various transfers from central level are mixed with own revenues and obtaining information on the *usage* of such funds is even more complicated. Lack of financial information on how resources have been provided and used for service delivery undermines the planning and management of services, breaking the feedback loop between performance and evidence-based course corrections and future programming. It also likely increases the inefficient use of

resources and, thus, a reduction in the provision of services given limited fiscal space. Accrual accounting allows for the timely capture and analysis of such information, by consolidating all levels of government finances, from central government down to public service delivery unit and proper recognition of revenues and expenditures.

201. **Transparency and accountability.** Finally, a third benefit linked to the adoption of accrual accounting is improved transparency and accountability. From the [*Open Government Partnership*](#) to the [*International Budget Partnership's Open Budget Index*](#), and the [*Global Initiative for Fiscal Transparency*](#), there is growing momentum both at the national and multinational level around the budget and fiscal transparency and participation agenda. When implemented properly, transparency and participation have been shown to promote greater accountability around the use of public funds and assets; prevent corruption by maintaining high standards of integrity; increase trust in government; and encourage better fiscal outcomes and more responsive, impactful, and equitable public policies (OECD 2017). It also allows for more informed, inclusive debates about the impacts of budget policy on the lives of citizens. With this information, they can engage in evidence-based discussions with their elected national representatives on government spending priorities and petition for policy changes based on hard data.

4.4. Accounting reform priorities

202. Under Pillar V of the PFM Reform Program “Accounting, Monitoring and Financial Reporting” the government envisages a gradual and systematic transition to accrual accounting based on IPSAS by 2020. Measure 17 (detailed information in Annex 2: PFM Reform Measure 17 on accounting, monitoring and financial reporting) provides the milestones and necessary actions to be taken which provide a solid starting point for financial reporting reform, with the exception of capacity building for accounting staff. This is planned to be undertaken sooner to enable accounting staff to be fully prepared to comply with IPSAS. In addition starting the reform from cash basis IPSAS and preparation of “pro forma” financial statements are viewed as the right steps towards implementation of a accrual standards. IPSAS 1 includes the requirement to report against the budget and a cash flow statement is also a core requirement of international accrual reporting requirements.
203. The Treasury Administration should develop action plan for implementation of Measure 17. If this is achieved the migration to accrual accounting under the proposed timetable will be supported by ICT Sector. Issuance of accrual accounting rules and regulations is the responsibility of an accounting standard setting council to be established. Thereafter the primary responsibility for successful migration to accrual accounting resides with the Budget Accounting and Financial Reporting Sector of the Treasury. A formal project implementation plan needs to be developed as soon as possible spelling out the responsibilities of all parties as well as the objectives, results framework, activities, timetable, and resources needed and their source.

Table 7: Implementation status of Measure 17 per end of 2016

| MEASURE 17 | MOVING GRADUALLY TOWARDS ACCRUAL BASIS ACCOUNTING | | |
|---|---|---------------------|--|
| | ACTIVITY | TIMEFRAME | ACTIVITY STATUS |
| Establish a government sector accounting standard setting council. | 2nd quarter 2016 | Partially completed | Decisions about the composition and formation forwarded to 2nd half of 2017; |
| Develop a gap analysis between current accounting practices and accrual IPSAS. | 2nd quarter 2016 | Completed | Analysis prepared within the IMF technical assistance report. |
| Prepare a realistic road map towards full accrual accounting in the government sector | 2nd quarter 2016 | Completed | Roadmap prepared within the IMF technical assistance report. |
| Prepare pro forma financial statements for 2015 in compliance with IPSAS for Central Government | 2nd quarter 2016 | Completed | Prepared “pro forma” financial report for the RS budget in line with IPSAS cash basis standards |
| Prepare accounting policies in compliance with IPSAS 1,2,3, 5, 14, 24 | 4th quarter 2016 | Not Completed | Postponed to 2nd quarter 2017; Official translation of IPSAS was in progress but not yet finalized and ready for publishing. |

Source: Annual Report on Implementation of the Public Financial Management Reform Program 2016 – 2020 for the period from December 2015 to December 2016.

204. The first annual implementation report for the PFM Reform Program for the reporting period of December 2015-2016 was released in March 2017. It recorded that three of five activities to be implemented in the reporting period were actually completed (see table above).
205. A draft decision on establishing a standard setting council was made but no decision was taken about its composition. The current proposal foresees representatives of the accounting profession from the public sector, academic community, and state authorities at both central and local level, with the SAI as observer. It awaits the approval of the Ministry of Finance and other relevant financial institutions. The establishment deadline was moved to the second half of 2017. It is further recommended that a representative of the Statistical Office of the Republic of Serbia is additionally included in the council, Serbia is about to implement accrual based statistical frameworks so the two initiatives should be closely aligned while establishing mutually inclusive work streams.
206. It is understood that a “pro forma” financial report for 2015 has been prepared in accordance with IPSAS standards for the central level of government, although the deadline for implementation was initially set for the second quarter of 2019. At the same time the activity which refers to the preparation of accounting policies in accordance with IPSAS 1, 2, 3, 5, 14, 24, was not implemented within the deadline due to unavailability of published official translation of standards needed to train staff and to fully assess costs benefits analysis of implementation.
207. The implementation of Measure 17 seems not to have progressed smoothly. Important decisions have been postponed and necessary steps are not taken. As reflected in the Program, as well as the implementation report, the administration recognizes that staff lack necessary capacity and training but capacity building activity is not planned until end of year 2020. While improvement of the existing PFM system is clearly a necessary precondition to effectively

implement a new accounting system, the degree of political ownership in connection with the transition to full accrual accounting remains unclear as other PFM reform measures seem to be given priority. A strong driver for reform is needed, the general appetite to reform should be evaluated and appropriate measures to ensure political ownership should be set.

4.4.1. Payment Arrears and Commitment Management

208. The accumulation of government expenditure arrears in Serbia emerged as a significant problem during the financial crisis, especially in the health sector, local self-governments, and maintenance of road infrastructure. The total amount of these arrears reached more than 1 percent of GDP in 2012, as the Fiscal Council noted in a report. Controlling expenditure arrears has since been a challenge for successive administrations in the RoS. The persistence of arrears point to a lack of budget credibility, weak expenditure and commitment controls, and the complexities of the public sector in Serbia. Arrears have undermined the delivery of services as well as the viability of public enterprises. The authorities recognize the problem and have tried to tackle it in various ways.
- The Law on Deadlines for Monetary Obligations Payments in Commercial Transactions was adopted in 2013 and provides a definition to payment arrears and contains new rules limiting the possibility of generating new arrears by public entities. The Law sets a maximum delay of 45 days for any public sector entity to settle a payment to a private creditor, after which interest can be charged. In 2015, the Law was revised and extended to also cover public to public commercial transactions.
 - Data on arrears have also been collected by the Treasury through the FMIS system's payables function, identifying unpaid bills that are registered in the system but do not have a corresponding payment order issued. Given the coverage of the FMIS, which is limited to central government, the Treasury Administration established the separate RINO reporting system to track whether public sector entities are settling their payments to the private sector in accordance with the law, to avoid incurring significant late payment interest charges.
209. Notwithstanding these important measures, risks from contingent liabilities remain significant and public financial management weaknesses need to be further addressed as some public enterprises and SOEs (including Azotara, MSK, RTB Bor, and Railways), medical institutions, and local governments continued to accumulate arrears in 2016, amounting to at least 0.3 percent of GDP. Several factors contribute to the continuation of this challenge.
210. Currently, there is no reliable and comprehensive data on arrears. The BEX and RINO systems capture assumed commitments (i.e. ex post), deadlines for payment and settlements of liabilities but they are not able to effectively prevent creation of arrears.
211. Information collected in the RINO system is also subject to limitations. The Law on Payments (RINO Law) is not succeeding in exposing arrears because of widespread reporting failures by budget users and public entities. The authorities have decided to develop a new e-invoice system fed by both creditors and debtors, capturing transactions outside the single Treasury system. However, the new system will take time to become operational.
212. Regarding multi-annual commitment controls, entering into such contracts is subject to Government approval and allows budget beneficiaries to enter into commitments up to their multi-year expenditure ceiling as defined in the fiscal strategy. However, it is not clear whether this limitation has been respected in practice. The Treasury does not keep records of multi-year commitments, only of the portion to be paid in the current year. The absence of a system

monitoring multi-annual commitment creates the risk that budget beneficiaries will further accumulate significant expenditure arrears.

213. The PFM Reform Program addresses the issues of expenditure arrears and commitment controls in Measures 8.1, 8.2 and 16.3.

Table 8: Measure 8 of the PFM Reform Program 2016-2020

| MEASURE 8 | | IMPROVING COMMITMENT CONTROL AND CASH MANAGEMENT | |
|---|--|--|---|
| RESULT | ACTIVITY | TIMEFRAME | INDICATOR |
| 8.1 Adequacy of approved budget quotas ensured and cash flow planning improved. | Instituting procedures which would enable Ministry of Finance to assess the reliability of reported cash needs by users of public funds with a view to ensuring adequacy of budget quotas and aggregate cash requirements and strengthening the daily, monthly and quarterly cash flow planning. | 1st quarter 2018 | Expenditures on multi-year projects to not exceed approved budgets. |
| 8.2 Enhanced control over multi-annual contractual commitments | Analyses and implementing a systematic approach to approve records and monitor multi-annual contractual commitments. | 4th quarter 2018 | Commitments recorded in the Treasury system within (to be determined) days of contract signature. |

Table 9: Implementation status of Measure 16.3 per end of 2016

| MEASURE 16.3 | | IMPROVING MONITORING AND REPORTING ON ARREARS | |
|--|------------------|---|---|
| ACTIVITY | TIMEFRAME | ACTIVITY STATUS | COMMENT |
| Issue a circular reminding all budget users of their responsibility to record contracts as they are signed on the RINO and the FMIS systems. | 2nd quarter 2016 | Completed | Circular reminder is sent to all budget users; |
| Review and strengthen the penalty arrangements for failure to implement prescribed financial controls. | 4th quarter 2016 | Partially completed | |
| Extend the RINO system to include public-to-public transactions, and harmonize the coverage and definitions | 1st quarter 2016 | Completed | In accordance with the Law of settlement of financial obligations in commercial transactions, RINO system has been extended so that it applies to transactions between public sector entities as of 01.01.2016. The Section for Budget Inspection supervises implementation of the Law. |

Source: Annual Report on Implementation of the Public Financial Management Reform Program 2016 – 2020 for the period from December 2015 to December 2016.

214. Measures 8.1, on the adequacy of approved budget quotas and improved cash flow planning, and 8.2, on enhanced control over multi-annual contractual commitments, seem to be well-targeted. Measure 16.3, on improving the monitoring and reporting on arrears, would however benefit from an update and revision to address the still remaining issues of data quality and data collection approaches that risk further fragmentation of the flow of information.
215. The problematic areas highlighted above including limited budget credibility, limited coverage of the national budget, lack of reliable fiscal risk assessment, as well as arrears and commitment controls, will feed into the broader agenda to improve fiscal reporting and extend the current cash basis to accrual accounting over the medium term. The respective accrual accounting rules have the potential to positively impact efforts to resolve incomprehensiveness of arrears data and regain control over multiannual commitments.

4.4.2. Roll-out of FMIS and enhanced functionality

216. The Ministry of Finance will systematically rollout FMIS to cover IBBs over the next two years. Courts will be integrated starting 1st January 2016, prisons and cultural institutions starting 1st January 2017, and social welfare centers beginning January 2018. This will leave only educational institutions, which are large in volume and require more time, outside FMIS. As IBBs are responsible for the bulk of outstanding stock of expenditure arrears, incorporating them into FMIS would significantly enhance data collection.
217. With regard to Measure 16.1, the improved coverage and quality of reporting on budget execution and fiscal reports, the target value for 2016 reached 247 IBBs, including courts, prosecutions and legislative institutions. Professional training on working with the FMIS system were organized at these institutions for approximately 550 participants.
218. As for enhancing the functionality of FMIS, the Treasury should introduce a new financial management system ISIB (Information System of Budget Execution) in the following 60-72 months. Depending on the scope of changes and the possible replacement of current application systems, the timespan for the development of an IFMIS of 5-6 years seems realistic. The new system should incorporate functions necessary to accommodate accrual accounting, it is hence advisable to align and sequence the two initiatives.

4.4.3. Fixed Assets Registry

219. The final accounts provide comprehensive information on revenue, expenditure, and financial assets/financial liabilities, but according to the SAI information on non-financial assets is of substantially lower quality. Both the Budget Inspection Unit and the SAI noted issues with accuracy of asset valuation and balance sheet comprehensiveness. In FY13 (as well as in FY12), the SAI issued a disclaimer of opinion on the Balance Sheet of the Final Account of the Budget of the Republic of Serbia with respect to non-financial assets. The Republic Property Directorate of the Republic of Serbia, by 31 March of the current year, shall submit to the Ministry – the Treasury Administration, a report on the structure and value of the assets of the Republic of Serbia, in order to draw up the final account of the budget of the Republic of Serbia. Since end of February 2016 an online application is being used for the collection of data which can be accessed by every budget holder. According to the Directorate, it is solely the responsibility of the budget user to truthfully enter data on assets, such as their value, changes in value, and information in connection with disposal of assets. The Administration

for Joint Services of the Republic Bodies (AJSRB) offers services maintaining assets registers for budget users on a voluntary basis (currently for 72 budget users) based on the documents provided. AJSRB provides the Republic Property Directorate with information on fixed assets that are jointly utilized by multiple budget users.

220. Information in the asset registry is neither validated nor verified, nor demanded when missing, by the Directorate (who does not assume responsibility for data quality). The Directorate report that only 1,600 of 11,000 budget users have submitted the required data. Moreover, not every asset is entered into the application, including the value of the asset. Anecdotally, of 18,355 assets entered by local sub-governmental units only 11,510 are assigned a value. Prior to the introduction of the online application in February 2016, data had been collected manually and entered into an auxiliary database by the Directorate which contains around 500,000 entries. Mass migration of this data to the new database is envisaged for May 2017.
221. Because the registry from which this information provided by the Republic Property Directorate is seen as not sufficiently reliable, the Treasury Administration fills the resulting gap with information received directly from beneficiaries. Reports supplied by the beneficiaries are taken without further verification and aggregated for the purpose of producing the final account.
222. The technical provisions and institutional arrangements for efficient asset management are underdeveloped and fragmented, and availability of comprehensive data is not secured. The situation is different at entity-level as budget users are required to maintain records of their assets, which is an important precondition for the implementation of accrual accounting.
223. Both the Republic Property Directorate and the Administration for Joint Services of the Republic Bodies are providing partially overlapping services related to fixed assets management/accounting. Possible future options therefore include review of existing roles and responsibilities, and streamlining functions. This could provide either a more comprehensive and reliable service, even including full bookkeeping and accounting services for budget users in a form of shared service centers, or leave accounting for fixed assets entirely in the hands of budget users. Accounting reform is also an opportunity to improve quality and the speed of getting the required financial information for management and decision making by reviewing the work flow of documents, approvals, and decisions to make it more efficient and avoid unnecessary duplication. Centralization of time consuming bookkeeping processes, using paperless electronic invoicing, and reducing manual entries, for example, can improve efficiency and allow scarce IT and accounting staff to be shared.
224. Ensuring comprehensive financial information on fixed assets, including inter alia composition, valuation, is critical for effective performance evaluation and decision making both for asset management and public investment management.

4.4.4. Centralized Payroll System

225. Recent efforts by the Government have led to the establishment of the first comprehensive registry of public employees since 2003. The current registry however, has several shortcomings. Notwithstanding that all ministries are obliged to maintain their lists of employees on this registry, not all ministries do so and accordingly the registry is incomplete. There is no mechanism to link the various systems operating at sector level in ministries with the large public administration payroll systems to monitor staff numbers, increases in staff numbers over time, and total employment cost. ICT deficiencies in HR are undermining the Government's ability to control employment numbers and the wage bill.

226. Treasury operates a centralized payroll service for 125 DBBs (around 11,000 employees) on the central government budget. Some organizations, due to their specifics (Ministry of Interior, Defense, Tax Administration) perform their own payroll, but the information is uploaded to the central payroll system and payment is executed from the Budget Execution Account. There is an additional payroll for primary and secondary schools comprising 1,769 entities and 110,000 employees. Data required for the calculation of salaries shall be submitted through the regional branch of the Treasury. Once the payroll bill is calculated and confirmed, the funds are transferred to the dedicated accounts of the schools (within the Treasury payment system) and centrally executed.

4.5. PFM Reform Program budget

227. Detailed information on the PFM Reform Program budget is not available. The PFM Strategy paper makes reference to “additional costs” to be financed by the budget or by external partners. Not every activity has an associated cost and it is unclear what is meant by “additional”.

5. CONCLUSIONS AND NEXT STEPS

5.1. Introduction

228. There are already significant ongoing activities in Serbia that will improve public sector financial reporting. These include payment arrears and commitment management, and the roll-out of FMIS and enhanced functionality.
229. International experience is that public sector accounting reform is an ambitious objective that is neither short-term nor inexpensive. The time-period for reform is long and it is difficult accurately to predict or even keep track of the incremental costs of the reform. That said, any costs need to be compared to long-term, ongoing benefits. The consistent message from all countries undertaking and having undertaken reform is to just start and initiate steps in line with the well-designed reform plan.
230. It is for the Serbian authorities to decide how to sequence its reform of public sector accounting, this may take a different shape to that suggested in this section. As with other complex reforms there are several factors which should be taken into account during preparation and implementation of the accounting reform.
231. The public sector accounting reform plan can be divided into normative and operational implementation blocks. Normative block including strategic design, regulatory set up needs to precede related operational activities. The normative block can include the following aspects:
- ✓ **Strategic planning** on overall design of organization of accounting which defines adequate size and relations amongst accounting units for each level of public sector, ICT accounting model (centralized, decentralized, mixed)
 - ✓ **Legal framework** which incorporates clear requirements and provides legal mandate for reform actions and changes including reform vision, constitutional responsibility for preparation of faithful financial statements, institutional framework, introduction of conceptual framework, standards, policies, methodology, guidelines, staff capacity strengthening
 - ✓ Institutional framework
 - ✓ Strengthen staff capacity
232. The operational implementation block will follow and support the strategic vision and legal basis of the reform through:
- ✓ Leadership including strong political support for the reform
 - ✓ Project operational plan including technical content
 - ✓ Timetable
 - ✓ Budget
 - ✓ Performance management
 - ✓ Staff
 - ✓ Communication including internal and external stakeholders together with education and raising awareness.

5.2. Range of strategies available for the adoption of IPSAS

233. The IPSAS Board⁷⁷, which develops and issues IPSAS⁷⁸, strongly encourages the adoption of accrual based IPSAS and the harmonization of national requirements with IPSAS. However, it also recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB believes that the adoption of IPSAS, together with disclosure of compliance with them, will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities.
234. The IMF also acknowledges the importance of a well-designed global architecture of fiscal transparency norms and standards including IPSAS in the area of public sector accounting⁷⁹. The adoption of a sound framework and the regular preparation and publication of audited consolidated financial statements in accordance with IPSAS would help improve fiscal transparency defined as the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting. It would also contribute to the public openness of the government's fiscal policy-making process, which is a critical element of effective fiscal management.
235. EU member states that are reforming their public sector accounting usually do so using an IPSAS-based framework. They also closely follow the progress of the EU project led by Eurostat to develop European Public Sector Accounting Standards (EPSAS), likely to be based considerably on IPSAS.
236. There are essentially three different strategies to strengthen any national PS GAAP (see also the table below): (i) Full and direct adoption which assumes replacing national legislation by direct reference to IPSAS, thus there is no need to establish national standard-setting mechanisms; (ii) Full but indirect adoption in which national legislation or standards are modified for full consistency with IPSAS, including also limiting options offered by IPSAS; (iii) Partial adoption in which national legislation is modified to be consistent with selected parts of IPSAS, which requires considerable resources to maintain a national standards-setting mechanism.

Table 10: Description of strategy

| Adoption strategy | Description of strategy |
|-------------------------------|---|
| 1. Full and direct adoption | National PS GAAP is withdrawn to the extent that they exist and replaced in legislation by direct reference to IPSAS. Under this strategy, the different IPSAS could be declared as effective from different dates so as to allow for a phased implementation. This strategy is suited for circumstances where the desired outcome is the adoption of full IPSAS and where there is no appetite to establish a national standard-setting mechanism. Switzerland at the federal level is an example of a country that has taken this approach. As IPSAS provide options, alternative treatments, and are of high level nature, such an approach would require efforts to set up a unified accounting policy to be applied across public sector entities in order to maintain consistency and facilitate consolidation process. |
| 2. Full but indirect adoption | National PS GAAP is modified and/or new PS GAAP is issued that is fully consistent with IPSAS. This could be achieved by revising legislation or issuing national public sector accounting standards which are equivalent to IPSAS. The PS GAAP often reduces options offered by IPSAS, but this does not inhibit full compliance. |

⁷⁷ <http://www.ipsasb.org/about-ipsasb>

⁷⁸ IPSAS are published on the following website: <http://www.ipsasb.org/publications-resources>

⁷⁹ „Fiscal Transparency, Accountability, and Risk” IMF paper dated August 7, 2012
<http://www.imf.org/external/np/pp/eng/2012/080712.pdf>

| | |
|---------------------|--|
| | Under this strategy, the different parts of the new PS GAAP or the different national public sector accounting standards could be declared as effective from different dates to allow for a phased implementation. This strategy is also suited for circumstances where the desired outcome is the adoption of full IPSAS while, effectively, retaining national approval of each IPSAS prior to incorporation into national PS GAAP. This approach requires the establishment of a national standard-setting or IPSAS-approval mechanism. New Zealand is an example of a country that has taken this approach. The Kyrgyz Republic and Kazakhstan will also indirectly apply IPSAS |
| 3. Partial adoption | National PS GAAP is modified and/or new PS GAAP is issued that is consistent with selected parts of selected IPSAS. This could be achieved by revising legislation or issuing national public sector accounting standards derived from IPSAS. Under this strategy, the different parts of the new PS GAAP or the different national public sector accounting standards could be declared as effective from different dates so as to allow for a phased implementation. This strategy is suited for circumstances where the desired outcome is not the adoption of full IPSAS but rather a prescribed subset of IPSAS as well as the adoption of country-specific accounting policies. This approach requires considerable resources to establish and maintain a national standard-setting mechanism. France is an example of a country that has taken this approach. |

5.3. Recommended strategy to align Serbian PS GAAP with IPSAS

237. The main factor influencing the choice of the appropriate strategy for the adoption of IPSAS in Serbia is the scale of the required reform (given the disparity between IPSAS and Serbian PS GAAP) and the comparative lack of capacity to implement it all at once. Accordingly, the recommended strategy for the adoption of IPSAS in Serbia is one of partial adoption. Thus, Serbian PS GAAP would be modified such that it is consistent with selected parts of selected IPSAS and the different parts of any new requirements in Serbian PS GAAP would be specified as being effective from different dates so as to allow for a phased implementation.
238. In practical terms, and by reference to this report's comparison of the requirements of Serbian PS GAAP with IPSAS, the Serbian authorities could initially select those IPSAS requirements which:
- a. are largely consistent with current Serbian PS GAAP;
 - b. address fundamental accounting issues relating to recognition, measurement, and presentation which are: currently poorly covered by Serbian PS GAAP; are not controversial as regards EPSAS; and are not expected to be changed by the IPSASB in the near future;
 - c. address disclosure requirements that would not require undue additional effort and cost to achieve compliance.
239. Later, likely several years after the initial set of IPSAS requirements selected according to the criteria described above are implemented, additional IPSAS requirements could be added. The requirements of EPSAS may by then be much clearer and could also be incorporated. This approach is consistent with the analysis published by the European Commission in 2013 and reproduced in Annex 3: European Commission's 2013 Possible Classification of IPSAS Standards.

5.4. Suggested roadmap to strengthen Serbian PS GAAP

240. Given that public sector accounting reform is an ambitious objective and that international experience shows that the time-period for reform is long and it is difficult accurately to predict or even keep track of the incremental costs of the reform, the roadmap described in this section is for the short- to medium-term. It is not a long-term plan and will not take Serbian PS GAAP all the way through from where it is now to full IPSAS. The emphasis here is to start with small steps in the right direction with a focus on creating an appropriate enabling environment.
241. As discussed before, the main factor influencing the choice of the appropriate strategy for the adoption of IPSAS in Serbia is the scale of the required reform (given the disparity between IPSAS and Serbian PS GAAP) and the comparative lack of capacity to implement it all at once. To help with this, a workshop is foreseen with in-country authorities to discuss the findings and recommendations of this report and help develop a more detailed plan.
242. In view of its importance to the development of a plan to implement IPSAS, it is worth emphasizing one key issue that needs to be addressed early as a matter of high priority: whether accounting ICT systems used by decentralized units including DBBs and IBBs will continue to be maintained at decentralized levels or whether instead they should be centralized in a manner consistent with implementation of centralized systems for fixed assets, payroll and monitoring of arrears. In order to help make this decision, and as described in 5.4.2h below, a necessary first step would be to obtain a full and proper understanding of the accounting ICT systems used at decentralized levels in order to gauge the effort required to make them capable of supporting IPSAS.

5.4.1. Create demand for reform of public sector accounting

243. Experience in other countries has shown the importance of commitment from senior management and politicians as well as the participation of key stakeholders to create demand for reform of public sector accounting. There are a number of key activities that could help create awareness of and demand for public sector accounting reform, including:
 - a. Establish an IPSAS Project Team of key stakeholders including Treasury and Budget Departments, the SAI, and users.
 - b. Organize knowledge sharing events with peer European countries that apply either IPSAS or national standards based on IPSAS.
 - c. Conduct high-level policy setting workshops for senior officials and stakeholders to raise awareness, make synergies with other elements of PFM reform, emphasize the relationship between IPSAS and ESA 2010 as good government finance statistics based on good public accounting, understand and define financial information needs and gaps to properly address them during the reform, and obtain buy in for implementation.
 - d. Develop and deliver sustainable training on IPSAS and its setting process for regulators and other stakeholders to enhance practical knowledge and understanding of those standards. [Annex 4](#) describes key recommendations to properly plan, develop, and implement a sustainable capacity-building approach.
 - e. Conduct workshops to develop reform action.

5.4.2. Address institutional framework

244. Following on from this report's analysis, a number of issues with the institutional framework could be addressed:
- a. *The statutory framework:* There is a need to streamline and harmonize the Serbian public sector accounting framework to achieve overall policy consistency and to significantly reduce the number of policies dealing with public sector accounting and financial reporting. Inconsistencies exist among different legal acts or even within the same act.
 - b. *Key responsibilities for financial reporting and accounting:* The current accounting system in the RoS follows a mix of centrally governed and managed accounting operations (i.e. budget execution through the Treasury; asset management through the Republic Property Directorate; assets of multiple users through the Administration for Joint Services), and decentralized responsibilities to keep auxiliary ledgers by DBBs and IBBs. Streamlining the current fragmented accounting processes could significantly reduce the number of agents involved (including in consolidation procedures), to avoid current double loops and to set clear responsibilities for accounting and financial reporting operations, also with respect to consolidation activities. Taking into account the current decentralized accounting system it might also be useful to define basic principles related to maintenance of accounting books, accounting documents, and use of ICT accounting systems in order to assure reliable, complete, accurate, and safe accounting books and records with an audit trail enabling re-performance.
 - c. *Accounting staff:* In order to proceed with capacity building it is essential to assess the exact composition and structure of accounting staff, including a training needs analysis. Use the findings of the PACT-report to proceed with the capacity-building approach.
 - d. *The capacity-building approach:* Following from Annex 4 of this report, design of a sustainable capacity-building program should be initiated as early as possible. Capacity building activities following from this REPF report should: (I) closely collaborate with the Government Human Resource Management Service Unit in charge of coordinating training delivery activities and providing training facilities; (II) align with current, ongoing training activities, for example the PACT-project; (III) take into account existing professional capacities and needs of different stakeholders; (IV) be implemented in a sustainable manner, i.e. following a Training-of-Trainers approach; (V) take place after relevant accounting legislation has been enacted, but before actual implementation; (VI) take into account the key recommendations outlined in Annex 4 of this report.
 - e. *The standard setting body:* Define and establish a standard setting body, i.e. the envisaged Commission for Implementation of IPSAS, including its tasks, responsibilities, composition and remuneration, among others.
 - f. *The standard setting process:* Define and establish a clear-cut standard setting process, including a drafting stage, peer-review and commenting stage, revision stage, enactment stage, information and communication stage, and implementation stage.
 - g. *The Budget Accounting and Financial Reporting Sector:* The Budget Accounting and Financial Reporting Sector will be the main counterpart for the envisaged IPSAS implementation process. There is a need to strengthen current staff capacities within the sector, in order to absorb additional functional and capacity requirements related to the envisaged public sector accounting reform. As the envisaged accounting reform is likely to affect all units to similar extents, it is recommended to strengthen staff levels within existing organizational units and boundaries and locate the IPSAS project ownership at the top of

the Budget Accounting and Financial Reporting Sector. This would reduce organizational interfaces and boundaries, increase project ownership for both the operational accounting and the accounting methodology unit while also being beneficial in terms of operational efficiency gained from staff experience and retention of institutional memory.

- h. ICT: Gaining a comprehensive understanding of the current ICT-landscape should be started as soon as possible through a combined business process, accounting practices, and accounting systems assessment study across the Treasury, selected DBBs, and IBBs. ICT presents one of the indispensable conditions for implementation of Measure 17 i.e. accrual accounting. Careful priorities and limits should be defined for this study. It is highly recommended to engage with internationally recognized public sector ICT-experts in close collaboration with the Treasury to address the following issues:
- A profile of the ICT systems being used for financial management by DBBs/IBBs and implications for long-term reform and sustainability.
 - An assessment of the accounting capacity gaps at Treasury, DBB, and IBB level and a view on ways, costs, and priorities to reduce them or to offset their impact on consolidated financial reporting.
 - A set of recommendations on the scope, content, and cost to formulate and implement a program for Government-wide strengthening of public accounting and ICT systems capacity (i.e. horizontal and vertical integration of FMIS).
 - Review the role and responsibilities of the Treasury ICT Staff with respect to the envisaged accounting reform.

245. In conjunction with the IPSAS implementation more specific recommendations for consideration of the government include:

- a. *Analysis of various organizational forms of public sector entities* and definition of such entities in order to clearly distinguish any commercial public sector entities which should follow the corporate accounting framework, define their detailed reporting requirements, consolidation level, whether each budget user is a reporting entity, and perform mapping with ESA 2010.
- b. *Issue new accounting legislation specifically for the public sector* clarifying requirements for financial reporting, on an accrual basis, and budgetary reporting, which more likely will remain on a cash basis. The new legislation should also define public sector reporting requirements for commercial public sector entities. New accounting legislation should ideally be supported by high rank law, including the requirement to maintain accounting records and prepare faithful financial reports on an accrual basis of accounting, consolidated at least at the general government level.
- c. *Develop a methodology and application guidelines* to ensure comparability and effective reporting for budgetary and statistical reporting purposes (ESA 2010, GFSM 2014).
- d. *Devise a revised unified chart of accounts* that is consistent with the new Serbian PS GAAP and IPSAS, also taking into account needs for financial information including budget appropriations and monitoring, as well as ESA 2010 and GFSM 2014 as far as possible.
- e. *Develop and issue transitional provisions* providing guidance on the adoption of the new standards including sequencing and approach. One of the most time consuming activities will include preparation of the opening balance sheet in accordance with new accounting legislation.

5.4.3. Fully implement key ongoing PFM reforms

246. There are already significant ongoing activities in Serbia that will considerably improve public sector financial reporting and as such should be fully implemented as a matter of priority:
 - a. payment arrears and commitment management;
 - b. the roll-out of FMIS and enhanced functionality.
247. In conjunction with the above, a PFM reform budget for matters relating to accounting and reporting should be developed.

5.4.4. Implement aspects of selected IPSAS

248. A key consideration in the formulation of a strategy to implement IPSAS is the suitability and readiness of the ICT systems used across the public sector to maintain the accounting books and records. There exists no assessment of the current scope of ICT systems nor of what might be required to upgrade them to a state of readiness for IPSAS implementation. [Section 2.10.](#) above proposes a strategy to assess the ICT systems.
249. With reference to this report's comparison of the requirements of Serbian PS GAAP with IPSAS, and acknowledging the gap in knowledge of the readiness of ICT systems to support IPSAS implementation, the Serbian authorities might consider initially focusing on implementing the following aspects of specific IPSAS. These are all likely to require implementation guidance, issuance of detailed examples, and delivery of training across relevant impacted public sector entities:
 - g. IPSAS 1 – Presentation of Financial Statements. Serbian PS GAAP would need, as a first step, to require the production of a statement of changes in net assets/equity, notes to the accounts, and additional disclosures of key assumptions and risks. Further steps would include a change in the way the financial statements are structured because although they indeed present much of the information required for compliance with IPSAS 1, that information is not presented in the order and manner suggested by IPSAS 1.
 - h. IPSAS 2 – Cash Flow Statements. Serbian PS GAAP would need to change considerably the classification of transactions within the cash flow statement and also ensure that the cash balances reported in this statement reconciles to the cash balances reported in the balance sheet. The 2014 and 2015 pro forma cash flow statements prepared by the authorities provide a useful reference model for this.
 - i. IPSAS 5 – Borrowing Costs. Serbian PS GAAP would need to require borrowing costs to be recognized as an expense in the period in which they are incurred rather than on the date of payment (except to the extent that they are capitalized as part of the acquisition, construction or production cost of a qualifying asset).
 - j. IPSAS 17 – Property, Plant and Equipment. Serbian PS GAAP would need to change, as a first step, to require that depreciation charge is recognized in surplus or deficit for the period rather than as at present directly as a decrease in equity.
 - k. IPSAS 29 – Financial Instruments: Recognition and Measurement specifically regarding trade payables. Serbian PS GAAP does not currently address the issue of financial instruments: recognition and measurement per IPSAS 29 for all but the most basic financial instruments. A good first step towards compliance with IPSAS 29 would be for trade payables to be recognized which would in turn require invoices to be recorded immediately

on receipt. In addition, given its materiality, it would be useful if public debt was appropriately recognized and measured.

1. IPSAS 31– Intangible Assets. Consistent with the approach suggested for IPSAS 17, Serbian PS GAAP would need to change, as a first step, to require that depreciation charge on intangible assets is recognized in surplus or deficit for the period rather than as at present directly as a decrease in equity.

ANNEX 1: DETAILED COMPARISON OF SERBIAN PUBLIC SECTOR GAAP AND IPSAS

The table below lists the consistencies and inconsistencies between Serbian public sector GAAP and IPSAS⁸⁰. This is not a comparison of actual practice but is rather a comparison of the requirements of Serbian PS GAAP with IPSAS.

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|--|--|
| IPSAS 1 – Presentation of Financial Statements | | |
| Serbian PS GAAP conforms with IPSAS 1 in terms of responsibilities for the preparation and presentation of financial statements, main principles underlying the preparation of the financial statements, the basic definitions of assets and liabilities and the presentation of line items on the face of financial statements. However, Serbian PS GAAP does not require the production of a statement of changes in net assets/equity, nor the consideration of the true and fair or going concern principles, nor the disclosures of notes, key assumptions and risks. | <ol style="list-style-type: none"> 1. Responsibility for the preparation and presentation of financial statements is required to be regulated in an internal act. 2. Financial statements include the following four of six components specified in IPSAS 1 (noting that some classifications would need to be revised for full compliance with IPSAS 1): <ol style="list-style-type: none"> a. Statement of financial position (balance sheet); b. Statement of financial performance (profit and loss statement); c. Cash flow statement; d. When the entity makes its approved budget publicly available, a comparison of budget and actual amounts. 3. Principles met: consistency; materiality; offsetting. | <ol style="list-style-type: none"> 1. Financial statements do not include the following two of six specified in IPSAS 1: <ol style="list-style-type: none"> a. Statement of changes in net assets/equity. b. Accounting policies and notes 2. Financial statements include a report on capital expenses and revenues that is not specified in IPSAS 1. 3. Financial statements are not explicitly required to present and true and fair view of the financial position, financial performance, and cash flows (though Serbian PS GAAP makes reference to the need for a true and faithful presentation of business transactions in accounting documents). 4. The going concern principle is not explicitly mentioned and therefore not explicitly considered. |

⁸⁰ The table is based on a detailed toolkit questionnaire that was prepared separately for the purpose of informing this report.

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|-------------------------------|---|--|
| | <ol style="list-style-type: none"> 4. Structure and content in terms of clearly identifying each component of the financial statements, annual reporting period, presentation within six months of year-end. 5. Distinction is made between current and non-current assets and liabilities. 6. In other respects, information presented on the face of financial statements complies substantially with requirements of IPSAS 1. | <ol style="list-style-type: none"> 5. Comparative information is not produced for the budget execution report. 6. Presentation of information on the face of financial statements do not include (on the statement of financial position) recoverables from non-exchange transactions, provisions, minority interest, and net assets/equity attributable to owners of the controlling entity, (on the statement of financial position) share of surplus or deficit of associates and joint ventures using the equity method, pre-tax gain or loss on disposal of assets or settlement of liabilities attributable to discontinuing operations, and allocation of surplus or deficit attributable to minority interest. 7. Serbian PS GAAP does not require the disclosure in the notes or elsewhere of information about: (a) material items of revenues and expenditure; (b) the key assumptions concerning the future, and (c) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|--|--|
| IPSAS 2 – Cash Flow Statements | | |
| <p>The classification of transactions within the cash flow statement required by Serbian PS GAAP is rather different from that required by IPSAS 2. In addition, interest and dividends or similar distributions received are disclosed as operating income as opposed to also where appropriate as investing or financing activities and amounts paid are not accounted for separately. There is also no disclosure of the components of cash and cash equivalents nor any presentation of a reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position. Finally, there are no notes or disclosures of significant cash and cash equivalent balances that are not available for use.</p> | <ol style="list-style-type: none"> 1. Cash flow statements identify separately cash flows relating to operating, investing, and financing activities. 2. Government sector reports cash flows using the direct method. 3. Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. The closing balances of foreign currency bank accounts are presented in the functional currency by applying the closing exchange rate. 4. Investing and financing transactions that do not require the use of cash or cash equivalents are, consistent with IPSAS 2, excluded from the cash flow statement and disclosed elsewhere. | <ol style="list-style-type: none"> 1. Cash flows from operating, investing, and financing activities are not reported on a net basis for receipts and payments made on behalf of others and for which the turnover is quick. 2. Cash flows from interest and dividends or similar distributions received are disclosed separately and classified in a consistent manner from period to period but only as operating income as opposed to also, where appropriate, as investing or financing activities. Amounts paid are not accounted for separately. 3. Cash flows arising from taxes on net surplus are not separately disclosed and classified as cash flows from operating activities unless they can specifically be identified with financing and investing activities. 4. Aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units are not presented separately and classified as investing activities. 5. There is no disclosure of the components of cash and cash equivalents nor any presentation of a reconciliation of the amounts in the cash flow statement with |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|--|---|
| | | <p>the equivalent items reported in the statement of financial position.</p> <p>6. Entities are not required to disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use.</p> |
| IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors | | |
| <p>Though Serbian PS GAAP is consistent with IPSAS 3 in that it requires accounting policies to be applied consistently and only changed if required by the GAAP, Serbian PS GAAP does not require accounting policies to be changed retrospectively with an explanation of the reason for the changes and there are no regulations on matters relating to changes in accounting estimates or the accounting treatment of prior period errors.</p> | <ol style="list-style-type: none"> 1. Entities apply accounting policies consistently. 2. An entity is only able to change accounting policy if required by Serbian PS GAAP. | <ol style="list-style-type: none"> 1. There is no hierarchy for the selection and application of accounting policies. 2. No requirement to apply changes in accounting policies retrospectively nor to disclose the nature, reason, and effect of such changes. 3. Serbian PS GAAP is silent on matters relating to changes in accounting estimates including: whether changes should be recognized in the period of the change and prospectively; whether those that give rise to changes in assets and liabilities or relate to an item of net assets/equity should be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity in the period of change; and the disclosure requirements. 4. Serbian PS GAAP is silent on matters relating to the treatment of errors. |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|---|---|
| IPSAS 4 – The Effects of Changes in Foreign Exchange Rates | | |
| <p>Serbian PS GAAP is broadly in line with IPSAS 4 because, primarily, initial recognition of foreign currency transactions is calculated by applying the spot exchange rate at the date of the transaction, foreign currency monetary items are translated using the closing rate and non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. However, Serbian PS GAAP is silent on a number of matters including: the treatment of exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were translated on initial recognition and specifically whether they should or should not be recognized in surplus or deficit in the period in which they arise; and when a gain or loss on a non-monetary item is recognized directly in net assets/equity, whether any exchange component of that gain or loss is also recognized directly in net assets/equity.</p> | <ol style="list-style-type: none"> 1. Initial recognition of foreign currency transactions in the functional currency by applying the official middle rate (equivalent to spot exchange rate) at the date of the transaction. At each reporting date: <ol style="list-style-type: none"> a. foreign currency monetary items are translated using the closing rate; and b. non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. | <ol style="list-style-type: none"> 1. Serbian PS GAAP does not provide for fair value of assets and accordingly non-monetary items that might otherwise be measured at fair value in a foreign currency are nevertheless measured in terms of historical cost and translated using the exchange rate at the date of the transaction. IPSAS 4 requires the use of the exchange rate at the date when the fair value was determined. 2. Serbian PS GAAP is silent on the matter of the treatment of exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were translated on initial recognition and specifically whether they should or should not be recognized in surplus or deficit in the period in which they arise. 3. Serbian PS GAAP is also silent on in circumstances when a gain or loss on a non-monetary item is recognized directly in net assets/equity, whether any exchange component of that gain or loss is also recognized directly in net assets/equity. 4. Serbian PS GAAP is silent on disclosure requirements in respect of the effects of changes in foreign exchange rates |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|---|---|
| | | including (i) the amount of exchange rate differences recognized in surplus or deficit; and (ii) the net exchange rate differences classified as a separate component of net assets/equity together with a reconciliation of the amount of such exchange differences at the beginning and end of the period. |
| IPSAS 5 – Borrowing Costs | | |
| Serbian PS GAAP is not consistent with IPSAS 5 in that borrowing costs are recognized as an expense on the date of payment rather than in the period in which they are incurred or even in the period in which they are incurred except to the extent that they are capitalized as part of the acquisition, construction or production cost of a qualifying asset. | | <ol style="list-style-type: none"> 1. Borrowing costs are recognized as an expense on the date of payment rather than as required by either the IPSAS 5 benchmark treatment (as an expense in the period in which they are incurred) or by the IPSAS 5 alternative treatment (as an expense in the period in which they are incurred except to the extent that they are capitalized as part of the acquisition, construction or production cost of a qualifying asset). 2. The accounting policy for borrowing costs is not separately disclosed. |
| IPSAS 6 – Consolidated and Separate Financial Statements | | |
| IPSAS 6 has been withdrawn by the IPSASB and is no longer applicable. | | |
| IPSAS 7 – Investments in Associates | | |
| IPSAS 7 has been withdrawn by the IPSASB and is no longer applicable. | | |
| IPSAS 8 – Interests in Joint Ventures | | |
| IPSAS 8 has been withdrawn by the IPSASB and is no longer applicable. | | |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|--|--|
| IPSAS 9 – Revenue from Exchange Transactions | | |
| <p>Serbian PS GAAP is not consistent with IPSAS 9 in that revenues are measured on a cash basis rather than by reference to stage of completion of services, or transfer of the significant risks and rewards of ownership, control and economic benefit or service potential of goods.</p> | <ol style="list-style-type: none"> 1. Revenues from interest, royalties and dividends are disclosed separately. | <ol style="list-style-type: none"> 1. Revenue is measured when and by reference to cash received rather than by reference to the fair value of the consideration received or receivable. 2. Revenues from the rendering of services are recognized on a cash basis and accordingly: <ol style="list-style-type: none"> a. At the reporting date, revenues from rendering of services are not recognized by reference to the stage of completion of the transaction; b. Revenues are not recognized only to the extent of the expenses recognized that are recoverable. 3. Revenues from the sale of goods are recognized on a cash basis and not by reference to the transfer of the significant risks and rewards of ownership, control, and economic benefit or service potential. 4. Though Serbian PS GAAP is silent on the matter, revenues from the use by others of entity assets yielding interest, royalties, and dividends are in practice recognized on a cash basis rather than by reference to economic benefit or service potential or any other basis. 5. Revenues from rendering of services and from sale of goods are aggregated rather than disclosed separately. |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|---|---|
| IPSAS 10 – Financial Reporting in Hyperinflationary Economies | | |
| IPSAS 10 is not applicable to Serbia as it is not a hyperinflationary economy. Full compliance with IPSAS is possible without including IPSAS 10 in the national standards of economies which are not hyperinflationary. | This standard is not applicable as Serbia is not a hyperinflationary economy. | |
| IPSAS 11– Construction Contracts | | |
| Serbian PS GAAP does not address the issue of construction contracts per IPSAS 11. | | Serbian PS GAAP is silent on the treatment of construction contracts. |
| IPSAS 12 – Inventories | | |
| Serbian PS GAAP is consistent with IPSAS 12 in terms of definition of inventories and the recognition of the carrying amount as an expense in the period when those inventories are disposed. However, Serbian PS GAAP differs from IPSAS 12 in many respects including in that it does not require: inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; nor inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value. | <ol style="list-style-type: none"> 1. Definition of inventories. 2. Recognition of the carrying amount as an expense in the period when those inventories are sold, exchanged or distributed although this is not shown in a single line in the performance statement but is rather shown in two separate lines that account separately for, respectively, inventory purchases (so that cash flows relating to inventory purchases may be separately monitored) and inventory balances. | <ol style="list-style-type: none"> 1. No requirement for inventory to be measured at lower of cost and current replacement costs where inventory held for: distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge. Rather, inventory is measured at historic cost. 2. Inventories acquired through non-exchange transactions are not measured at fair value. Rather, inventory is measured at historic cost. 3. Inventory acquired through exchange transactions and not for distribution at no charge nor nominal charge are not measured at the lower of cost and net realizable value. Rather, inventory is measured at historic cost. |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|-------------------------------|---|---|
| | | <p>4. Serbian PS GAAP is silent on whether the cost of inventories should include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.</p> <p>5. No requirement that the cost of inventories of items that are not ordinarily interchangeable should be assigned using specific identification of their individual costs.</p> <p>6. Serbian PS GAAP is silent on whether inventories other than those that are not ordinarily interchangeable should be assigned using FIFO or weighted average cost formulas.</p> <p>7. Serbian PS GAAP is silent on whether write downs or losses should be recognized in the period in which the write downs or losses occur though in practice losses will be recognized in through decreasing inventory and equity.</p> <p>8. No disclosure requirements in respect of inventories including of:</p> <ul style="list-style-type: none"> a. The accounting policies adopted in measuring inventories, including the cost formula used; b. The total carrying amount of inventories and the carrying |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|---|---|
| | | <p>amount in classifications appropriate to the entity;</p> <ul style="list-style-type: none"> c. The carrying amount of inventories carried at fair value less costs to sell; d. The amount of inventories recognized as an expense during the period; e. The amount of any write-down of inventories recognized as an expense in the period; f. The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period; g. The circumstances or events that led to the reversal of a write-down of inventories; and h. the carrying amount of inventories pledged as security for liabilities. |
| IPSAS 13 – Leases | | |
| Serbian PS GAAP does not address the issue of leases per IPSAS 13. | | Serbian PS GAAP is silent on the treatment of leases ⁸¹ . |

⁸¹ Even though the chart of accounts includes specific accounts for capitalization of leases, there is no guidance on the use of these accounts which might be expected to include the criteria to be applied to determine when an asset financed by a lease should be capitalized. As such, in practice, leased assets are not capitalized.

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|---|--|
| IPSAS 14 – Events after the Reporting Date | | |
| Serbian PS GAAP does not the issue of events after the reporting date per IPSAS 14. | | Serbian PS GAAP is silent on the treatment of events after the reporting date ⁸² . |
| IPSAS 15 – Financial Instruments: Disclosure and Presentation | | |
| IPSAS 15 has been withdrawn by the IPSASB and is no longer applicable. | | |
| IPSAS 16 – Investment Property | | |
| Serbian PS GAAP does not address the issue of investment property per IPSAS 16 and specifically makes no distinction of assets held as investment property from other assets. | | Serbian PS GAAP does not address the issue of investment property ⁸³ . |
| IPSAS 17 – Property, Plant and Equipment | | |
| Serbian PS GAAP is broadly in line with IPSAS 17 save that depreciation charge is recognized directly as a decrease in equity rather than in surplus or deficit, there is no periodic review of the residual value and the useful life of an asset, and impairment losses are not considered. | <ol style="list-style-type: none"> 1. Recognition as an asset if, and only if: (a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity (though not explicitly assessed); and (b) the cost or fair value of the item can be measured reliably. 2. Day-to-day servicing of an asset is excluded from recognition in the balance sheet but is rather recognized in the surplus or deficit as incurred. 3. Assets measured on recognition at cost. | <ol style="list-style-type: none"> 1. Depreciation is recognized directly as a decrease in equity rather than in surplus or deficit. 2. Serbian PS GAAP is silent on requiring each part of an item of PPE with a cost that is significant in relation to the total cost of the item to be depreciated separately. 3. No periodic review of the residual value and the useful life of an asset. 4. Impairment losses are not considered. |

⁸² Transactions are booked based on cash movements and thus all cash movements up to and including the reporting date are registered and those occurring afterwards are not.

⁸³ Serbian PS GAAP makes no distinction of assets held as investment property and as such any assets that under IPSAS16 might be classified as investment property are classified as regular assets (see analysis of IPSAS 17) and revenues relating to that investment property are recognized as regular non-tax income from exchange transactions (see analysis of IPSAS 9).

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|---|--|
| | <ol style="list-style-type: none"> 4. Though Serbian PS GAAP is silent on this matter, assets acquired through non-exchange transactions would be measured at fair market value as at date of acquisition. 5. After initial recognition, cost model is applied to all PPE. (Revaluation model is not permitted). As such, after recognition as an asset, an item of property, plant and equipment is carried at its cost, less any accumulated depreciation. 6. Depreciable amount of an asset is allocated on a systematic basis over its useful life as specified by the Rulebook on Assets. 7. The carrying amount of an item of PPE is derecognized on disposal. 8. The gain or loss arising from the derecognition of an item of PPE is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item though they are booked in separate accounting accounts and shown in separate sections of the P&L rather than as a net figure. | <ol style="list-style-type: none"> 5. There are no notes and disclosures to the financial statements. |
| IPSAS 18 – Segment Reporting | | |
| Serbian PS GAAP does not address the issue of segment reporting per IPSAS 18. | | Serbian PS GAAP does not address the issue of segment reporting. |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|---|---|
| IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets | | |
| Serbian PS GAAP does not address provisions, contingent liabilities and contingent assets per IPSAS 19 in that it makes no recognition or disclosure of such matters. | | Serbian PS GAAP does not address the issue of provisions, contingent liabilities and contingent assets. Serbian PS GAAP makes no recognition or disclosure of provisions, contingent liabilities and contingent assets. |
| IPSAS 20 – Related Party Disclosures | | |
| Serbian PS GAAP does not address the issue of related party disclosures per IPSAS 20. | | Serbian PS GAAP does not address the issue of related party disclosures. |
| IPSAS 21 – Impairment of Non-Cash Generating Assets | | |
| Serbian PS GAAP does not address the issue of non-cash generating assets per IPSAS 21. | | Serbian PS GAAP does not address the issue of non-cash generating assets. |
| IPSAS 22 – Disclosure of Information About the General Government Sector | | |
| IPSAS 22 is not applicable to Serbia as it does not prepare and present consolidated financial statements under the accrual basis of accounting as well as [GFS-type] financial information about the General Government Sector. IPSAS 22 is however a voluntary standard and thus even if Serbia eventually prepares and presents consolidated financial statements under the accrual basis of accounting, it can still claim full compliance with IPSAS without complying with IPSAS 22. | This standard is not applicable as the government does not prepare and present consolidated financial statements under the accrual basis of accounting as well as [GFS-type] financial information about the General Government Sector. | |
| IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers) | | |
| Serbian PS GAAP diverges from IPSAS 23 regarding revenues from non-exchange transactions with the major exception in that such revenues are recognized on a cash basis | 1. The Budget System Law lists all sources of public revenues including non-exchange transactions and these are consistent with IPSAS 23. | 1. An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset is recognized without regard to |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|---|---|
| <p>rather than when there is an inflow of a resource that meets the definition of an asset.</p> | <ol style="list-style-type: none"> 2. Disclosure of the amount of revenues from non-exchange transactions showing separately taxes and transfers and major classes thereof. 3. Although Serbian PS GAAP is silent on this matter, tax revenues are in practice recognized at their gross amount, are not reduced for expenses paid through the tax system, and are not grossed up for the amount of tax expenditures. | <p>when: (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and (b) the fair value of the asset can be measured reliably.</p> <ol style="list-style-type: none"> 2. Assets acquired through a non-exchange transaction are not required to be initially measured at fair value as at the date of acquisition. 3. An inflow from a non-exchange transaction is only recognized when there is a cash flow rather than when there is an inflow of a resource that meets the definition of an asset. 4. There is no regulation in Serbian PS GAAP to specify the treatment of a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset once that obligation is satisfied. 5. There is no regulation in Serbian PS GAAP to recognize an obligation from a non-exchange transaction as a liability including therefore the amount to be recognized as such. 6. Taxes: an asset is recognized when cash is received rather than when the taxable event occurs and asset recognition |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|--|--|
| | | <p>criteria consistent with IPSAS 23 are met.</p> <p>7. Most disclosures required by IPSAS 23.</p> |
| IPSAS 24 – Presentation of Budget Information in Financial Statements | | |
| <p>Consistent with IPSAS 24, Serbian PS GAAP too requires that the budget implementation report includes a comparison between the budget amounts for which it is held publicly accountable and actual amounts. However, they neither present separately a comparison of original and final budget amounts nor explanations of material differences between the budget and actual amounts.</p> | <ol style="list-style-type: none"> 1. Both at the entity level as well as at the aggregate level, Serbian PS GAAP requires the presentation of a comparison between the budget and actual amounts. 2. Budget and actual amounts are presented on a comparable basis. | <ol style="list-style-type: none"> 1. Where there is a change from original to final budget, the changes are not explained either by way of a note of disclosure to the financial statements nor in a separate report that makes a cross-reference to the financial statements. 2. The comparison of budget and actual amounts does not present separately: <ol style="list-style-type: none"> (a) the original and final budget amounts; nor (b) by way of note disclosure, an explanation of material differences between the budget and actual amounts. 3. There are no notes to the accounts and therefore no explanations of: the budgetary basis and classification basis adopted in the approved budget; the period of the approved budget; and the entities included in the approved budget. |
| IPSAS 25 – Employee Benefits | | |
| <p>IPSAS 25 has been withdrawn by the IPSASB and is no longer applicable.</p> | | |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|---|--|--|
| IPSAS 26 – Impairment of Cash-Generating Assets | | |
| Serbian PS GAAP does not address the issue of impairment of cash generating assets per IPSAS 26. | | Serbian PS GAAP does not address the issue of impairment of cash generating assets ⁸⁴ . |
| IPSAS 27 – Agriculture | | |
| Serbian PS GAAP does not address the issue of agriculture per IPSAS 27. | | Serbian PS GAAP does not address the issue of agriculture. |
| IPSAS 28 – Financial Instruments: Presentation | | |
| Serbian PS GAAP does not address the issue of financial instruments: presentation per IPSAS 28 (other than for the most basic of financial assets and liabilities). | | Serbian PS GAAP does not address the issue of financial instruments: presentation (other than for the most basic of financial assets and liabilities). |
| IPSAS 29 – Financial Instruments: Recognition and Measurement | | |
| Serbian PS GAAP does not address the issue of financial instruments: recognition and measurement per IPSAS 29 (other than for the most basic of financial assets and liabilities). | | Serbian PS GAAP does not address the issue of financial instruments: recognition and measurement (other than for the most basic of financial assets and liabilities). |
| IPSAS 30 – Financial Instruments: Disclosure | | |
| Serbian PS GAAP does not address the issue of financial instruments: disclosure per IPSAS 30. | | Serbian PS GAAP does not address the issue of financial instruments: disclosure. |
| IPSAS 31 – Intangible Assets | | |
| Serbian PS GAAP is consistent with IPSAS 31 in some respects however its basic definition of intangible assets as computer software, literary and artistic works, patents, goodwill, development expenses, intangible assets in | <ol style="list-style-type: none"> 1. Recognition as an asset if the cost or fair value of the item can be measured reliably. 2. Recognition and Measurement – Intangible assets are measured initially at | <ol style="list-style-type: none"> 1. Definition. Serbian PS GAAP defines intangible assets as computer software, literary and artistic works, patents, goodwill, development expenses, intangible assets in preparation, |

⁸⁴ Serbian PS GAAP also makes no recognition or disclosure of cash-generating assets.

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|--|---|
| <p>preparation, prepayment for intangible assets, as well as other non-material property is too broadly defined to be considered consistent with IPSAS 31. IPSAS 31 additionally requires an intangible asset to be defined in terms of whether it is separately identifiable, whether the entity exerts control, and the future economic benefits. Serbian PS GAAP also: requires depreciation charge on intangible assets to be recognized directly as a decrease in equity rather than in surplus or deficit for the period; and does not require the subsequent consideration of whether an intangible asset is impaired or has no future economic benefits or service potential. Finally, there are no disclosure requirements.</p> | <p>cost if acquired through an exchange transaction or at best approximation (fair value) if acquired through a non-exchange transaction.</p> <ol style="list-style-type: none"> 3. Subsequent measurement: cost model whereby intangible asset is carried at cost less accumulated depreciation. 4. De-recognition on disposal is determined as the difference between the net disposal proceeds and the carrying amount. | <p>prepayment for intangible assets, as well as other non-material property. Other than listing the types of intangible assets, Serbian PS GAAP has no specific guidance on them including whether, as required by IPSAS 31: it is separately identifiable; the entity exerts control; or the future economic benefits.</p> <ol style="list-style-type: none"> 2. Serbian PS GAAP is silent on the matter of intangible assets with indefinite useful life. 3. Serbian PS GAAP does not require the consideration of whether an intangible asset is impaired or has no future economic benefits or service potential. 4. No disclosures. |
| IPSAS 32 – Service Concession Arrangements: Grantor | | |
| <p>Serbian PS GAAP does not address the issue of Service Concession Arrangements: Grantor per IPSAS 32.</p> | | <p>Serbian PS GAAP does not address the issue of Service Concession Arrangements: Grantor. Concession assets are not recognized instead revenues from concession arrangements are treated as revenues of the period in which they are received.</p> |
| IPSAS 33 – First-time Adoption of Accrual Basis International Public Sector Accounting Standards | | |
| <p>IPSAS 33 is not applicable to Serbia as it does not, and currently has no fixed plan to, prepare and present its annual financial statements on the adoption of, and during the transition to, accrual basis IPSAS.</p> | <p>This standard is not applicable.</p> | |

| Summary comparison with IPSAS | Areas of Serbian PS GAAP that are consistent with IPSAS | Areas of Serbian PS GAAP that are not consistent with IPSAS |
|--|---|---|
| IPSAS 34 – Separate Financial Statements | | |
| Serbian PS GAAP does not address the issue of Separate Financial Statements per IPSAS 34 [in accounting for investments in controlled entities, joint ventures and associates when presenting separate financial statements]. | | Serbian PS GAAP does not address the issue of Separate Financial Statements. |
| IPSAS 35 – Consolidated Financial Statements | | |
| Serbian PS GAAP does not address the issue of Consolidated Financial Statements per IPSAS 35 except with respect to consolidating subordinate units' cash flows for the purposes of preparing and presenting consolidated budget implementation reports. | | Serbian PS GAAP does not address the issue of Consolidated Financial Statements except with respect to consolidating subordinate units' cash flows for the purposes of preparing and presenting consolidated budget implementation reports. |
| IPSAS 36 – Investments in Associates and Joint Ventures | | |
| Serbian PS GAAP does not address the issue of Investments in Associates and Joint Ventures per IPSAS 36. | | Serbian PS GAAP does not address the issue of Investments in Associates and Joint Ventures. |
| IPSAS 37 – Joint Arrangements | | |
| Serbian PS GAAP does not address the issue of Joint Arrangements per IPSAS 37. | | Serbian PS GAAP does not address the issue of Joint Arrangements. |
| IPSAS 38 – Disclosure of Interests in Other Entities | | |
| Serbian PS GAAP does not address the issue of Disclosure of Interests in Other Entities per IPSAS 38. | | Serbian PS GAAP does not address the issue of Disclosure of Interests in Other Entities. |
| IPSAS 39 – Employee Benefits | | |
| Serbian PS GAAP does not address the issue of Employee Benefits per IPSAS 39. | | Serbian PS GAAP does not address the issue of Employee Benefits. |

ANNEX 2: MEASURE 17 RE ACCOUNTING, MONITORING AND FINANCIAL REPORTING

The following is a copy of Measure 17 under Pillar V of the government’s PFM Reform Program on “Accounting, Monitoring and Financial Reporting”. It’s inclusion in this report is for the purposes of informing the reader of the government’s plans. Unless otherwise indicated, this report does not necessarily endorse the plan.

| MEASURE 17 | MOVING GRADUALLY TOWARDS ACCRUAL BASIS ACCOUNTING | | |
|--|---|---------------------|--|
| ACTIVITY | TIMEFRAME | ACTIVITY STATUS | COMMENT |
| Establish a government sector accounting standard setting council. | 2nd quarter 2016 | Partially completed | Decisions about the composition and formation forwarded to 2nd quarter of 2017. |
| Develop a gap analysis between current accounting practices and accrual IPSAS. | 2nd quarter 2016 | Completed | Analysis prepared within the IMF technical assistance report. |
| Preparing a realistic road map towards full accrual accounting in the government sector. | 2nd quarter 2016 | Completed | Roadmap prepared within the IMF technical assistance report. |
| Prepare pro forma financial statements for 2015 in compliance with IPSAS for Central Government. | 2nd quarter 2016 | Completed | Prepared “pro forma” financial report for the RS budget in line with IPSAS cash basis standards. |
| Prepare accounting policies in compliance with IPSAS 1, 2, 3, 5, 14, 24. | 4th quarter 2016 | Not Completed | Postponed to 2nd quarter 2017; Official translation of IPSAS was in progress but not yet finalized and ready for publishing. |
| Improvement of accounting solution in FMIS and other ICT systems to support accrual accounting. | 1st quarter 2017 | | |
| Prepare for the year 2016: – financial statements for central government only in compliance with IPSAS 1, 2 – consolidated cash flow statement (i.e. including central government’s controlled entities: DBBs, IBBs, EBFs, SOEs, social funds and health). | 2nd quarter 2017 | | |

| | | | |
|--|------------------|--|--|
| Prepare for the year 2017: – financial statements for central government only in compliance with IPSAS 3, 5, 14, 24 incl. previous – consolidated cash flow statement. | 2nd quarter 2018 | | |
| Prepare accounting policies in compliance with IPSAS 9, 12, 20, 23, 25, 32. | 2nd quarter 2018 | | |
| Prepare for the year 2018: – financial statements for central government only in compliance with IPSAS 4, 19, 28, 29, 30, 36, 37, 38 incl. previous – consolidated cash flow statement. | 2nd quarter 2019 | | |
| Prepare accounting policies in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35. | 2nd quarter 2019 | | |
| Prepare for the year 2019: – financial statements for central government only in compliance with 9, 12, 20, 23, 25, 32 incl. previous – consolidated cash flow statement. | 2nd quarter 2020 | | |
| Prepare for the year 2020 (first-time compliance with all IPSASs): – consolidated financial statements in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35 incl. previous – separate financial statements. | end of 2020 | | |
| Revise regulatory framework for compliance with accrual accounting standards throughout government. | 4th quarter 2020 | | |
| Provide capacity building for accounting staff for the transition to Accrual Accounting. | 4th quarter 2020 | | |

ANNEX 3: EUROPEAN COMMISSION'S 2013 POSSIBLE CLASSIFICATION OF IPSAS STANDARDS

The following is reproduced from the European Commission's 2013 Staff Working Document, accompanying the document *Report from the Commission to the Council and the European Parliament towards implementing harmonised public sector accounting standards in Member States* (/ * SWD/2013/057 final */) final of March 6, 2013⁸⁵.

Annex 7.1: A possible classification of the IPSAS standards

Taking into account that a number of accounting-related technical issues are seen as problematic in the IPSAS standards, as described in Chapter 6, the IPSAS standards might be grouped as follows:

- Standards that might be implemented with minor or no adaptation;
- Standards that need adaptation, or for which a selective approach is needed;
- Standards that are seen as needing to be amended for implementation.

Eurostat drafted the proposed groups taking into account the views of Member State experts in the Task Force on IPSAS. Note that experts' views on the suitability of some IPSAS standards may differ and therefore this proposal is preliminary and that needs further technical discussion with accounting experts. Note, too, that these proposals refer to the applicability of the standards themselves, and not their consistency with ESA.

| Standards that might be implemented with minor or no adaptation | Standards that need adaptation, or for which a selective approach is needed | Standards that are seen as needing to be amended for implementation |
|---|---|---|
| IPSAS 1 — Presentation FS ⁸⁶ | IPSAS 7 — Investments in associates – <i>standard withdrawn</i> | IPSAS 6 — Consolidated financial statements – <i>standard withdrawn</i> |
| IPSAS 2 — Cash flow | IPSAS 8 — Interests in joint ventures – <i>standard withdrawn</i> | IPSAS 28 — Financial instruments: Presentation ⁸⁷ |
| IPSAS 3 — Fundamental errors and changes in accounting policies ⁸⁸ | IPSAS 13 — Leases | IPSAS 29 — Financial instruments: Recognition and measurement ⁸⁹ |
| IPSAS 4 — Changes in foreign exchange rates | IPSAS 15 — Financial instruments: Presentation – <i>standard withdrawn</i> | IPSAS 30 — Financial instruments: Disclosure ⁹⁰ |

⁸⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52013SC0057>

⁸⁶ Although experts perceive some disclosure issues as relevant.

⁸⁷ However, since IPSAS 28 deals with presentation it may be seen as less problematic than IPSASs 29 and 30.

⁸⁸ Experts point to a lack of guidance on determining accounting policy in the absence of a specific IPSAS.

⁸⁹ Accounting for financial instruments on a fair value basis on initial recognition is considered to be complex and problematic for some countries which currently use a nominal value basis even for measurement after initial recognition; specific areas considered problematic are hedge accounting, macro hedging and recognition at fair value for financial derivatives.

⁹⁰ Disclosure issue is considered relevant by some countries.

| | | |
|--|--|--|
| IPSAS 5 — Borrowing costs | IPSAS 17 — Property, plant and equipment | |
| IPSAS 9 — Revenue from exchange transactions | IPSAS 18 — Segment reporting | |
| IPSAS 10 — Hyperinflationary economies ⁹¹ | IPSAS 20 — Related party disclosures | |
| IPSAS 11 — Construction contracts | IPSAS 21 — Impairment of non-cash-generating assets | |
| IPSAS 12 — Inventories | IPSAS 22 — Disclosure general government sector | |
| IPSAS 14 — Events after the reporting date | IPSAS 23 — Revenue from non-exchange transactions ⁹² | |
| IPSAS 16 — Investment property | IPSAS 24 — Presentation of budget information | |
| IPSAS 19 — Provisions, contingent liabilities, contingent assets ⁹³ | IPSAS 25 — Employee benefits ⁹⁴ — <i>standard withdrawn</i> | |
| IPSAS 27 — Agriculture ⁹⁵ | IPSAS 26 — Impairment of cash-generating assets | |
| IPSAS 32 — Service concessions | IPSAS 31 — Intangible assets | |

⁹¹ Not relevant in the EU context.

⁹² Recognition of revenue related to taxes, accounting for grants according to distinction criteria for conditions and restrictions and IT issues are all perceived as relevant by some countries.

⁹³ Determining a discount (market) rate to apply in calculating the present value of the provision is perceived as difficult, notably with regard to long-lived provisions (e.g. nuclear decommissioning).

⁹⁴ The difficult areas are pensions, and to a lesser extent, other long-term benefits such as long-service leave, which represent a large problematic part of the standard.

⁹⁵ Not seen as material for some countries. There is a lack of guidance on the accounting treatment of land or other intangible assets related to the activity.

ANNEX 4: CAPACITY-BUILDING CONCEPT

Options available for international public accountant certification

Overview

This chapter gives a brief description about providers of international public accounting training and discusses advantages and disadvantages of their offers. Indicative prices of different types of training and certificates were derived from publicly available data sources. Usually, government-wide capacity-building approaches are subject to public procurement and negotiations, thereby decreasing price units per person significantly.

Table 1: Options for international public accounting training and certification

| Provider | Type of training | Certificate | Price per Person |
|---|--|--|---|
| International Providers | | | |
| ACCA Association of Chartered Certified Accountants | Online Course | Certificate in IPSAS | GBP 235 |
| CIPFA The Chartered Institute of Public Finance & Accountancy | Online Course | Certificate in IPSAS / Diploma in IPSAS | GBP 220 / GBP 550 |
| | In-house training | Several partnerships with local professional bodies or Universities to offer tailored IPAS courses within the region or the country | on request |
| CPA (Ireland) Certified Public Accountants | Online Course | CPA Foundation Certificate in Cash Basis IPSAS Financial Reporting / CPA Diploma in IPSAS Financial Reporting | GBP 100 / GBP 550 |
| IASeminar | Online instructor-led Course | IPSAS Basics Certificate | GBP 990 |
| | Classroom training (London / Geneva) | | Various offers from GBP 1'200 (1 day) to GBP 5'850 (8 days) |
| | In-house training | | on request |
| ICAEW Institute of Chartered Accountants in England and Wales | Online Course | ICAEW IPSAS Certificate | GBP 250 (discounts if >10 users) |
| | Classroom training ("worldwide") | | on request |
| CEE Regional Providers | | | |
| CEF Center of Excellence in Finance (offer in cooperation with CIPFA) | Classroom training (local) & tutorials | Certificate in IPSAS / Diploma in IPSAS | on request |
| CEE Local Providers | | | |
| Serbian Association of Accountants and Auditors | Classroom training (local) & tutorials | Accountant / Certified Accountant / Certified Public Accountant (Professional qualification). Tailor-made IPSAS courses good record in corporate accounting, small track record in Public Sector Accounting) | on request |
| University of Belgrade | Classroom / In-House training | Tailor-made IPSAS courses (moderate track record) | on request |
| Association of Non-Market Accountants | Classroom / In-House training | Tailor-made IPSAS courses (small track record) | on request |

Online vs. classroom training

There are a significant number of **online IPSAS certification possibilities**, offered by internationally recognized bodies such as CIPFA, ACCA or ICAEW. The vast array of IPSAS online courses reflects the increasing spread of IPSAS accounting reforms taking place on a global level, in turn requiring comprehensive capacity-building approaches within governments. Online courses also reflect the need for up-to-date, flexible, and affordable technical qualifications in a specific field of expertise. Of course, online qualifications come with several advantages and disadvantages, which will be discussed in the following paragraphs.

Advantages include the rather flexible and low-cost environment to achieve an online IPSAS degree. Online courses usually come with comprehensive learning materials, such as interactive workbooks including practical examples, tutorials, self-test questions, and progress reports. Hence, online courses offer a flexible learning environment which can be accessed anytime from anywhere, only requiring a stable internet connection. Trainees usually enroll for a registration period of 12 months, paying an upfront registration fee. The participants of the online courses are then flexible to attempt different IPSAS modules and exams within the given registration period. CIPFA trainees, for example, may attempt the examinations up to four times during the 12-month registration period.

Online IPSAS courses are particularly suited to people with an academic background or vast practical experience in the field of corporate or public sector accounting, aiming to extend their level of expertise in the area of public sector accounting. Although online courses offer various introductory modules, participants should have at least a basic knowledge of accrual accounting, in order to properly benefit from training activities. Furthermore, online course participants should be used to learn autonomously, due to the high level of remote work required. Assuming accessibility is established, online courses would very well fit in any capacity-building approach of a government facing accrual accounting reforms. They include flexible, up-to-date and high-quality certification possibilities for designated IPSAS experts within the government.

Disadvantages include the absence of peer-to-peer learning activities, networking activities, opportunities to share knowledge or experience, and country-specific syllabi of IPSAS online seminars, which have to be considered as important issues within any government accounting reform. Furthermore, most online training seminars require previous general accounting training (i.e. at university level or a private sector professional qualification). Other limitations include language barriers, as most of these online courses are only available in English, French and Spanish. Limited knowledge of these languages amongst relevant stakeholders in CEE countries might pose a severe restriction for capacity building.

In conclusion, online training seminars form an important, complementary aspect of any capacity building approach. It is a proper way to build and establish IPSAS reform expertise and to get a broad, but rather general understanding of the IPSAS. However, the target group needs to be carefully selected. Relevant institutions could include, inter alia: the Treasury, Accounting Methodology Unit, Chief Financial Officers from line ministries, as well as the Supreme Audit Institution.

The supply of in-house and classroom training is rather fragmented and heterogenous, divided into international, regional, and local providers. Key IPSAS knowledge is concentrated among international providers, who in many cases cooperate with regional and local providers. None of the regional and local providers possess the know-how, experience, and track-record to deliver dedicated IPSAS-reforms in a standalone manner. International bodies may also face difficulties providing such training without support from regional/local providers in language skills and country specific information. Cooperation will be essential to achieve meaningful results, for example close cooperation between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Center of Excellence in Finance (CEF) in the region, who have a conjoined proven track record of IPSAS training delivery.

Different professional bodies and educational organizations play an active role in the education of accountants in Serbia. The Serbian Accountant and Auditor Association (SAAA) (an official IFAC member) is mainly focused on the education of private sector auditors. Although, the SAAA cooperates with both ACCA and CIPFA, they have a less comprehensive track record in public sector accounting. The University of Belgrade was occasionally contracted by the SAAA with capacity-building mandates, both in the area of corporate and public sector accounting. Additionally, the University of Belgrade has delivered tailor-made public and non-profit accounting training for the Serbian Red Cross Organization and other Non-Profit Organizations. The Association of Non-Market Accountants has no experience in the delivery of IPSAS training, specializing in ICT and legal training for public sector entities to whom the Serbian budget system law applies.

Key advantages of in-house and classroom training include the opportunity to design tailor-made modules and lectures, thereby taking into account the local institutional framework, including for example, specific deviations from IPSAS, the newly developed Chart of Accounts, or local ICT-configurations. Classroom training thus offers the possibility to blend generic IPSAS know-how with local specifics. Tailor-made classroom training thus forms an important and integrated aspect of any capacity-building approach. Disadvantages usually include rather large explicit costs (i.e. fees), resource-intensive procurements aspects, and negotiations with international / local providers.

Operationalizing the train-the-trainer approach

In a classic train-the-trainers approach the management of an organization receives external training in a certain thematic area and afterwards disseminates this learning to their subordinate employees through sustainable, internal training mechanisms. This chapter serves to list and point out the main elements regarding the operationalization of the train-the-trainer approach in the context of international public accounting with a special emphasis on Serbia.

Project ownership

A first important element is project ownership, which should lie with the accounting unit responsible for the IPSAS reform. In Serbia, project ownership should be taken by the Treasury, i.e. the Accounting Methodology Unit, allowing proper coordination of training delivery with envisaged roll-out activities. Staff levels within Treasury/Accounting Methodology Unit need to be strengthened to properly anchor IPSAS capacity building

ownership. The Accounting Methodology Unit will form the main counterpart of the capacity-building approach. Key tasks are described further below but will include the development of syllabus and training-material for internal in-house training courses including full copyrights in order to retain, maintain, and update training-materials to sustain training in the future.

Government training facilities

Governmental bodies dedicated to internal capacity building, for example the Serbian Government Human Resource Unit, should be actively involved in any envisaged training delivery. The Human Resource Management Service in Serbia has a solid track record of organizing learning events within and outside Belgrade, offering governmental facilities to be used for internal capacity building, and coordinating professional training programs, including train-the-trainer approaches. HR units will coordinate training delivery throughout the government, including the selection of dedicated trainers, maintaining databases of existing trainers, providing training facilities or giving support to line ministries requests regarding training needs.

To keep travel distances as short as possible several decentralized locations to run trainings should be available. These conference facilities should feature projectors and other vital infrastructure to ensure successful training sessions. Joint learning platforms such as Moodle (or similar) might support blended learning forms.

Selection criteria for trainers and incentive schemes

The Human Resource Management Service in Serbia should take the lead in procuring, coordinating, and selecting trainers, in close collaboration with line ministries. Trainers should be selected according to distinct criteria, i.e. professional, technical, and didactical know-how, and should receive a formal certificate to act as internal trainers. Moreover, trainers should have sufficient incentives for their work, such as adequate remuneration and/or time-compensation. In Serbia, trainers are usually selected from within the government and are compensated for their training activities. Trainers are recruited upon public announcement of the HR department, based on their relevant academic and/or work experience, subject to the respective line minister's approval. The HR department maintains a comprehensive database of existing trainers, including track records of past training activities and quality control procedures.

Certification of Trainers and trainees

Successful course participants should be rewarded with a certificate, coordinated through HR services (or similar). Certificates should include information about scope and level of received (external) training including, as appropriate, permission for them to act as a trainer. A database should be maintained and updated by HR services (or similar) which should be able separately to identify trainers.

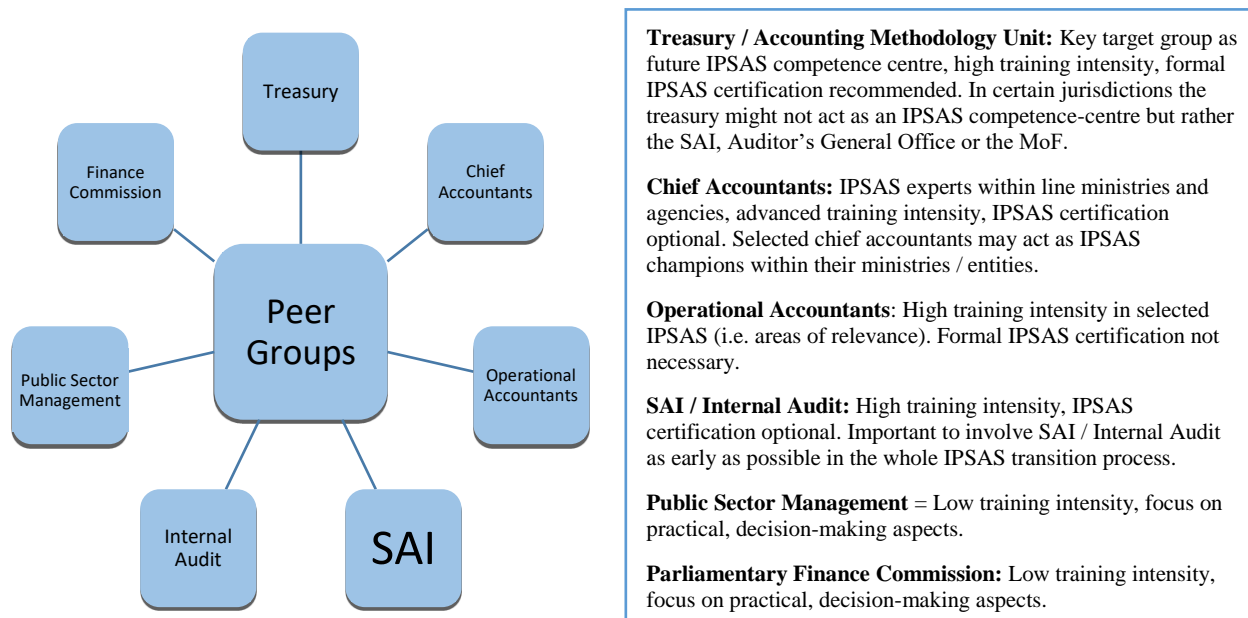
Continuous Professional Development (CPD)

Introducing CPD requirements may be worth considering, participants have to achieve CPD as set out by IFAC educational standards (available [here](#)). In-house training (both for the trainer and the trainee) can be registered with the Professional Body and then count as CPD. IPSAS courses count as CPD for those already holding a professional qualification.

Peer Groups and Syllabi

A detailed and comprehensive training needs analysis shall be conducted before drafting and procuring a new public sector accounting capacity building program. Results of the ongoing PACT-project (i.e. localization of training needs) might represent a solid starting point to further conceptualize external and internal training delivery. It is highly recommended to address the following peer groups within the envisaged IPSAS accounting reform in Serbia, in order to ensure proper and comprehensive capacity building.

Figure 1: Peer Groups to be addressed within training activities



Training Material

It is highly recommended to centrally develop training material (i.e. concerning National GAAP) and/or to purchase such material from external, professional bodies (i.e. standard IPSAS workbooks). Copyright of training material should lie with the GoS (i.e. Treasury), in order to replicate training while ensuring a sustainable capacity-building approach.

Training material for in-house training (train-the-trainers) for **2nd level participants** should include:

- Workbook/slides/tutorials/examinations concerning key principles of selected IPSAS (based on syllabus of external, professional capacity building; cooperation with a professional organization, including rights to use selected workbooks, is an option);

- Workbook/tutorials/examinations concerning distinct institutional/legislative deviations from international standards and key outlines of National Public Sector GAAP;
- E-Learning platform such as Moodle (or other similar platforms) to share, collaborate and support blended learning forms.

Training material for in-house training (train-the-trainers) for **3rd level participants** should include:

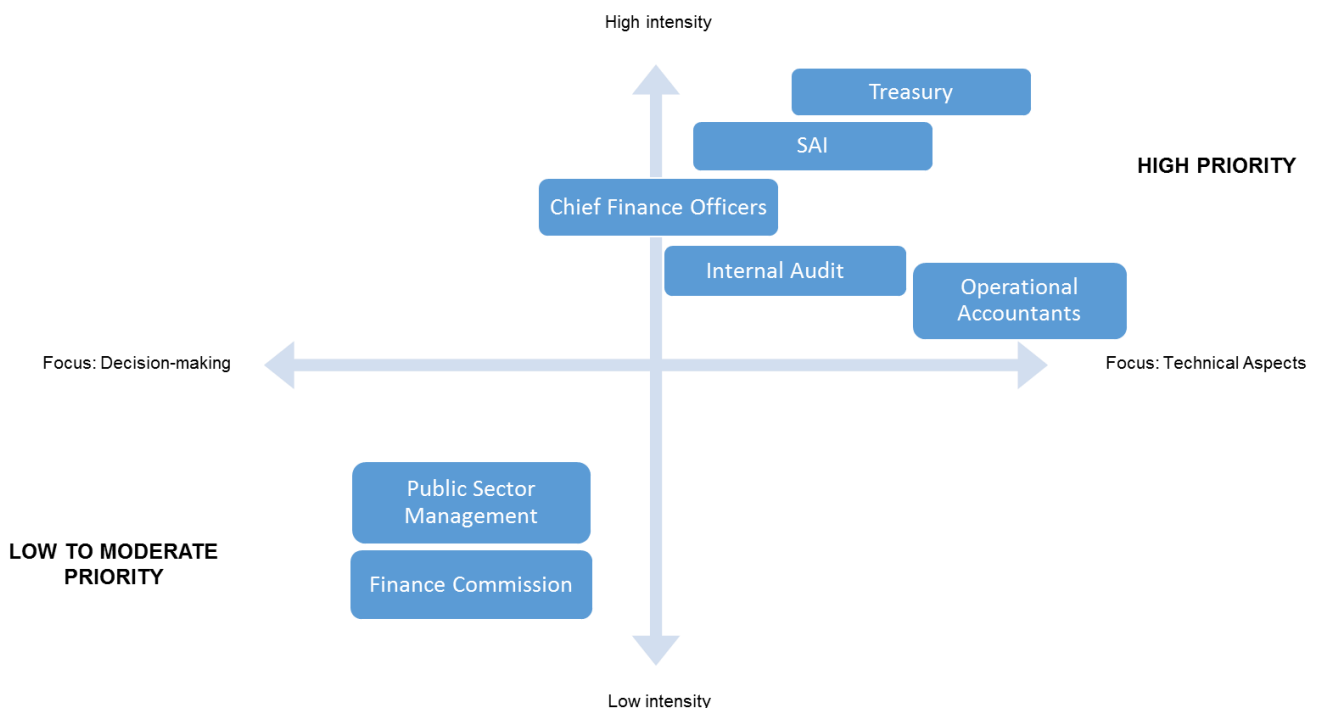
- Workbook/tutorials/examinations concerning selected aspects of National Public Sector GAAP, i.e. receivables/payables accounting, property accounting, financial instruments and others;
- E-Learning platform such as Moodle (or other similar platforms) to share, collaborate and support blended learning forms.

Training intensity

A well-designed and targeted approach shall take into account prevalent punctual know-how in basic accrual accounting principles, but deliver specified and relevant IPSAS knowhow to distinct user and peer groups in a sustainable manner as described in the following and presented in Figure 2:

- Extensive, external training: SAI, Treasury, Chief Accountants;
- Moderate intensity, internal training: Operational Accountants; Internal Audit;
- Low intensity, internal training: Public Sector Management, Finance Commission.

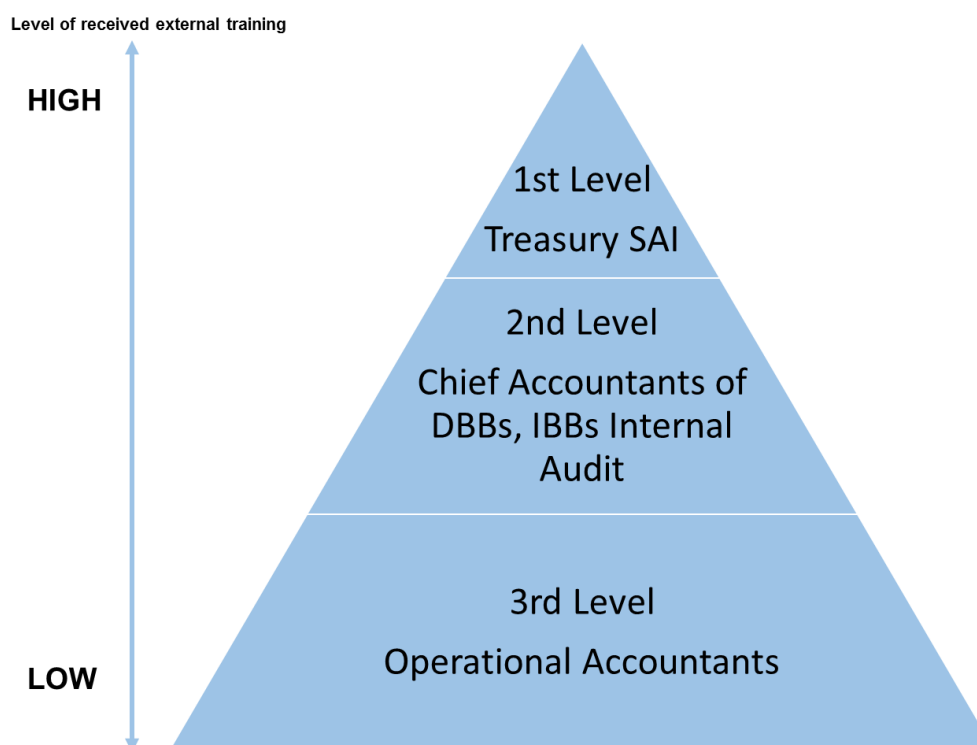
Figure 2: Training intensity and focus



Different level of trainers

It is recommended to establish different levels of trainers (i.e. Level 1 to Level 3 trainers) in order to properly address the training needs of different peer-groups.

Figure 3: Different level of Trainers



1st Level trainers: Selected persons of the accounting methodology unit and the SAI form potential 1st level trainers, having the most fundamental know-how about IPSAS and the distinct country legal framework. This group receives extensive external training together with the opportunity to earn an international IPSAS certificate and thus act as trainers for 2nd level trainers, i.e. chief accountants from line ministries.

2nd Level trainers: Selected Chief Accountants might form the second tier of trainers, receiving in-depth external training including the opportunity to get an IPSAS certificate. 2nd level trainers act as trainers for other chief accountants / directors of finance units and 3rd level trainers.

3rd Level trainers: Selected Chief Accountants might act as 3rd level trainers for operational accountants, receiving comprehensive know-how in selected issues, i.e. property accounting, receivables/payables accounting, leasing, financial instruments and so forth.

Change management

Introducing a train-the-trainer approach means introducing a new understanding of organizational learning. It is important to involve selected trainers within development activities of the public sector accounting capacity building concept. Successful capacity building depends on motivated staff actively supporting the project. Such support however needs continuous information about the advantages for the staff on a personal as well as organizational level.

Generic Timeline to establish the train-the-trainer concept

The following table presents a generic outline of a train-the-trainer approach, following a 4-year cycle to achieve full scale outreach of training delivery. This timeline is needed to properly implement a sustainable internal training mechanism, and corresponds with capacity building approaches of other IPSAS reform countries.

Table 2: Timeline to establish the train-the-trainer concept

| Tasks | Year 1 | Year 2 | Year 3 | Year 4 |
|--|--------|--------|--------|--------|
| Conceptualize Capacity-building approach; Involve HR Service Department as coordination unit | X | | | |
| Assess total number of staff to be trained | X | | | |
| Evaluate specific training needs | X | | | |
| Define syllabus for Level 1, Level 2 and Level 3 trainers | X | | | |
| Select Level 1, Level 2 and Level 3 trainers | X | | | |
| Procure external training for Level 1 and Level 2 trainers | X | | | |
| Select cohorts of Level 2 and Level 3 trainees for year 2 and 3 | X | | | |
| Train a first cohort of Level 1 and Level 2 trainers | | X | | |
| Train a first cohort of Level 3 trainers | | X | | |
| Train a first cohort of Level 2 and Level 3 trainees | | X | | |
| Train a second cohort of Level 2 and Level 3 trainers | | | X | |
| Train a second cohort of Level 2 and Level 3 trainees | | | X | |
| Train a third cohort of Level 3 trainees | | | X | |
| Train a fourth cohort of Level 3 trainees | | | | X |
| Train a fifth cohort of Level 3 trainees | | | | X |
| Train a sixth cohort of Level 3 trainees | | | | X |
| Train other peer groups such as Public Sector Management, Finance Committee | | | | X |
| Evaluate and track training results | | X | X | X |
| Develop and adjust syllabus for trainers and trainees | | X | X | X |

Operationalizing the Train-the-Trainers Approach

The following table operationalizes the train-the-trainer approach, based on assumed staff levels (in the absence of exact staff numbers at different entity levels). However, staff levels refer to the whole GoS, including local governments.

Table 3: Operationalizing the Train-the-Trainers Approach

| Year 1 | Level 1 Treasury / MoF | Level 2 Chief Accountants | Level 3 Operational Accountants |
|--|---------------------------|------------------------------|------------------------------------|
| Total Staff 12600⁹⁶ | 25 | 600 | 12000 |
| External Training (IPSAS Certificate optional) | 25 | 60 | 0 |
| Train the Trainers | 15 (out of 25) | 50 (out of 60) | 80 (out of 12'000) |
| Trained Chief Accountants <i>Internal Training</i> | 0 | 540 | 0 |
| Trained Operational Accountants <i>Internal Training One or two day seminar</i> | 0 | 0 | 11'920 |

Awareness raising and educational activities for non-accountants

Apart from necessary training of accounting staff and government officials there is a need for education and support to politicians and parliamentarians to help them understand and be able to use accrual-based financial statements for decision making process. This can be achieved through activities of a budget parliamentary office which in some countries include such educational and advisory role (e.g. in Austria). In addition, there is a need for communication from the government on the use of financial statements in decision-making process in order to inform general public and citizens about the key vision for reforms, expected tangible outcomes and champions of the reform. In addition to full versions of national financial statements, the government can also prepare summaries that include highlights in narrative and graphic form for the general public which is used for communication with general public (France). The awareness raising and educational efforts should be also made available to students, academia, civil society, media and NGOs to make sure that there is demand for and understanding of information which will be produced by the government that enable constructive citizen engagement initiatives. These activities are linked to of the main “benefit” of accrual accounting – Accountability and Transparency.

⁹⁶ Total Number of Staff needs to be assessed, before actual capacity building activities starts. The huge number of staff, i.e. operational accountants (est. 12,000), which need to be trained impose a huge challenge for the overall capacity building approach.

ANNEX 5: PUBLIC SECTOR ACCOUNTING REFORM IN SERBIA – RISK ASSESSMENT

The Ministry of Finance is the overall coordinator of the PFM reform process and demonstrates strong ownership and commitment towards the implementation of the reform activities.

The principal stakeholders of the Public Sector Accounting are inter alia: the Treasury Administration and Budget Department of the MoF, prioritized users of public funds, the State Audit Institution, Fiscal Council, SORS, Tax Administration. Reform implementation will require strengthening the Ministry's staffing, internal procedures and coordination and infrastructure. It will also benefit from valuable international institution assistance through advice and funding. Lastly, it is essential that the political will and commitment to reform remain throughout the process.

Due to the large size of the public sector (11,000 budget beneficiaries), the reform in the first phase should focus on budget beneficiaries, which are the most significant in terms of size and budget, or in relative strategic importance. The capacity of various users of public funds varies significantly, but the overall assessment is that their current accounting and finance functions lack capacity and that substantial strengthening is needed in order to ensure accurate, complete and reliable financial information. In some cases this can be attributed to understaffing of those functions and a lack of necessary skills. However, it appears that these weaknesses are, to a larger extent, due to a lack of awareness by management of the significance of financial information. This has led to quality deterioration of the finance function and provision of unreliable financial information, accompanied by an underdeveloped system of financial management and control. Furthermore, it should be mentioned that there is no standardized software or interface and a range of different IT solutions are used for accounting and financial reporting purposes, some of which do not respond to the modern financial management requirements. The capacity across the targeted users of public funds will be the main challenge in achieving project objectives. This risk will be mitigated by training and educating accounting practitioners, as well as conducting workshops and seminars to raise decision makers' awareness.

There are two main drivers of project risks: (a) the complexity of the reform which is multifaceted, cross cutting with PFM reform, phased, and long term to achieve tangible results requiring streamlined cooperation of several main stakeholders and multiple more budget entities to implement the changes, (b) the ambition to re-shape the culture and capacity of key stakeholders, from mainly cash basis accounting to modern accrual accounting concepts including not only preparation of financial statement but also effective use of accrual based information for monitoring, performance evaluation and decision making. **The overall reform risks can be assessed as substantial.**

The main risks are presented as follows:

| Key Risks | Mitigation Measures |
|---|---|
| Political and Governance | <p>The ownership of the project both at the level of the government, Treasury Administration and other stakeholders may be impacted by political changes and other reform priorities. The risk is, however, partially mitigated because the reform is: formalized in the government’s PFM Reform Program including roadmap, driven by the EU accession strive and interest from other development partners including the World Bank, IMF, SECO. The risk is also mitigated through (i) hands-on involvement of the World Bank in the follow up project due to implementation mode being recipient-executed; (ii) continued dialogue with Ministers and senior officials on the importance of the planned reforms. Mitigation measure will include activities to increase and sustain the visibility of the reform, as well as the disclosure of implementation strategy will be critical elements to sustain high political support to the reform and to limit the risks of slippage.</p> |
| Reform design | <p>The reform targets all users of public funds making the scope of beneficiaries very broad and imposing capacity gaps and challenges. Due to this all beneficiaries of the project activities are relevant to the assessment of the capacity risk and are considered as such in determining the risk rating.</p> <p>This risk will be mitigated in part through TA project in preparation: (i) engagement of World Bank and SECO specialists in the implementation support; (ii) engaging appropriate international peers, long-term advisors and consultants to support key institutions; and (iii) technical day-to-day project implementation assistance and enhanced supervision. The project will benefit from relevant World Bank and SECO experience in similar reforms in other countries, and their in-house expertise in supervising and carrying out proposed activities under the project.</p> |
| Mobilizing resources | <p>The reform need various resources including funding and staffing. Part of the reform will be supported by SECO funded TF Project, however the remainder actions which needs to be estimated including implementation of ICT system is to be provided by the government (which was part of its official commitment). Key stakeholders will assign dedicated staff. External experts and consultants will also provide support to the reform.</p> |
| Institutional capacity for implementation | <p>Project management capacity needs to be strengthened in key stakeholders departments.</p> <p>Technical assistances would be provided to all implementing entities, while implementation arrangements should ensure that a core number of expert staff are available.</p> <p>The reform targets all users of public funds making the scope of beneficiaries very broad and imposing capacity gaps and challenges. This risk will be mitigated in part through TA project in preparation as described above.</p> |

| | |
|--|---|
| Delivery Monitoring and Sustainability | <p>The risk is whether the implemented reforms may not be sustained because of lack of continuing funding, lack of outside support and assistance, or waning commitment on the part of relevant stakeholders.</p> <p>This risk is mitigated in part by: (i) Serbia’s strong interest in EU accession, which imposes substantial requirements in the area of financial reporting; (ii) the Project’s focus on improving capacity within relevant stakeholders, a long-term investment that may yield benefits for years to come; and (iii) training and education of accounting practitioners and institutionalizing the education within Government structures, thus ensuring sustainability.</p> |
| Environmental and Social | <p>The reform focus on technical aspects in its nature and is not expected to have any significant social and environmental impact.</p> |
| Stakeholders | <p>The main risk is linked to the multiplicity of stakeholders and to the resistance to change possible in the budget entities.</p> <p>Mitigation requires constant engagement by in line Ministry with underlying budget entities and their staff and continuous coordination and communication between stakeholders through the working groups and leadership.</p> |

