

List of Acronyms and Abbreviations

AD	Accession Document
BC	Beneficiary Country
CAATs	Computer Assisted Audit Tools
CFCU	Central Financing and Contracting Unit
CHU	Central Harmonization Unit
EU	European Union
EUD	European Union Delegation
EUROSAI	European Organisation of Supreme Audit Institutions
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit (The German Society for International Cooperation)
INTOSAI	International Organisation of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
ISA	International Standard On Auditing
ISQC	International Standard on Quality Control
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
MS	Member State
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PL	Project Leader
PSC	Project Steering Committee
QA	Quality Assurance
RS	Republic of Serbia
SAI	State Audit Institution
SDC	Swiss Development Cooperation
SEIO	Serbian European Integration Office
SIDA	Swedish International Development Cooperation Agency
SPO	Senior Program Officer
STEs	Short Term Experts
SWD	Staff Working Document
TFEU	Treaty on the Functioning of the European Union
UNDP	United Nations Development Programme

ANNEX C1¹

STANDARD TWINNING PROJECT FICHE

1. Basic Information

- 1.1 Programme: National program for Serbia under the IPA- Transition and Institution Building Component for the year 2013
- 1.2 Twinning Number: SR 13 IPA FI 02 17 TWL
- 1.3 Title: Audit Quality Control in the State Audit Institution
- 1.4 Sector: Finance, internal market and economic criteria
- 1.5 Beneficiary country: Republic of Serbia

2. Objectives

2.1 Overall Objective(s):

To enhance effective and efficient management and use of public funds in the Republic of Serbia by strengthening audit capacity of the State Audit Institution (SAI).

2.2 Project purpose:

To provide support to the State Audit Institution of the Republic of Serbia in introducing audit quality control in line with the international auditing standards and international audit practice.

¹For Twinning light the Project fiche should be detailed as it will form an annex to the Twinning light contract together with the selected Member State proposal.

2.3 Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

Stabilization and Association Agreement between European Communities and their member states of the one part, and the Republic of Serbia, of the other part (ratified by the European Parliament on January 19th 2011):

“*ARTICLE 92 - Internal control and external audit cooperation:* Cooperation between the Parties shall focus on priority areas related to the Community *acquis* in the fields of public internal financial control (PIFC) and external audit. The Parties shall, in particular, cooperate - through elaborating and adopting relevant regulation - with the aim of developing transparent, efficient and economic PIFC (including financial management and control and functionally independent internal audit) and independent external audit systems in Serbia, in accordance with internationally accepted standards and methodologies and EU best practices. Cooperation shall also focus on capacity building of the Supreme Audit Institution in Serbia. In order to be able to fulfil the coordination and harmonisation responsibilities stemming from the requirements above, cooperation should also focus on the establishment and strengthening of central harmonisation units for financial management and control and for Internal Audit.”

Commission Opinion on Serbia's application for membership of the European Union, COM (2011) 668 as of October 12th 2011:

“Serbia will have to make considerable and sustained efforts to align with the EU *acquis* and to implement it effectively in the medium term in the following fields: Agriculture and rural development; Judiciary and fundamental rights; Justice, freedom and security; **Financial control**. Considerable adjustments of the legal and institutional framework and significant strengthening of administrative and implementation capacity are needed in these areas.”

“**The State Audit Institution** has started to play a useful role in controlling public expenditure and uncovering irregularities.”

Screening Report Serbia Chapter 32 Financial Control, 2013:

“This chapter contains two main policy areas: (a) public internal financial control (PIFC) and external audit and (b) the protection of the EU's financial interests and the protection of the euro against counterfeiting. In the first policy area there is no EU legislation requiring transposition into national law or directly applicable legislation. Instead, the candidate country is expected to adopt internationally agreed internal control standards and EU good practices across the entire public sector as well as the external audit standards as defined by the International Organisation of Supreme Audit Institutions (INTOSAI). ...Regarding **external audit**, the candidate country is expected to comply with the INTOSAI standards, in particular its Lima and Mexico Declarations, which foresee functional, institutional and financial independence of the SAIs as well as implementation of both financial and performance audits in line with the INTOSAI standards. ...As regards the relevant international standards and the *acquis* under this chapter, Serbia's level of legal alignment is broadly satisfactory. Serbia still needs to take additional steps in order to complete

legislative alignment, improve implementation and guarantee sufficient administrative capacity in all the areas covered by this chapter. “

National programme for the adoption of the EU *acquis* (2014-2018), as of July 2014:

“**The State Audit Institution** is the highest authority of the audit of public funds in the Republic of Serbia. It has been established by the Law on the State Audit Institution, as an independent and autonomous state body which is responsible to the National Assembly of the Republic of Serbia for performing activities in its competences. ...The Action Plan for the Implementation of the National Strategy for Combating Corruption envisages a set of trainings to be conducted to build capacities and enable an efficient implementation of new regulations.”

European Union Common Position on Chapter 32: Financial control, AD 13/15, CONF-RS2/15, as of December 3rd 2015:

In view of the present state of Serbia’s preparations, the EU notes that, on the understanding that Serbia has to continue to make progress in the alignment with and implementation of the *acquis* covered by the chapter on financial control, this chapter may only be provisionally closed once it is agreed by the EU that the following benchmarks are met:

...- **The State Audit Institution (SAI) of Serbia complies with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI), including ensuring financial, functional and institutional independence, implementation of finance and performance audits, and ensures sufficient administrative capacity.**

... Monitoring of progress in the alignment with, and implementation of, the *acquis* will continue throughout the negotiations. The EU underlines that it will devote particular attention to monitoring all specific issues mentioned above with a view to ensuring Serbia's administrative capacity, its capacity to implement internationally agreed internal control standards and EU good practices across the entire public sector and the external audit standards as defined by the INTOSAI as well as the obligations arising from Article 325 of the TFEU. Particular consideration needs to be given to the links between the present chapter and other negotiation chapters, especially chapters 5, 17, 22, 23, 24 and 33. A final assessment of the conformity of Serbia's legislation with the *acquis* and of its implementation capacity can only be made at a later stage of the negotiations. In addition to all the information the EU may require for the negotiations in this chapter and which is to be provided to the Conference, the EU invites Serbia to provide regularly detailed written information to the Stabilisation and Association Council on progress in the implementation of the *acquis*.

In view of all the above considerations, the Conference will have to return to this chapter at an appropriate moment.

Furthermore, the EU recalls that there may be new *acquis* between 26 November 2013 and the conclusion of the negotiations.”

Serbia 2015 Report, SWD (2015) 211, as of November 10th 2015:

“The *constitutional and legal framework* is in line with the INTOSAI standards. The independence of the State Audit Institution (SAI) is anchored in the Constitution. The SAI law provides for an

exhaustive audit remit and guarantees the SAI's functional, organisational and financial independence.

On *institutional capacity*, the SAI is governed by a Council, which has five members, including a president, nominated by parliament. The SAI has been allocated 431 posts in total. At the moment, the SAI has 251 employees, and 212 audit staff. Lack of adequate premises is preventing further recruitments and is limiting the SAI's ability to fulfil its audit mandate. The responsibility assigned by the law to the SAI to detect errors and file with competent authorities misdemeanour, economic offence and criminal charges against individuals further constrains the SAI's limited audit resources. The SAI is implementing its 2011-2015 strategic development plan. The SAI has an internal audit function with one auditor. Remaining two posts are to be filled to meet international standards.

To enhance the *quality of audit work* the SAI adopted in April financial and performance audit manuals based on the INTOSAI's professional standards (ISSAI) framework. In July it set up a specific sector for audit methodology and quality control. However, only one out of nine staff members has been appointed so far. Performance audit work is gradually expanding. However, parallel reforms are needed in Serbia's overall public financial management system so that the SAI can meaningfully audit economy, efficiency and effectiveness of government spending of public money.

On the *impact of audit work*, the SAI has proactively contributed to improvement of the public-sector internal control standards in Serbia. The SAI's annual audit report to parliament is discussed in the Committee for Finance, the Budget and Control of Public Funds. The SAI improved its cooperation with stakeholders and increased its communication with the media.”

Serbia 2016 Report, as of November 9th 2016:

2.2. Public administration reform

Public financial management

External audit is well established and the State Audit Institution has continued to expand audit coverage.

5.32. Chapter 32: Financial control

Serbia is **moderately prepared** in this chapter. **Some progress** was made in external audit, protection of the EU's financial interests and protection of the euro against counterfeiting. With regard to Public Internal Financial Control (PIFC), neither the Commission's recommendations in the 2015 report, nor the PIFC measures in the public administration reform action plan have been implemented. The State Audit Institution's audit findings confirm continued weaknesses in internal control throughout the public administration. This also has an impact on external audit, which focuses mainly on compliance and detection of irregularities. Significant efforts are needed to implement managerial accountability and internal control at all levels of the administration and in state-owned enterprises. In the coming year, Serbia should in particular:

- adopt and start implementing the overdue PIFC strategy and set up a formal coordination, monitoring and reporting mechanism for the strategy;
- refocus activities of the Central Harmonisation Unit (CHU) so that it becomes more proactive in providing methodological guidance and reviewing the quality of PIFC implementation;

→ ensure that the overall findings of the State Audit Institution are reflected in the annual report on implementation of PIFC and systematically ensure implementation of the government's recommendations from this report.

External audit

To improve the **quality of audit work**, the SAI has trained all auditors in the use of financial and performance audit manuals adopted in 2015. Performance audit work is gradually expanding. The sector for audit methodology and quality control has been strengthened.

Action Plan for implementation of the National Anti-Corruption Strategy 2013-2018

3.2.3.2 Building SAI capacities and improving working conditions by increasing the number of employees and permanent resolving of the problem of premises for work

4.8.1. Conducting an analysis of needs of the Anti-Corruption Agency, the Ombudsman, the Commissioner for Information of Public Importance and Personal Data Protection and the State Audit Institution in terms of extending and/or specifying competences, building personnel capacities and providing working conditions.

Action Plan for implementation of the PAR Strategy 2015-2016

5.3.5 *Improved status and work conditions of the State Audit Institution (SAI)*

1. Adoption of the Government Act on the allocation of appropriate SAI facilities, which shall permanently solve the placement of the institution
2. Establishment of mechanism of regular six-month reporting of the National Assembly by audited entities on conduct in accordance with the recommendations issued by SAI

SIGMA Baseline Measurement Report: The Principles of Public Administration, as of April 2015:

2.8. *Key requirement:* The constitutional and legal framework guarantees the independence, mandate and organization of the Supreme Audit Institution to perform its mandate autonomously according to the standards applied for its audit work, allowing for high-quality audits that impact on public sector functioning.

In Serbia, there is a good legal framework for the key functions of external audit, including European integration, and the qualitative indicator for the legal framework has a value of 5. All audit reports are published on the SAI website in a timely manner. The indicators for the execution of the SAI budget in 2014 give no cause for concern. There is no data available for a comparison of resources devoted to mandatory audits and audits selected independently by the SAI, but the SAI does not audit all the institutions included in its mandate every year. Furthermore, of the audit recommendations that the SAI made in its 2013 reports for those public institutions it audits, the institutions implemented only 63% by the end of the following year.

Key recommendations

Short-term (1-2 years)

- 1) The SAI should take steps to minimise the impact of offence procedures on the time available for audit staff to undertake financial and performance audits.

- 2) The SAI should take further measures to improve the rate of implementation of its recommendations by auditees.
- 3) The SAI should work closely with the Parliament to establish effective arrangements, including awareness-raising events to deal with the number of issues and broad range of public institutions that SAI audit reports cover.

Public Financial Management Reform Programme 2016 – 2020, as of November 2015:

“The Government’s reform strategy is complemented by the constitutionally independent State Audit’s Strategy for raising the work of the institution to the standards of INTOSAI. For comprehensiveness and given the importance of external audit in PFM, the reforms in that area are also reflected in this document...

Measure 18 (To strengthen the coverage and quality of external audits) of the Pillar 6 (External Scrutiny of Public Finances) pertains to the State Audit Institution, with the following results:

18.1 The State Audit Institution (SAI) carries out financial, compliance and performance audits as mandated by the Law and in line with the ISSAIs standards - Strengthening the external audit function in terms of reviewing and implementing the right mix of number of staff, their professional training and adopted methodology, applying the computer assisted audit tools (CAATs), in order to increase audit productivity and coverage.

18.3 Internal quality control and quality assurance function within the SAI fully developed and operational - Sector for Audit Methodology and Quality Control should be appropriately staffed and operational.

18.4 Systemic follow-up of implementation of audit recommendations improved - Establishing a database of audit recommendations, facilitating the identification of systemic issues and enhancing the information basis for parliamentary oversight over the executive.”

Amended Action Plan for the implementation of the National Anti-Corruption Strategy in the Republic of Serbia for the period 2013- 2018, as of June 30th 2016:

3.1.1.1. Strengthen SAI capacities for efficient audit of the parliamentary political parties.

3.2.3.2. Amend the legal framework to ensure complete financial and operational independence of the SAI in accordance with the standards of the International Organization of Supreme Audit Institutions (INTOSAI) and performance audits carried out.

4.8. Extend and specify competences and build personnel capacities and working conditions of the Anti-Corruption Agency, Ombudsman, Commissioner for Information of Public Importance and Personal Data Protection and State Audit Institution.

3. Description

3.1 Background and justification:

In compliance with the Lima Declaration on guidelines regarding audit principles (ISSAI 1), the State Audit Institution was included into the Constitution of the Republic of Serbia in November 2006, (RS Official Gazette No. 98/2006). State Audit Institution is defined by the Constitution as the highest authority for auditing of public funds in the Republic of Serbia, autonomous in its work and subject to supervision by the National Parliament to which it is accountable for its work. Law on the State Audit Institution provides for functional, operational and financial independence of the SAI in line with the INTOSAI standards.

Legal framework of the State Audit Institution is regulated by the Law on the State Audit Institution, adopted in November 2005 (RS Official Gazette, No. 101/05, 54/07). Amendments and Addenda to this Law were adopted in February 2010 (RS Official Gazette, No. 36/10), in order to increase salaries of Members of the Council of SAI and supreme state auditors, because recruitment of personnel was facing considerable difficulties. When drafting the Law on SAI, attention was paid to its harmonization with the Lima and Mexico Declarations, as well as with INTOSAI audit standards (founding principles of state audit, general standards of state audit and ethical standards, field work standards of state audit and reporting standards of state audit). The Law on SAI stipulated establishment of SAI, defines its competence, organization and composition, manner of conduct of audit, reporting manner, as well as other issued regarding work conditions of the Institution, as well as labour and legal provisions. The Law, also, prescribes the audit program, SAI access to documents, collection information in pre-audit process, commencement and completing audit process, response to the audit report submitted by auditees, procedure of submitting reports to competent authorities, as well as data confidentiality.

The Law on State Audit Institution determined the subject of audit. Pursuant to the Law on State Audit Institution, all public funds in the Republic, and/or all remunerations and expenditures in compliance with regulations on budget system, all financial statements, financial transactions, calculations, analyses and other records and information of audited entities, regularity of operations of audited entities, in compliance with the law, appropriateness of disposal of public funds, system of financial management and budget system control, internal control system, internal audit are subjects of audit.

Also, subject to audit are enactments and activities of audited entity, which produce or may produce financial effects on remunerations and expenditures of public funds beneficiaries, assets of the state, borrowing and issuing guarantees, as well as appropriate usage of funds available to audited entities, and regularity of operations of management and governance bodies and other responsible persons in charge of planning, execution and monitoring of operations of public funds beneficiaries.

Audited entities include all public fund beneficiaries, and/or direct and indirect budget fund beneficiaries, mandatory social insurance organizations (Republic Pension and Disability Insurance Fund, Republic Health Insurance Fund, National Employment Service), budget funds founded by separate law or regulations, for the purposes of achieving goal stipulated by separate republic, and/or local regulation or international treaties; according to that, audited entities are, practically, all beneficiaries constituting budget system of the Republic.

National Bank of Serbia is subject to audit, for which the State Audit Institution is obliged to submit each year audit report on compliance of operations of the National Bank of Serbia, in part relating to usage of public funds. Pursuant to provisions of the law regulating the budget system, foreign exchange assets of the beneficiaries of the Republic Budget, mandatory social insurance organizations and local government budgets may be held only with the National Bank of Serbia, so that operations of this entity is of special significance.

Public enterprises, business companies and other legal entities founded by a direct, and/or indirect public fund beneficiary, legal entities in which direct, and/or indirect beneficiaries have participation in the capital, and/or participation in the management, along with legal entities founded by legal entities in which the state has participation in the capital, and/or in management, are also entities subject of audit.

Audit may cover non-repayable assets or guarantees, entities dealing with accepting, guarding, issuing and using public reserves, political parties, beneficiaries of European Union funds, donations and assistance from the international organizations, foreign government and non-governmental organizations and other entities using public funds and assets under control or at the disposal of the Republic, territorial autonomies, local authorities and mandatory social insurance organizations.

Audit is conducted with other legal entities dealing with audited entities only in terms of their operations with audited entities. State Audit Institution is obliged to determine, in more detail through its enactment, the manner of conducting audit of these legal entities.

SAI conducts the following types of audit: Financial Statement Audit, Compliance Audit and Performance Audit.

Strategic Plan of the State Audit Institution for 2016-2020 was adopted at the 17th session of the Council on 28th December 2015. The Strategic Plan articulates, among others, the following goals and objectives:

- To provide high quality audit services in line with the ISSAIs;
- To ensure high-quality services by updating audit manuals - guidelines;
- To establish and develop quality control system.

As of August 2016, the Institution has total of 274 employees, whereby 5 of them are members of the Council (senior management), 237 are employees working in audit activities (out of which 7 supreme state auditors, 19 certified state auditors, 31 state auditors and 180 employees working in audit activities), while there are 25 employees working in audit support activities, 4 in the Office of the President of the Institution, two employees not part of any internal unit and one employee in the Internal Audit Unit.

Audit services, managed by Supreme State Auditors, are organized in seven sectors, namely: Sector for Audit of Budget and Budget Funds; Sector for Audit of the Local Authorities' Budgets; Sector for Audit of Mandatory Social Security Organizations; Sector for Audit of Public Enterprises; Sector for Audit of the National Bank of Serbia; Performance Audit Sector and Sector for Methodology and Quality Control.

Support services, managed by the Secretary of the Institution, are organized as audit support units: Unit for Legal and General Affairs, Human Resources Unit, Finance and Accounting Unit and Information Technology Unit. Office of the President is organized as a separate organizational unit, as well as Internal Audit Unit. There are three job positions with independent employees, organized outside all internal units – two job positions for State Auditor for IT Support and one job position for security and management of confidential data.

Sector for Audit Methodology and Quality Control has been included in Job Classification document and commenced its work in early 2015. This Sector deals with issues related to the development of audit methodology, quality control in all audit phases (planning, executing, reporting and follow-up of findings and recommendations), as well as the preparation, publishing and monitoring the implementation of the audit standards. Hiring of staff in the Sector has already begun. In April 2016, a new Supreme State Auditor was appointed in the Sector.

Quality assurance procedures are planned to be developed and adopted by the SAI Serbia in the coming period. Quality control process is embedded in the Manual for Financial Audit and Compliance Audit and is being implemented in audit work. All employees in SAI sign annual written statement on accepting and observing provisions of Code of Ethics of SAI. Also, employees in audit sectors sign a statement on review of ethical behaviour during audit conduct. SAI aims to ensure audit quality and audit quality control in accordance with ISSAI Framework of auditing standards in order to strengthen its professional capacities. The SAI aims at establishing a culture and focus on quality within the SAI, set the tone at the top and develop the necessary skills and capacities of executives as well as staff.

As of 2015, total of 2060 translation pages of ISSAI standards have been translated.

A Decision on Adopting the International Standards of Supreme Audit Institutions was published in the Official Gazette No 77/2015, along with texts of the standards:

ISSAI 1 – Lima Declaration of Guidelines on Auditing Precepts

ISSAI 10 – Mexico Declaration on SAI independence

ISSAI 30, Code of Ethics for SAI

We also emphasize that:

- All *relevant* ISSAI standards are applied and included in Methodology for Financial Statement and Compliance Audit and Performance Audit Methodology.
- ISSAI standards from series 1, 10 and 100 have been adequately included into the Law on SAI and Rules of Procedure of SAI.

Internally, translated ISSAI standards have been published on the *SharePoint platform*, as reference material for auditors.

SAI delivers its audit reports and annual activity reports to the National Assembly, independently and each year, while reports are published on the SAI website. SAI provides the legislature, and legislative committees, with relevant, objective and timely information. Audit reports of SAI contain relevant and useful recommendations based on SAI findings. Total of 1686 recommendations were issued based on audit reports pursuant to Audit Program for 2015. There is a process for monitoring implementation of audit recommendations, but that process needs further enhancement. Auditees are obliged, where irregularities or incompliances have been detected and not removed during the audit process, to remove them within 30 to 90 days from the day of delivering the audit report and shall submit the report to the SAI on such matter. Correctional measures are those that auditee undertakes in order to remove detected irregularities and to reduce the risk of their occurrence in future. Auditees are not obliged to, after expiry of 90 days, submit any information on the status of correctional measure undertaken in order to reduce the risk of their occurrence in future.

SAI submits its reports to the National Assembly, Committee for Finance, Republic Budget and Control of Public Funds' Spending, which is competent for deliberation of SAI audit reports. Also, in 2015, the National Assembly formed a Subcommittee for Reviewing Audit Reports of the State Audit Institution and signed a Memorandum of Understanding with SAI.

In addition to membership in INTOSAI, EUROSAI and the Network of SAIs of Candidate and Potential Candidate Countries and the European Court of Auditors, SAI is member of the EUROSAI's Task Force for Audit & Ethics, IT Working Group and Working Group on the Audit of Funds Allocated to Disasters and Catastrophes.

Significantly higher resources in the SAI and extensive technical support provided by the European Commission have helped increase the audit coverage and provided closer alignment with the International Standards of Supreme Audit Institutions (ISSAIs). External audit has made the most progress since the 2010 PEFA Assessment.

With approximately 11,000 public entities that are subject to external audit, filling of the vacancies in the SAI, use of Computer Assisted Audit Tools (CAATs) to improve efficiency and appropriate staff training remains a priority.

The environment in which the SAI conducts its work may profoundly change from any change to the basis for accounting. The implications range from how the financial statements are audited, appropriate skills set and additional training of external auditors and new requirements for quality control of the audit work carried out.

The need for SAIs to have in place a system and procedures for quality control of its activities is universally accepted by INTOSAI and a core in all audit standards. SAIs must be in a position to constantly deliver high quality audits and other work. The key principles are laid down in International Standard on Quality Control, ISQC 1, and further developed for the public sector in ISSAI 40. However, very important aspects and clarifications are found in several other of the general as well as specific ISSAIs (30, 100, 300, 1000, 1220, 1620, 3100, 4100, 4200), in compliance with Activity 1.1. which stipulates acquainting SAI Serbia auditors with relevant ISSAIs related to quality control.

The system and procedures for quality control should in principle;

- cover all SAI activities,
- include the elements which cover all parts of the organization including its relations to stakeholders and eventual contractors. They are: leadership responsibilities for quality within the organization, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance, monitoring,
- be carefully documented and communicated to all SAIs personnel,
- in the engagement performance cover matters such as the direction, review and supervision of the audit process. And provide the leadership of the SAI with reasonable assurance that its audit and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements,
- include supervision and review responsibilities.

Furthermore, the monitoring process should provide reasonable assurance that the policies and procedures are relevant and adequate and are operating effectively. This process should therefore include an ongoing consideration and evaluation of the SAIs system of quality control, including a review of a sample of completed work; be done by an individual/individuals with experience and authority; require that those carrying out the review are independent from work reviewed.

It should be noted that all standards (ISA and ISSAI) clearly recognize that the quality control system and procedures should be appropriate to the mandate and the circumstances a SAI operates in including the risks posed to quality of its audits and other services.

3.2 Linked activities (*other international and national initiatives*):

“Institutional Capacity Development of the SAI Serbia” – bilateral project with the Office of the Auditor General of Norway (OAGN); 2008-2013

The overall objective of this support, as it was seen when launched in the early stages of operations of Serbian SAI, was to ensure carrying out of high quality audits, thereby promoting transparency, accountability and good governance in the management of public funds.

Twinning Project “Strengthening Capacities of the State Audit Institution of Serbia” SR 11 IB FI 01) 2013-2015

Overall objective of the project was to enhance accountability and effective management of public and EU funds in Serbia and strengthen Serbian audit institutions.

Project purpose was to provide further support to State Audit Institution in aligning its organizational structure, procedures, practice and the overall performance with international standards and EU best practice.

The project consisted of the following four components:

1. Comprehensive review of the SAI-related legal framework (laws, bylaws and regulations) completed with clear targets for further alignment with EU and international standards;
2. SAI introduces an appropriate organizational structure in accordance with good international practice and INTOSAI Capacity Building Guidelines for SAIs;
3. SAI staff is capable of performing all types of audit in accordance with the Law on SAI and international auditing standards;
4. External communication and visibility of SAI improved on national and international level.

With the assistance of EU Twinning experts (Twinning Project "Strengthening Capacities of the State Audit Institution of Serbia" SR 11 IB FI 01), development and testing of the Financial and Compliance Audit Manual and Performance Audit Manual are finalized. The Audit Manuals are based on the ISSAI Framework. The manuals contain separate chapters on quality control. Recommendation of this project for further assistance in this regard was to "Evaluate the working and enforcement of the Internal Control paragraphs into the Methodology and install a Quality Assurance (QA) function on the central level. Quality Assurance independently should provide President and Auditor General with the outcome of QA systematically."

UNDP “Strengthening Accountability Mechanism in Public Finance”, Government of Norway, 2010-2011

The purpose of the project was to support the establishment of effective and sustainable accountability mechanisms in public finance in Serbia. The objective is to enhance preventive and investigative facets of the public spending cycle through capacity development activities in three public institutions: the Public Procurement Office (prevention), the Commissioner for Information of public importance and personal data protection and the State Audit Institution (post factum and investigative). The project is also aimed at strengthening the capacity of the media and CSOs to actively participate in the enhancement of accountability and transparency processes so as to become permanent part of monitoring and control mechanisms.

The project component aimed to the SAI Serbia will support the SAI in the development of Certification Program for acquiring audit titles, conducting trainings in line with the training needs analyses and assistance in drafting Communication Strategy and implementing PR activities.

UNDP “Advancing Accountability Mechanisms in Public Finances”, 2011-2015, SIDA

The purpose of the project was to advance the performance of state and non-state actors, both at central and local level for effective enforcement and prevention of the misuse of public funds.

The objective of the initiative was to develop horizontal and vertical accountability mechanisms in the area of public finances, contributing to sound public financial management and decreased opportunity for corruption in Serbia.

Key institutions recognized under the Strategy for Developing the Public Procurement System in Serbia (2011) in charge of public finance management are the Ministry of Finance, State Audit Institution, Public Procurement Office and Commission for Protection of Rights in Public Procurement Procedures. The project was conceived as a joint sector initiative of precisely these institutions, along with the Judicial Academy targeting judges and prosecutors and the Standing Conference of Towns and Municipalities for country-wide outreach. Such a sector initiative was designed to give a greater contribution to the impact of decreasing the misuse of public funds.

UNDP “Accelerating Accountability Mechanisms in Public Finances”, 2016-2018, SIDA

The overall objective of the project is to drive the public finance reform increasingly as a management reform, with focus placed on good and efficient management of institutions as opposed to creation of additional bureaucratic features in the public finance sphere for risk mitigation.

The project forms part of a larger scale UNDP portfolio targeting accountability mechanisms in public finances, building on achievements from a 2-year program preceding this intervention, funded by SIDA, and is complementary to an SDC funded sector project in the area. This comprehensive programmatic framework has potential to lead to impact level change in raising trust in the public finance system of the Republic of Serbia and its overall reform.

UNDP “Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management”, 2016-2020, SDC

The overall objective of the project is to establish a network between the Central Harmonization Unit and cities representing the seat of regional centers in order to enhance the system of Financial Management and Control across local self-government units and ensure that the internal audit function in local government is in place, fully functional and supported and demanded by the municipal leadership. It further seeks to develop the interface between internal and external municipal audit in municipalities, for the purpose of increasing the audit effectiveness, given more responsibility for the financial audit towards internal auditors and increasing the external auditors focus on performance audit. The project will enable more frequent and higher quality municipal audits by SAI within the budget cycle and to establish good practice in sub national PFM reform enforcement. Finally, good public finance management practices will be recorded by civil society and media and promoted widely.

The project forms part of a larger scale UNDP portfolio aimed at advancing accountability mechanisms in public finances and complement a SIDA funded sector project in the area.

GIZ Project “Public finance reform in Serbia” (2016-2017) integrated support for the State Audit Institution. It supports the SAI in establishing procedures and practices of human resource management in accordance with good international practice.

3.3 Results:

Result 1: SAI introduced an appropriate audit quality control system aligned with EU and international auditing standards

Indicators of achievement:

Activity 1.1.

- Presentations of the standards (prepared training materials and handouts, PowerPoint presentations and similar);
- At least one workshop, in duration of at least 5 days, for at least 60 participants of SAI Serbia auditors performed.

Activity 1.2.

- Assessment Report produced, including a Map of current practices and recommendations based on analysis.

Activity 1.3.

- At least two consultative meetings during the second month of the project;
- Prepared Policy and Action Plan on introducing and implementing audit quality standards.

Result 2: SAI standardized its audit practice in the State Audit Institution in accordance with good practice

Indicators of achievement:

Activity 2.1.

- Guidelines on audit quality in SAI drafted (for financial, compliance and performance audit);
- Checklists on audit quality drafted (for financial, compliance and performance audit);
- Guidelines for audit quality tested by the audits teams from SAI Serbia, during the selected pilot audits, (on two ongoing audit and two finalized audit);
- Audit Quality Assurance procedures and checklists drafted.

Activity 2.2.

- Two study visit reports drafted by MS Partner.

Activity 2.3.

- At least two consultative meetings during the second month of the project;
- All selected audit staff and top management are trained in implementing audit quality procedures.
- At least 40 training hours for at least 40 participants.

All documents and outputs must be delivered in Serbian language.

3.4 Activities:

Activities for result 1. (SAI introduced an appropriate audit quality control system aligned with EU and international auditing standards)

Activity 1.1.

Acquainting with ISSAI 40 and other relevant ISSAIs related to quality control, such as ISSAI 100, 200, 300, 400, 1000, 1220, 1620, 3100, 4100 and 4200, taking into consideration latest ISSAI Framework through workshops.

Activity 1.2.

Develop the Assessment report of the existing quality control practice at SAI and preparing a detailed map of the current quality control system, mapping out all strengths and weaknesses as well as compliance with the relevant standards.

Activity 1.3.

Develop Policy and Action plan for introducing and implementing audit quality standards. Policy and Action plan should encompass all components as defined in the ISSAIs and should be adapted to the specificity of SAI in Serbia.

Activities for result 2. (SAI standardized its audit practice in the State Audit Institution in accordance with good practice):

Activity 2.1.

Preparing the audit quality assurance procedures and the guidelines on audit quality, including all required checklists and templates for the audit programmes, minutes and checklists, as well as for field reports for financial, compliance and performance audit;
Testing the Guidelines for audit quality during the selected pilot audits and possibly making adjustments after testing.

Activity 2.2.

Organize two study visits for the SAI Serbia representatives in EU Member State on audit quality control and quality assurance (5 working days each, 8 participants per study visit). The study visits should be conducted regarding existing quality control system and existing quality control procedures on audit level – process of financial, compliance and performance audits and quality control procedures in SAI MS.

Activity 2.3.

Provide practical trainings adjusted to the needs of SAI Serbia aimed for audit staff including members of top management, based on the assessment by State Audit Institution.

At least two major visibility events, for at least 30 participants per event, will be organized in the course of the implementation of the project: Kick-off meeting at the start of the implementation process and the Final meeting at the end of project implementation activities.

3.5 Means/ Input from the MS Partner Administration:

The MS and the Twinning Light Project have to offer hands-on support for the establishment of an audit quality control system in SAI in line with the international standards. Therefore, it is important that the MS partner acquires excellent understanding on the needs and specificity of SAI and communicates openly and constructively with SAI in order to select the best model view the size, the EU accession stage and the political context.

3.5.1 Profile and tasks of the Project Leader

Profile of the Project Leader

Requirements:

- University degree,
- At least 8 years of working experience in the area of public finance audit, especially financial audit and regularity audit,
- At least 3 years of working experience as a senior civil servant in a supreme audit institution,
- Knowledge of international auditing standards for public sector,
- Knowledge of quality control and particularly of quality control related ISSAIs.
- Experience in managing at least 2 projects in area of external audit,
- Desirable experience in quality assurance,
- Fluency in English,
- Computer literacy.

The PL is expected to devote a minimum of 1.5 weeks per month to the project, including one visit of 2 weeks every second month (4 visits).

PL main tasks:

- Organize, coordinate and supervise the overall preparation, implementation and reporting on the project
- Organize the project interventions in a way which ensures the achieving of the mandatory results;
- Propose, liaise, assign tasks and supervise the work of the short-term experts;
- Provide professional advice to the beneficiary;
- Ensure backstopping and financial management of the project in MS;
- Maintain the relationship with the beneficiary and coordinate all project interventions with the Serbian Project Leader;
- Participates in Steering Committee meetings.

PL other tasks:

- Maintain very close relationship with the Contracting authority and ensure regular reporting on project progress.

The minimum input of the PL is 60 days because PL has a key role in the project especially in activities 1.1, 1.2, 1.3 and 2.1.

3.5.2 Profile and tasks of the short-term experts

Other specialist staff will be made available by the Twinning Light Partner to support the implementation of activities. These short term experts (STEs) will cover the needs of specific expertise in the areas of quality control standards, financial, compliance and performance audit. Considering the size of the host-administration, the number of Short-Term Experts should be reasonable - minimum 2 experts.

The general requirements for STE(s) are:

- University degree;
- At least 5 years of working experience and competence in the area of external audit;
- Familiar with best practices in the area of external audit, especially with the latest ISSAI Framework and relevant INTOSAI tools;
- Expertise on knowledge transfer and communication;
- Proven contractual relation to public administration, as defined under twinning manual section 5.4.5;
- Fluency in English;
- Computer skills.

One of these STEs must be with at least 3 years of experience in performance auditing.

The interested Member State institutions shall include in its proposal the CVs of the designated Project Leader and the proposed Short-term experts and the specific tasks to which they will be assigned.

SAI will provide organizational support for the Short-Term Experts in performing their work during their missions in the country.

4. Institutional Framework

The Beneficiary institution is the *State Audit Institution of the Republic of Serbia*.

Office of the President is the unit in charge of international cooperation, European integration, planning and preparation, implementation and monitoring of the implementation of projects financed from EU funds, institutions and projects that are financed from the budget, donations and other means, counselling and protocol nature, activities related to public relations, operations processing submissions of the citizens and communication and coordination with civil society organizations and other independent bodies, as well as operations of the organizational and administrative - technical nature, which are relevant to the work of the President of the Institution and the Council.

Sector for Audit Methodology and Quality Control deals with issues related to the development of audit methodology, quality control in all audit phases (planning, executing, reporting and follow-up of findings and recommendations), as well as the preparation, publishing and monitoring the implementation of the audit standards.

Project Steering Committee (PSC)

The Project Steering Committee will be established for the direct control and supervision of the project implementation. The PSC will be responsible for the overall quality of project implementation, providing strategic direction and ensure that the project outputs and goals are met in time, prior approval of work plans and reports, offering guidance and advice on project activities.

The exact composition of the Steering Committee will be defined in the Twinning light contract. However, the PSC will encompass following members: BC Project Leader, MS Project Leader, SPO, representatives of the Ministry of Finance Department for Contracting and Financing of EU Funded Programs (CFCU), representatives of the SAI/IPA Unit, representatives of the Serbian European Integration Office (SEIO) and the representatives of other key institutions involved in the project. Representatives of the EUD will be invited as observer(s). Whenever necessary,

representatives of other institutions or key experts should be invited to join the Steering Committee Meetings as observers.

The role and main functions of the Project Steering Committee will be:

- to assess progress in achievement of objectives and results planned in the project
- to ensure exchange of information on implementation of contracts
- to ensure synchronization of activities within contracts
- to ensure cooperation of relevant stakeholders
- to discuss any critical points, risks or bottlenecks in contract implementation
- to propose and discuss remedies in case of problems
- to review and make recommendations on reports
- to closely coordinate with other EU projects related to this field and with other relevant donors projects to promote synergies and integration

Project will ensure the secretariat function of the Project Steering Committee, including organization of meetings, preparing and circulating the agenda, writing and distributing PSC minutes to all members. PSC meetings should be announced at least two weeks before the actual date and any materials should be distributed two weeks before the meetings to the PSC members. The PSC will be chaired by the BC Project Leader.

The following Steering Committee meetings shall be held during the project implementation:

- Steering Committee meeting during the 4th month of implementation, to discuss the Start-up report
- Final Steering Committee meeting at the latest during the last month before the end of the legal duration, to discuss the Final Report.

Beside the above mentioned, ad-hoc PSC meetings shall be held if required.

5. Budget

The total budget for this Twinning project is EUR 250.000

Audit Quality Control in the State Audit Institution	IPA Community Contribution	National co-financing	TOTAL
Twinning light contract	EUR 237.500	EUR 12.500	EUR 250.000

Beneficiary will provide the Twinning light partner with adequate office space for experts, meeting rooms and equipment necessary for relevant activities foreseen in the Twinning light fiche.

Provisions for visibility costs and expenditure verification costs must be included in the budget.

6. Implementation Arrangements

6.1 Implementing Agency responsible for tendering, contracting and accounting (AO/CFCU/PAO/ Commission)

Ministry of Finance

Department for Contracting and Financing of EU Funded programmes (CFCU)

Sremska St, No. 3-5

11000 Belgrade, Serbia

Mr. Dušan Čarkić, Program Authorizing Officer (PAO)/Head of CFCU

E-mail: dusan.carkic@mfin.gov.rs

Mr. Darko Vasić, Twinning National Contact Point

E-mail: twinning@mfin.gov.rs

Phone: +381 11 2021 412

6.2 Main counterpart in the BC

State Audit Institution

41 Makenzijeva St, 11000 Belgrade, Serbia

Senior Programme Officer (SPO)

Ms. Iva Vasilić, Head of the Office of the President

BC Project Leader

Mr. Radoslav Sretenovic, President and Auditor General

6.3 Contracts

This project will be implemented through one Twinning light contract.

6.4 Language

The working language is English.

7. Implementation Schedule (indicative)

- 7.1 Launching of the call for proposals: January 2017
- 7.2 Start of project activities: July 2017
- 7.3 Project completion: February 2018
- 7.4 Duration of the execution period (number of months): 8+3 month.

8. Sustainability

The sustainability perspective is addressed via the introduction of a systemic quality control on the audit work in the SAI Serbia and the improved understanding of the SAI auditors on the internal control procedures.

9. Crosscutting issues (*equal opportunity, environment, etc...*)

Realization of proposed twinning light project will have direct and indirect impact on overall improvement of public finance management system of the Institution which will be equally beneficial to all citizens of Serbia.

All minorities will benefit from this project, as its impact concerns all the citizens of the Republic of Serbia. The respect of minority and human rights is guaranteed by the Constitution of the Republic of Serbia.

The Project does not target women specifically, but general improvement in public finance management will be beneficial to all citizens, including women. The SAI Serbia shall have an equal opportunities policy and not discriminate against employees in any form, be it age, gender, or race/ethnicity.

Realization of proposed twinning light project does not envisage activities which can have negative impact on environment. The implementing partners will take care of environment safety in all planned activities.

10. Conditionality and sequencing

No specific conditionality. No particular sequencing; this is a stand-alone intervention.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detail scheme for implementation of the project
3. List of relevant Laws and Regulations

ANNEX 1: Logical framework matrix in standard format

Title: Audit Quality Control in the State Audit Institution of Republic of Serbia			
OVERALL OBJECTIVE	Objectively verifiable indicators	Sources of Verification	
To enhance effective and efficient management and use of public funds in Republic of Serbia by strengthening audit capacity of the State Audit Institution (SAI)	<ul style="list-style-type: none"> - Positive assessment on progress of the SAI; -Increased number of audit reports performed by SAI; -Increased number of SAI recommendations implemented by audited entities; -Strengthened audit capacity within the SAI in conducting and reviewing audit work 	<ul style="list-style-type: none"> -Annual Progress Report of European Commission for Republic of Serbia; -Annual Audit Report of the SAI; -Official conclusions adopted by Parliament and Parliamentary Committee on finance, Republic budget and control of public spending 	
PROJECT PURPOSE1	Objectively verifiable indicators	Sources of Verification	Assumptions
To provide support to State Audit Institution of Republic of Serbia in introducing audit quality control in line with the international auditing standards and international audit practice	<ul style="list-style-type: none"> -Introduced procedures for ensuring audit quality and quality control; -Improved quality of the audit reports; -Consistency of methodological audit process; -Consistency of audit experience and practice within sectors 	<ul style="list-style-type: none"> -Report of the Twinning Project with recommendations -European Commission Progress Report for Republic of Serbia 	
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> • Result 1: SAI introduced an appropriate audit quality control system aligned with EU and international auditing standards 	<ul style="list-style-type: none"> - Presentations of the standards (prepared training materials and handouts, PowerPoint presentations and similar); - At least one workshop, in duration of at least 5 days, for at least 60 participants of SAI Serbia auditors performed; 	<ul style="list-style-type: none"> -Project Reports; - Assessment Report; -Guidelines and checklists endorsed by the SAI; - Audit Quality Assurance procedures -Reports from study tours; 	

<p>• Result 2: SAI standardized its audit practice in the State Audit Institution in accordance with good practice</p>	<ul style="list-style-type: none"> - Assessment Report produced, including a Map of current practices and recommendations based on analysis; - At least two consultative meetings during the second month of the project; - Prepared Policy and Action Plan on introducing and implementing audit quality standards. <hr/> <ul style="list-style-type: none"> - Guidelines on audit quality in SAI drafted (for financial, compliance and performance audit); - Checklists on audit quality drafted (for financial, compliance and performance audit); - Guidelines for audit quality tested by the audits teams from SAI Serbia, during the selected pilot audits, (on two ongoing audit and two finalized audit) - Audit Quality Assurance procedures and checklists drafted; - Two study visit reports drafted by MS Partner; - At least two consultative meetings during the second month of the project - All selected audit staff and top management are trained in implementing audit quality procedures; - At least 40 training hours for at least 40 participants; 	<ul style="list-style-type: none"> - Presentation of the standards (training materials, PowerPoint presentations or similar); - Reports from workshops 	
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Activities related to Result 1	Means	Costs	Assumptions
<p>Activity 1.1. Acquainting with ISSAI 40 and other relevant ISSAIs related to quality control, such as ISSAI 100, 200, 300, 400, 1000, 1220, 1620, 3100, 4100 and 4200, taking into consideration latest ISSAI Framework through workshops;</p>	<p>One EU financed twinning contract which includes all activities.</p>	<p>Maximum contract value: 250.000 €</p>	<p>Full commitment of SAI top management to the project</p> <p>SAI has human resources to implement this project</p>
<p>Activity 1.2. Develop the Assessment report of the existing quality control practice at SAI and preparing a detailed map of the current quality control system, mapping out all strengths and weaknesses as well as compliance with the relevant standards;</p>			
<p>Activity 1.3. Develop Policy and Action plan for introducing and implementing audit quality standards. Policy and Action plan should encompass all components as defined in the ISSAIs and should be adapted to the specificity of SAI in Serbia;</p>			

Activities related to Result 2	Means	Costs	Assumptions
<p>Activity 2.1. Preparing the audit quality assurance procedures and the guidelines on audit quality, including all required checklists and templates for the audit programmes, minutes and checklists, as well as for field reports for financial, compliance and performance audit; Testing the Guidelines for audit quality during the selected pilot audits and possibly making adjustments after testing.</p>			
<p>Activity 2.2. Organize two study visits for the SAI Serbia representatives in EU Member State on audit quality control and quality assurance (5 working days each, 8 participants per study visit) The study visits should be conducted regarding existing quality control system and existing quality control procedures on audit level – process of financial, compliance and performance audits and quality control procedures in SAI MS.</p>	<p>One EU financed twinning contract which includes all activities.</p>	<p>Maximum contract value: 250.000 €.</p>	<p>Full commitment of SAI top management to the project SAI has human resources to implement this project</p>
<p>Activity 2.3. Provide practical trainings adjusted to the needs of SAI Serbia aimed for audit staff including members of top management, based on the assessment by State Audit Institution.</p>			

ANNEX 2: Detail scheme for implementation of the project ACTIVITIES	2017									2018					
	Q2			Q3			Q4			Q1			Q2		
	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6
Month															
Kick-off Meeting				X											
Steering Committee Meeting No 1							X								
Steering Committee Meeting No 2 incl. the Final report Presenting Closing Results Meeting											X				
Activity 1.1															
Acquainting with ISSAI 40 and other relevant ISSAIs related to quality control, such as ISSAI 100, 200, 300, 400, 1000, 1220, 1620, 3100, 4100 and 4200, taking into consideration latest ISSAI Framework through workshops;				X											
Activity 1.2.															
Develop the Assessment report of the existing quality control practice at SAI and preparing a detailed map of the current quality control system, mapping out all strengths and weaknesses as well as compliance with the relevant standards;				X	X										
Activity 1.3.															
Develop Policy and Action plan for introducing and implementing audit quality standards. Policy and Action plan should encompass all components as defined in the ISSAIs and should be adapted to the specificity of SAI in Serbia.					X	X									
Activity 2.1.															

ANNEX 2: Detail scheme for implementation of the project ACTIVITIES	2017									2018					
	Q2			Q3			Q4			Q1			Q2		
	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6
Month															
Preparing the audit quality assurance procedures and the guidelines on audit quality, including all required checklists and templates for the audit programmes, minutes and checklists, as well as for field reports for financial, compliance and performance audit; Testing the Guidelines for audit quality during the selected pilot audits and possibly making adjustments after testing.						X	X	X	X	X	X				
Activity 2.2.															
Organize two study visits for the SAI Serbia representatives in EU Member State on audit quality control and quality assurance (5 working days each, 8 participants per study visit) The study visits should be conducted regarding existing quality control system and existing quality control procedures on audit level – process of financial, compliance and performance audits and quality control procedures in SAI MS;							X								
Activity 2.3.															
Provide practical trainings adjusted to the needs of SAI Serbia aimed for audit staff including members of top management, based on the assessment by State Audit Institution											X				

	Preparation and signing the contract
	Implementation and disbursement
	Disbursement and Completion

ANNEX 3: List of relevant Laws and Regulations

1. Constitution of the Republic of Serbia
2. Law on State Audit Institution
3. International Standards of Supreme Audit Institution (ISSAI)
4. Rules of Procedure
5. Methodological Rules and Guidelines on Financial and Compliance Audit
6. Methodological Rules and Guidelines on Performance Audit