



FINAC

FINancial management,
Accounting & Controlling
in public administration

Financial Management, Accounting & Controlling curricula development for capacity building of public administration

RESEARCH REPORT 1.3: SERBIA

Teaching outcomes and harmonization of national strategies and EU directives in
public administration



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INTRODUCTION

This research report is written in the framework of the project Financial management, accounting and controlling in public administration (FINAC) under the EU programme ERASMUS +, subprogram *Capacity Building in Higher Education*, as a part of its Work package 1: Mapping & reporting about current capacities of public administration employees in Serbia & Albania. Project is implemented in Serbia and Albania and the project consortium involves 12 partners¹ (from Serbia, Albania and four EU countries). Coordinating institution of the FINAC project is University of Belgrade, Faculty of Organisational Sciences.

The central aim of “FINancial management, Accounting and Controlling for capacity building of public administration” (FINAC) project is to contribute to the higher quality of budgeting, money management, finance management, accounting and control, in Albanian and Serbian public administration. This aim will be achieved throughout meeting specific objectives: 1) Designing and developing three new master degree programmes in Serbia and two new master degree programmes in Albania in the field of financial management, accounting and controlling for capacity building of public administration in Albania and Serbia, 2) Provision of trainings at university centres/institutes for public administration employees in Serbia, 3) Modernization of one master degree programme in the field of public financial management in Serbia.

The project sets as a fundamental quality of future master and training programmes that they address and develop competencies that are in line with the ongoing national developments in public administration and, more specifically, in the field of financial management and control. These national developments, both in Albania and Serbia, are in many instances characterized by progressive harmonization with international standards of good practice, especially those which get significant attention within the process of accession in European Union. The pace and the quality of adopting and effective implementation of new practices of financial management and control and public administration in general largely depends on the level of capacities and competencies of public administration employees. Therefore, high quality education and training programs must acknowledge and address this element as well, so they can be tailor-made in both directions: national strategies and developments and current level of competencies of its civil servants. In this respect mapping current capacities of public administration employees in Albania and Serbia was seen as a crucial starting point for the Project in order

¹ University of Belgrade (Project Coordinator); University of Kragujevac; State University of Novi Pazar, Belgrade Metropolitan University; Ministry of Public Administration and Local Government, Republic of Serbia; Centre for Education Policy, Belgrade; University of Shkoder “Luigj Gurakuqi”; European University of Tirana; University of Split; Università degli studi “Guglielmo Marconi”; Masaryk University; Matej Bel University. More about the project - <http://finac.org.rs/>



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to get valid findings which will guide the development of new master programmes and in-service trainings so they are tailored to the real needs of public administration and its employees.

Within Working package 1 of FINAC project eight reports are envisaged as project deliverables based on agreed research exercise (four reports for Albania and four reports for Serbia):

- Report 1.1: Mapping of current level of knowledge of employees in public administration in the field of financial management, accounting and control;
- Report 1.2: Mapping of current qualification structure of public administration employees in financial management, accounting and control activities;
- Report 1.3: Teaching outcomes and harmonization of national strategies and EU directives in public administration;
- Report 1.4: Mapping of knowledge and expertise of trainers at the regional partner universities.

This report has three main focuses. The first focus, presented in the Chapter 1, deals with the main developments in public administration in Albania and the main challenges these processes bring to different aspects of public administration, particularly in respect to needed professional competencies of civil servants. The text will encompass those areas of public administration which are central to FINAC project - Financial management and control; Internal audit; Programme budgeting; Budget implementation; Accounting; and Public policy management. Chapter 2 presents the main findings of the research that was conducted in the framework of the project – the emphasis will be placed on the perceived needs for professional development of civil servants in the above described areas of public administration. In much more detail the overall research is presented in a separate research report (Research report 1.1: Albania. Mapping of current level of knowledge of employees in public administration in the field of financial management, accounting and control). Chapter 3 then connects these two sources of information – analysis of national developments and challenges in public administration and research findings on professional needs of civil servants – in order to provide recommendations for developing teaching outcomes and curricula for two new master programs in Albania in the field of financial management, accounting and controlling and provision of trainings for public administration employees.

The lead consortium partner responsible for the research design, its organization and administration, data analysis and the writing of the reports was the Centre for Educational Policy from Belgrade, Serbia. For the part of the research conducted in Albania, the main partner was the European University of Tirana - its representatives were responsible for the planning and execution of various segments of the research process. Overall coordination of the research process done in two countries was overseen and supported by the coordinating institution - Faculty of Organizational Sciences (University of Belgrade).

DEVELOPMENTS IN PUBLIC ADMINISTRATION IN SERBIA

Overall public administration reform

Current developments in public administration of the Republic of Serbia are conceptually determined in *Public administration reform strategy in the Republic of Serbia* adopted in 2014 (Republic of Serbia, 2014). The strategy paper begins with the assertion that the implementation period of the previous public administration strategy (2004 - 2013) chiefly managed to achieve the major goal, that is, to ensure the requisite legal framework enabling the functioning of the public administration and local government systems. It means that a number of regulations have been adopted, providing guidance for further changes. The Government of the Republic of Serbia adopted a range of strategic documents referring to the reform process, such as the *National Program for Integration (NPI)*, *National Program for Adoption of EU Acquis (2013–2016)*, *Strategy for Professional Development of Civil Servants*, and *Regulatory Reform Strategy of the Republic of Serbia*.

However, the primary concern of the forthcoming reform activities, as the strategy entails, will be implementation of laws and other regulations and public policies, along with further harmonization of the existing legislation with the EU regulations. Public administration reform, thus, will initiate further enhancement of the public administration system in general, particularly the segments that had not formerly been covered by the appropriate reform process.

The strategy posits that the current phase of reform seeks to upgrade the adopted legal framework and align certain segments of the public administration system with the set principles, the institutional and professional capacity building, and furthermore, link the PAR process with the process of EU integration, in line with the National Program for Adoption of EU Acquis (2013–2016), as one of the key priorities of the Republic of Serbia. Significant reforms are in progress in different segments of society in the Republic of Serbia, the EU integration being among the crucial ones. Quality decision making, chiefly in respect with the ability of the public administration to fully and consistently apply the adopted regulations and/or public policies in practise, also requires the existence of “administrative capacities” as one of the criteria for the EU accession. The Government sees the public administration reform and European integration as two interconnected processes. Although there is no appropriate European acquis related to the public administration system in Europe, some EU principles and standards - standards of European administrative law, in particular the European Administrative Space, have been adopted and in place.

In that sense, the key principles that the Government policy will rely on in this respect are the same as the principles of the European Administrative Space, and include:

- Reliability and Predictability and/or legal certainty;
- Openness and Transparency of the administrative system and promotion of the participation of citizens and social entities in the work of the public administration;
- Accountability of public administration bodies;
- Efficiency and Effectiveness.

In addition to the specified European principles that are used as the starting point, any further public administration reform process in Serbia will rely on the principles that had already been promoted by the previous strategy: decentralization, depolitization, professionalization, rationalization and modernization.

Public administration reform strategy in the Republic of Serbia sets the following objectives:

- 1) Improvement of organizational and functional sub-systems of public administration;
- 2) Introduction of harmonized public service system relying on merits and improvement of human resource management;
- 3) enhancement of public finance and public procurement management;
- 4) enhancement of legal certainty and upgrading of business environment and quality of public administration services;
- 5) improvement of transparency, ethical and responsible approach in discharging the public administration duties.

For this text the third objective - enhancement of public finance and public procurement management - is of utmost importance. It encompasses three specific goals: 1) Improvement of budget planning and preparation process, 2) Enhancement of financial management and control and internal audit, and 3) Enhancement of public procurement system. Developments in these areas were subject of further policy planning which will be elaborated further in the text.

Public financial management reform

One of the key pillars of public administration reform in the Republic of Serbia (i.e. its third objective) is public financial management reform. The latter was determined in the Public financial management reform program 2016 - 2020 (Republic of Serbia, 2015). This Program complements the public administration reform strategy by further detailing objectives and activities within the area of public financial management, and it also sets the strategic framework for the Public Internal Financial Control Policy Paper, in line with the EU accession requirements addressed in negotiation related documents in connection to Chapter 32 on Financial Control.

The aim of the Public Financial Management Reform Program is to provide a comprehensive and integrated framework for planning, coordinating, implementing and monitoring the progress in the implementation of a set of sustainable actions to improve macro fiscal stability, to ensure efficient and effective allocation and use of public resources and to improve service delivery by the Serbian public administration, whilst at the same time improving transparency and overall functionality of the public financial management and fulfilling the necessary requirements for European Union (EU) accession.

The Program document posits that even though significant effort has been invested in reforming public financial management in Serbia over the last decade, across the various subsystems, the reform activities which were implemented have not been fully aligned or sequenced, which led to uneven progress in several key public financial management areas. It highlights that the SIGMA Public Financial Management Report for 2015 states mild progress against the 16 principles of public financial management, highlighting weak commitment on the transparency of the national Budget for 2015, a lack of a new policy plan for developing Public Internal Financial Control in the coming period, a low awareness of the importance of Internal Audit within Public fund beneficiaries, a low percentage of implemented recommendations given by the State Audit Institution in the published Annual Audit Reports for 2013, some discrepancies in the regulatory framework for Public Procurement, even though largely aligned with the *acquis*, as well as lower quality performance of the Public Procurement Office due to an excessive number of obligations assigned to the Office.

The Public Financial Management Reform Program 2016 – 2020, as it reads, aims to underpin fiscal and macro-economic stability, guides the allocation of public resources to national priorities, supports the efficient delivery of services, and makes possible the transparency and scrutiny of public funds. The 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. In the long run, the Reform Program aims to achieve following overall key objectives:

- to underpin fiscal and macroeconomic stability,
- to develop sound system of public finances and practices,
- to increase efficiency in the management of public resources,
- to improve efficiency in service delivery,
- to increase transparency of public funds and accountability.

The overall objective of the Public Financial Management 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. The Reform Program covers six broad areas of action/pillars:

- 1) Sustainable Medium Term Macro-fiscal and Budgetary Framework
- 2) Planning and Budgeting of Public Expenditures
- 3) Efficient and Effective Budget Execution
- 4) Effective Financial Control
- 5) Accounting, Monitoring and Financial Reporting
- 6) External Scrutiny of Public Finances

Developments in public internal financial control

The public internal financial control constitutes a comprehensive and innovative approach to the management in the public sector, which implies a combination of instruments for efficient and effective management of public resources, shaping of the management culture and transformation of a society.

The newest strategy referenced in this paper is Strategy of public internal financial control development in the Republic of Serbia for the period of 2017-2020 (Republic of Serbia, 2017), adopted in May 2017. Its goal is to implement the financial management and control and internal audit in the overall management system in the public sector, for the purpose of providing value for money to the citizens of the Republic of Serbia in an effective, efficient and economic manner, by transposing the national policy goals into the goals of the public sector institutions, which will enable an efficient assessment of risks with respect to the defined goals and establishing of adequate controls.

The fundamental goal of the previous Strategy of Public Internal Financial Control Development in the Republic of Serbia (with the plan for activities for the period 2009-2014) was establishing of the legal framework and building of minimum institutional capacities for the implementation of the public internal financial control. The text of the current Strategy posits that significant progress was made with regard to the attuning to and harmonization of the existing internal control systems in the public sector of the Republic of Serbia with the requirements of the concept of the Public Internal Financial Control, which was developed by the European Commission for the purpose of providing assistance to the countries in the process of accession in understanding and implementation of well developed and effective internal control systems. However, there are still challenges with respect to the full and systematic implementation of both the financial management and control and the internal audit by the public funds beneficiaries. The established level of financial management and control in the public funds beneficiaries is of an uneven quality, and constant increase in the number of certified internal auditors in the public sector and the number of the established internal audit units have insufficiently contributed to the diminishment of weaknesses of internal control and enhancement of the managerial accountability to an optimal level. In this connection, the Strategy entails that the Central Harmonization Unit must provide practical support to the executives and key employees in the public sector who are working on the improvement of the internal control system in their respective organizations and the changing of the method of management, switching from the compliance approach to the approach based on performance and results.

The goal of new Public Internal Financial Control Strategy is to **incorporate** the standard financial management and control practice **into regular management processes** and the **internal audit function as the tool** to the executives for proper management, particularly as the tool for preparation of budgetary policies, budget planning and execution. The Strategy is focused on the incorporation of financial management and control into the management processes,. It is also focused on the improvement of the methodology of definition of goals, by transposing the national policy goals into the goals of the public sector institutions, which is essential for creation of an environment of sound internal control. The goal

of the Strategy is also to ensure effective risk assessment and management, which will serve as the basis for establishment of the controls which will mitigate the established risks. This will contribute to the improvement of transparency, economy, efficiency and effectiveness in the spending of public funds, irrespective of the sources of financing.

Financial Management and Control

The Central Harmonization Unit organized the basic training in financial management and control, so that, as at 31 December 2016, 1731 executives and employees in the public sector attended the training.

The programme of basic training in financial management and control includes four areas, specifically:

- Introduction in the internal financial control in the public sector;
- Integrated framework of internal control, the COSO model;
- Risk management system;
- Managerial control system.

In the sections of analysis of present state in the area of financial management and control the Strategy paper emphasizes several significant challenges:

- Challenges with respect to the **full and systematic implementation** of both the financial management and control and the internal audit by the public funds beneficiaries
 - The established level of financial management and control in the public funds beneficiaries is of an **uneven quality**
 - A great number of executives of public funds beneficiary institutions have **not yet managed to establish the procedures** for the implementation of certain work processes.
 - Powers and responsibilities are delegated to a limited extent in practice and the financial management and control systems are **centralized at the higher management level**.
 - The number of executives who have completed the training in the area of the financial management and control is insufficient, and judging by that fact, the **lack of real knowledge** about all the elements of the financial management and control in the public sector is obvious.
- This emphasizes the need to raise the level of knowledge about the competences that exist within the internal control system. Executives are insufficiently familiarized with risk management and since such management may help their respective institutions to achieve their goals, because only a limited number of public funds beneficiary institutions have risk management plans and records of risks.
 - In risk management, almost all attention is currently devoted to the compliance with regulations and the risks related to the goals of the organization are not taken into consideration and that is why the strengthening of risk management is the key element of the Public Internal Financial Control Strategy.

- Practical support must be provided to the executives and key employees in the public sector who are working on the improvement of the internal control system in their respective organizations and the changing of the method of management, switching from the compliance approach to the approach based on performance and results.

The strategy sets specific objectives for the financial management and control system.

- 1) *Rendering support to all executives of public fund beneficiary institutions to achieve a genuine understanding of the significance of financial management and control activities as an integral part of strategic and operational processes with an emphasis on managerial accountability*

Financial management and control activities form an integral part of managerial accountability and are implemented at all levels of the organization. Financial management and control is the responsibility of the top-level executives (minister, ministry secretary, assistant ministers, director general, director), as well as executives of groups, sections, departments and other organizational units within the public fund beneficiary institutions. For this reason, in order to include financial management and control in all activities of the public fund beneficiary institutions, the top-level executives and executives of internal organizational units must act in compliance with the definition of managerial accountability. If accountability for the enforcement of financial management and control rests solely on the top management, this does not suffice to produce its crucial and full implementation. Consequently, it is necessary to raise awareness among all leading stakeholders in public sector activities, including also all executives of internal organizational units, on the role and responsibilities for the enforcement of financial management and control.

- 2) *Strategic planning which links organizational goals to overall vision of the Government will be improved by amendments of the existing legal framework which will regulate the system of planning documents. This change shall allow for adoption of bylaws required to achieve this goal*

Strategic planning which links organizational goals to overall vision of the Government will be improved by amendments of the existing legal framework which will regulate the system of planning documents. This change shall allow for adoption of bylaws required to achieve this goal.

- 3) *Operational planning linking operational goals to demands for resources (budget, staffing and other funds)*

The operational planning linking the operational goals to demands for resources (budget, staffing and other funds) will be achieved by the adoption and implementation of the Action Plan for Optimization of Public Administration, based on the recommendations of horizontal functional analysis conducted by the World Bank. Amendments of the existing regulations governing the principles of internal organization and systematization of job positions in the ministries, the Government's special organizations and services shall provide establishing, i.e. designating an internal organization unit which will be engaged in **the issues of strategic planning and management, including precisely defined job position descriptions for the employees in this unit. One of the tasks that fall within the competences of these units is performing**

the function of rendering professional support and coordination in the preparation and implementation of strategic and operational plans in compliance with defined goals of the organization and justified demands for resources (budget, staffing and other funds).

4) Monitoring and reporting on achieved goals in relation to the resources used

As in the case of the previous objective, the Government's special organizations and services shall provide establishing, i.e. designating an internal organization unit which will be engaged in the issues of strategic planning and control. One of the tasks that fall within the competences of these **units is monitoring and reporting on the level the set goals have been achieved with regard to the resources used.**

5) Development of risk management process in public fund beneficiary institutions

This objective entails that it is necessary to continue a systematic development of the risk management process in public fund beneficiary institutions through continuous risk identification, assessment of probability of its occurrence and possible impacts, documenting the risk in the risk registry, designating a person for risk monitoring and improving the system of reporting on risks. For the purpose of full implementation of the internal control system it is necessary to improve the strategic planning procedure (more precise definition and monitoring of strategic goals) to which the risk management procedure is connected.

6) Quality of Financial Management and Control

In order to ensure the adequacy of the financial management and control system it is necessary to monitor the system continuously. Therefore, it is of utmost importance to develop a model for evaluating the quality of financial management and control which will provide feedback information on whether the financial management and control system in actual fact ensures an efficient use of public funds and achieving of the objectives set out by the Government.

7) Communication of accurate, relevant and timely information in relation to financial and operational performance inside and outside the organization

As previously mentioned by amendments of the existing regulations governing the principles of internal organization and systematization of job positions in ministries, the Government's special organizations and services will ensure establishing, i.e. designating an internal organizational unit which will be engaged in the issues of strategic planning and management. One of the tasks which will be within the competences of these units is the function of internal and external communications through development of accurate, relevant and topical information which refer to financial and operational effects for publishing inside and outside the organization.

The Central harmonization unit organized the basic training for internal auditors so that, as at 30 December 2016, 837 candidates from the public sector attended the training. After the completed hands-on training for internal auditors, the exam for acquiring of the title of a licensed internal auditor in the public sector, as at 31 December 2016, was successfully passed by 330 internal auditors, who possess the certificate to work in the capacity of a licensed internal auditor in the public sector. Thus qualified persons work in the bodies of the central state authorities, mandatory social insurance funds, local self-government and public companies.

Internal Audit

The Budget System Law defines the internal audit as the activity that provides independent objective assurance and advice to the management, the purpose being to contribute to the improvement of the business operation of the organization; it helps the organization to achieve its goals, by its systematic and disciplined assessment and evaluation of risk management, controls and management of the organization. An executive of a public funds beneficiary institution is responsible for the establishment and provision of conditions for adequate functioning of internal audit. The internal audit has been established in all the ministries, in three mandatory social insurance funds, quite a number of public funds beneficiary institutions at the Republic level and a limited number of public funds beneficiary institutions at the local self-government level.

In the sections of analysis of present state in the area of financial management and control the Strategy paper emphasizes several significant challenges:

- Constant increase in the number of certified internal auditors in the public sector and the number of the established internal audit units have insufficiently

contributed to the diminishment of weaknesses of internal control and enhancement of the managerial accountability to an optimal level.

- Certain number of issues, which are related to the independence and the status of the internal audit, the quality of strategic and annual internal audit plans, the number of audits conducted and the quality of audit reports, remain unresolved.
- Up to now, internal auditors have been concentrated on the audit of lower-tier goals. Audits of complex systems in the priority areas, such as strategic planning, programming, functioning of IT systems and producing of the best possible value for money results, have been neglected
- Public funds beneficiary institutions that utilize the European Union pre-accession funds do not have the required number of auditors, but it is a part of a wider problem of availability of audit resources, which maybe points to the fact that audit does not belong to the priorities of the managerial structures of public funds beneficiary institutions.
- The management of the IPA funds in compliance with the requirements of the European Commission will not be possible without competent internal auditors in public funds beneficiary institutions who participate in the implementation of the IPA projects.

The programme of training for the acquisition of the professional title of a licensed internal auditor in the public sector includes:

The basic training in financial management and control lasting five working days, or 35 working hours, which includes four areas:

- Introduction in the internal financial control in the public sector;
- Integrated framework of internal control, the COSO model;
- Risk management system;
- Managerial control system.

The basic training for internal auditors lasting seven working days, or 49 working hours, which includes three areas:

- Standards, policies and environment of internal audit;
- Conducting of internal audit;
- Skills and techniques of internal audit, including the tools for internal audit.

The hands-on training in internal audit through conducting of two audits in the public funds beneficiary institution in which the person, who is trained, is employed at the internal audit position, with the professional assistance of the Ministry of Finance, in the manner stipulated in the Internal Audit Rulebook.

- Wider cooperation is lacking between the internal audit and managerial structures, which is the precondition for the improvement of the internal audit quality and status.

- A large percentage of the established internal audit units having two and less employees casts into doubt the ability to fully comply with the internal audit standards.

- The existing systematized job positions for internal auditors are not completely filled up because of statutory limitations on the maximum number of employees, lack of highly educated staff, low earnings, inadequacy of systematized functional titles as compared to the volume and complexity of the workload and the competition of the private sector.

Strategy of public internal financial control development in the Republic of Serbia for the period of 2017-2020 sets specific objectives for internal audit.

1) Development of professional skills of internal auditors – number and competences of internal auditors

This objective will be presented in detail as it is of great importance for any initiative aiming at professional development of internal auditors. The objective entails that having in mind the demands posed to the internal audit, its role in the development of financial management and control in public fund beneficiary institutions and its function in the system of utilizing the pre-accession funds, it is very important to provide capacities for the internal audit. It is necessary to provide a sufficient number of licensed internal auditors in the public sector, including the relevant competences. Development of a systemic approach to cooperation between the internal audit units and the IPA beneficiary institutions and the Audit Authority Office for EU funds is crucial for raising the awareness on management of the European Union's funds and for strengthening the technical capacities for conducting audits in the established structures for management of the European Union's funds within their own institutions.

The areas, forms and rules of continuing professional development of internal auditors will be stipulated in a bylaw in compliance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The

Central Harmonization Unit remains under the obligation to monitor the process of continuing professional development of internal auditors.

In order to improve the competences of licensed internal auditors in the public sector it is necessary to organize additional training through corresponding training modules, workshops and seminars.

Measures (*activities envisaged in the Action Plan*):

- Engagement of new internal auditors within the existing resources in public fund beneficiary institutions, up to the required number.
- Organizing meetings aimed at exchange of experiences among internal auditors from the IPA beneficiary institutions, the Audit Authority Office of the EU funds and the Central Harmonization Unit.
- Prescribe the continuing professional development of internal auditors in a bylaw.
- Development of training materials required for the implementation of updated internal audit manual.
- Updating and redesign of the training materials for internal audit.

2) Promotion of the Status of Internal Audit and Cooperation with Management Structures

The Budget System Law and the Internal Audit Rulebook offer some basic guarantees of independence and autonomy of internal auditors; however, the internal audit is not, to a sufficient level, accepted as a necessary vehicle for successful management, but rather as an additional burden on the organization. It is necessary to encourage and develop the cooperation between internal auditors and management structures. Executives should understand the advantages of internal audit and demonstrate their readiness to use the internal audit as the vehicle that may assist them to improve the work processes and procedures. The cooperation between the internal audit and management structures should contribute to improved strategic and annual plans of internal audits and highlight the management priorities. In addition, material status of internal auditors is inadequate, and it should be improved and brought into line with the complexity and the scope of the work they perform.

3) Optimization of the use of audit resources

In the preceding period, the internal audit activities were focused on a review of an organization's adherence to regulations (compliance audits). The compliance audits are important and this practice should continue, but it is necessary to conduct more complex audits, such as audits focused on securing management support for cost-effective, effective and efficient use of public which do not preclude a possibility of implementing such audits in other public fund beneficiary institutions, either, since some of the work processes are identical in a number of public fund beneficiary institutions. In order to optimize the use of limited audit resources, a possibility of introducing "horizontal" audits shall be considered, according to which several internal auditors of different public fund beneficiary institutions would be engaged in auditing a specific process which is identical for several public fund beneficiary institutions - common to all beneficiary institutions (e.g. use of donations).

4) Development of a model for evaluating quality of work of internal auditors

The main objective of the quality control is to evaluate the quality of established internal audit functions in public fund beneficiary institutions with the aim of improving the current practice in compliance with the International Standards for the Professional Practice of Internal Auditing. In the forthcoming period, it will be necessary to develop a model for quality evaluation of internal audit performed in public fund

beneficiary institutions, according to the peer review method, which will be coordinated by the CHU upon adoption of the regulation on external quality evaluation of internal audit. Executives of the internal audit units will develop own programmes for quality assurance of internal audit, based on a general model prepared by the Central Harmonization Unit.

5) Establishing minimum criteria for organizing a joint internal audit of two or more public fund beneficiary institutions from a designated territory, for the same-type or similar activities, on a smaller scale

The Budget System Law prescribes the obligation of public fund beneficiary institutions to establish the internal audit function. Although this legal obligation is further elaborated in the IR Rulebook, the minimum criteria have not been defined for small-size public fund beneficiary institutions for organizing joint internal audits of two or more public fund beneficiary institutions, from a designated territory, for the same type or similar activities, on a smaller scale. It is necessary to establish the guidelines for organizing joint internal audits of two or more public fund beneficiary institutions.

Central Harmonization Unit (Ministry of Finance)

The main drivers of establishment and development of the internal financial control system are the public funds beneficiary institutions and the Ministry of Finance - the Central Harmonization Unit. The Budget System Law prescribes that the Unit shall work on the harmonization of the financial management and control and the internal audit by carrying out of the assignments of:

- 1) Central harmonization, coordination, monitoring of the implementation and assessment of the quality of the financial management and control and the internal audit in the public sector;
- 2) Definition of the common criteria and standards for the establishment and functioning of the financial management and control system;
- 3) Definition of the common criteria for the organization and operation of the internal audit in the public sector;
- 4) Maintaining of the register of licensed internal auditors in the public sector and records of internal audit charters;
- 5) Professional improvement, certification and supervision over the work of internal auditors;
- 6) Professional improvement of executives and employees in the public sector in the area of the financial management and control, in compliance with internationally adopted standards;
- 7) Consolidation of annual reports on the status of the financial management and control and the internal audit.

Strategy of public internal financial control development in the Republic of Serbia for the period of 2017-2020 sets specific objectives for Central Harmonization Unit. These objectives will be just listed here, without further explication (for more details see the Strategy), except for the objective dealing with coordination of continuing professional development. The objectives are the following:

- 1) Strengthening the coordination of financial management and control and internal audit activities by the Central Harmonization Unit,

- 2) Continuous development of methodological manuals and guidelines for internal audit and financial management and control,
- 3) Coordination of continuing professional development
- 4) Development and implementation of IT support to the public internal financial control
- 5) Cooperation with internal auditors and executives in charge of financial management and control
- 6) Regional and international cooperation
- 7) Monitoring and quality control
- 8) Coordination with other ministries and other key stakeholders
- 9) Promoting the significance of internal financial control in the public sector

In relation to the third objective - Coordination of continuing professional development - the Strategy stipulates that further development of the internal financial control system shall require, in addition to organizing basic trainings, a continuing professional development of persons responsible for financial management and control and internal audit. Any future activities on adequate monitoring and reporting on the status of the system of financial management and control and internal audit is limited by the time dedicated to the training itself and the certification. Therefore, the Unit shall open up the possibility of organizing professional training and continuing professional development in the area of financial management and control and internal audit in association with professional and academic communities, as well as with international organizations. In medium-term, the Central Harmonization Unit shall also focus on the role of a coordinator in the framework of training: this would include a continuous development of the training programmes and quality control of the training implementation.

Measures (activities envisaged in the Action Plan):

- In association with professional and academic communities, as well as with international organizations, the Central Harmonization Unit shall analyse the possibilities for cooperation in organizing and improving basic trainings in the area of financial management and control and internal audit.
- Further development of professional knowledge of the current CHU staff through seminars and courses in specific areas of financial management and control and internal audit.

Programme budgeting developments

Taking into account that the budget process needs to be connected with the strategic planning and implementation of the set public policies, the budgeting process within the overall public administration reform is seen as a unique process, starting from strategic planning of public policy priorities, through defining the limit for budget beneficiaries in the period of three years and planning the annual budget where all the expenditures are connected with the government policy objectives. The next level in this process is the introduction of the programme budget instead of the present classical 'linear' budget planning. Special Methodology of the program model of the budget will be developed and adopted. The

budget has started to be prepared according to the program budgeting model since 2015 (until then, the program budgeting was applied in 5 pilot ministries).

Detailed analysis of the introduction of programme budgets in public administration at the central level are yet to be done. Here we can present two analyses of the issue - one that is considering introduction of a programme budget within an overall budget process in Serbia, and second that is reviewing program budgeting in the first two years of its application at the level of local self-governments.

In the analysis of the budget process in the Republic of Serbia, the Fiscal Council (Republic of Serbia, Fiscal Council, 2014) concludes that budget process in Serbia suffers from serious deficiencies – annual budget laws are usually not applied in practice, while medium-term budget limits are not followed at all. In that respect, it asserts budget system reform should follow international experience and logical hierarchical order: 1) establish effective compliance with financial plans within the annual budget, 2) set up an effective medium-term budgetary framework and 3) determine the structure of the program budget and performance indicators. International experiences show that any attempts to skip any of the phases in the budget process development only lead to counterproductive outcomes. Any attempts to establish the program budgeting and performance indicators in Serbia, in the environment of serious shortcomings of the basic budget functions, will be followed by high risks and dangers that may lead to the absence of the desired outcome. It is important to notice that the announced introduction of program budgeting and performance indicators is followed by some serious risks and the possibility of counterproductive outcomes, since the current system does not allow for efficient compliance of basic budget functions on the annual basis, as well as the fact that medium-term budget framework does not work in practice (Republic of Serbia, Fiscal Council, 2014).

Second analysis is a review of program budgeting in the first two years of its application in local self-governments conducted by the Ministry of finance and The Standing Conference of Towns and Municipalities (2016). Among many important findings, we will here outline a few:

- The majority of local self-governments has not formed the special team for programme budgeting
- Small number of executives and employees in local self-governments recognized programme budget as a tool for improvement of budgeting and overall performance of local self-governments
- In the key phase of work all came down to individuals in departments of finance and Offices for local economic development
- The majority of budget users in programme budgeting does not completely understand the position of colleagues who are creating the budget, and they do not know enough about the principles of project management
- For quality preparation of programme budgeting, more time is needed for direct budget users, and even more for indirect budget users
- The majority of programme budgeting considered that available personnel is insufficient for efficient making of programme budgeting because of lack of employees and lack of knowledge

In terms of planning further developments in the area of programme budgeting Public Financial Management Reform Program 2016 – 2020 under the measure *to further implement multi-annual program budgeting across all levels of government* stipulates the result and corresponding activities as presented in the Table 1.

Table 1. Implementing multi-annual program budgeting across all levels of government (Public Financial Management Reform Program 2016 – 2020)

Measure	To further implement multi-annual program budgeting across all levels of government stipulates
Result	Activity
Improved of program budgeting process	Procurement and customization of software for the management of public finances, which connects the planning, execution and control
	Customization of the software for the management of public finances in order to ensure the appropriate interface with the module for Public Policy Planning
	Process analysis, monitoring and control of program budgeting and identify recommendations for improvement
	Improving the methodology of the program budget and preparation of the new guidelines in accordance with the recommendations
	Conducting training for civil servants to improve the program budget
	Implementation of the budget cycle for 2017 in line with the improved methodology

Accounting, monitoring and financial reporting

Improving accounting, monitoring and financial reporting in one of six key pillars of Public Financial Management Reform Program 2016 - 2020. Before explicating the principal measures and expected results within this pillar, the text of the Program depicts the current state of play in this area (presented in the following section).

Accounting information is comprehensively maintained in the General Treasury Ledger, reflecting the full range of prescribed budget classifications. The accounting system provided by the Treasury Administration enables timely and comprehensive reporting on budgetary transactions for the direct budget beneficiaries covered by the Financial Management Information System (FMIS).

In terms of the accounting standards used in the Republic of Serbia, even though the application of international standards IPSAS has been made mandatory under regulations, in effect, it is the national accounting framework that is implemented in practice. It appears that different pieces of legislation are

not consistent between each other (i.e. required financial statements to be prepared to include full Balance Sheet, which is not recommended approach for cash basis of accounting, in particular that existence of appropriate accounting information and ability of accounting system to respond to such requirement, are questionable). It is recommended that information on assets and liabilities make part of additional disclosures as encouraged by part II of cash-basis IPSAS standards.

At the time being, accounting and financial reporting in the Republic of Serbia is cash basis. Cash basis accounting has been traditionally recognized for its emphasis on compliance with the annual budget law. On the other hand, the cash basis of accounting does not provide accurate and complete information on the Government's assets, liabilities and net worth, which is of utmost information for strategic management of public resources. Several measures have been introduced to complement the accounting data with non-cash information (e.g. commitments that had been made, commitments coming due and the amount of outstanding obligations still to be met in cash). These can be considered as useful, albeit only transitional, arrangements to supply the information gap. However, by following a hybrid basis of accounting (neither cash nor accrual), there is an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses.

The authorities are actively pursuing transparency of public finances and are therefore, in favor of adopting the accrual accounting IPSAS standards. This is an important step, in line with the recommendations by international institutions, including the IMF and the WB, to prepare financial statements in accordance with IPSAS standards. The gradual and systematic transition to accrual accounting based on IPSAS will be performed through sequential preparation of accounting policies according to IPSAS standards, which will be basis for preparation IPSAS compliant financial statements. It is planned that preparation of accounting policies will occur in 5 waves, enabling enough time for gradual adoption through the training of accountants. The Government's 2020 financial statements will be the first ones to fully comply with accrual IPSAS.

Transition to a different base of accounting will inevitably introduce greater complexity into the accounting process. It will require sustained political commitment over the medium-term horizon and substantive amendments to the existing legislation. Implementation will require considerable financial and human resources.

There is a need to improve the skill levels of many accountants in the Government who may have been trained in national accounting standards in school. This limited knowledge of IPSAS standards in Serbia may hamper full compliance with the standards. Additional training efforts and capacity building in the area of public sector accounting is more than called for. A shortage of skilled technical personnel may otherwise impose a constraint on the improvement the Government accounting in the Republic of Serbia and entities under its control. The Republic of Serbia has not yet benefited from an internationally-recognized program for training and certification as some of the neighbouring countries did. This would be a desirable step in the direction of sustainable capacity building.

The Public Financial Management Reform Program 2016 - 2020 defines two measures needed to improve the situation in this area: Improve the coverage and quality of budget execution reporting and Moving gradually and systematically towards accrual basis accounting (results and activities presented in the tables 2 and 3).

Table 2. Implementing multi-annual program budgeting across all levels of government (Public Financial Management Reform Program 2016 – 2020)

Measure	Improve the coverage and quality of budget execution reporting
Result	Activity
The coverage and quality of budget execution and fiscal reports improved	Extend the coverage of the FMIS system on a step-by-step basis to IBBs, including them in the accounting and reporting framework as they are brought into the system.
	Develop and fund a treasury developed roll out plan to ensure that IBBs have sufficient Information and Communications Technology (ICT) hardware, training and oversight arrangements to operate in the FMIS.
	Analyze and align in-year reporting requirements and practice with best practices for budget transparency.
	Review and modify the reporting details used for in-year and year-end budget execution reports (including reporting on program budget execution when applicable).

Table 3. Moving gradually and systematically towards accrual basis accounting (Public Financial Management Reform Program 2016 – 2020)

Measure	Moving gradually and systematically towards accrual basis accounting
Result	Activity
Completeness and coverage of accounting information improved through the implementation of Accrual Accounting based on IPSAS standards	Establish a government sector accounting standard setting council.
	Develop a gap analysis between current accounting practices and accrual IPSAS.
	Preparing a realistic road map towards full accrual accounting in the government sector
	Revise regulatory framework for compliance with accrual accounting standards throughout government.
	Prepare accounting policies in compliance with IPSAS
	Prepare financial reports in compliance with IPSAS
	Improvement of accounting solution in FMIS and other IT systems to support accrual accounting

Managing public policy

In 2016 the Government of the Republic of Serbia adopted the Strategy of Regulatory Reform and Improvement of the System of Managing Public Policies for the period 2016-2020, with the relevant action plan. Through this document the Government established the strategic guidelines for the coming 5 years in creating a more efficient and effective public administration, providing maximum benefits for citizens and businesses. The Strategy is also aimed at implementing the Public Administration Reform Strategy, thereby completing the overall reform process in this field.

The segment of the Strategy explaining the reasons for the need to adopt it, the text defines the main problem in this way: Insufficiently transparent, effective and efficient management of the legislative process and public policies. In two tables it also provides numerous causes of the problem and the same amount of its consequences. We will outline here just a few:

- The system of public policy planning is not transparent enough
- Public policy management not integrated with budget management
- Inadequate mechanisms for securing compliance of various documents of public policy
- The existing methodology for regulatory impact analysis does not contain all of international standards
- Only ex ante regulatory impact analysis is implemented, while the ex post regulatory impact analysis is conducted from the case to case
- regulatory impact analysis is obligatory only for drafting laws, while the obligation to conduct regulatory impact analysis does not exist when it comes production of by-laws
- Consultative procedure with stakeholders and target groups not regulated enough
- Insufficient availability of valid data on the status and forecasted developments of relevant indicators in areas for which the development is being planned and programmed in public policy documents
- Inefficient system of monitoring and evaluation of effects of public policy documents
- Public policies are mostly developed and implemented without taking into account results of analysis carried out by expert institutes and other organizations from private and civil sector
- Documents of public policy mostly do not contain an assessment of costs for realization of measures and activities (budget) and evaluation of the amount and distribution of benefits from the implementation of the instruments of public policy
- Insufficient analytical capacity in state administration for regulatory impact analysis and related professional tasks and insufficient capacities for planning in public administration organizations
- Inefficient system of professional training of civil servants in the area of regulatory impact analysis;

- Insufficient number of trainings on the topic of regulatory impact held on annual level, due to lack of resources

Overall goal of the Strategy is to develop the system of managing public policies and legislative processes, based on facts and data and the principles of good regulatory practice. The strategy encompasses four specific objectives:

- Improving the public policy management system,
- improving the legislative processes and quality of regulations,
- simplification of administrative procedures, and
- improving the role of citizens and the economy in the system of managing public policies.

Final or key objectives are integrating the distinct elements of planning, budgeting and decision-making regarding public policies into a unified system, as well as achieving a higher quality of regulations and the reduction of administrative costs for businesses and the public. Improving the transparency of the legislative process and increasing the role of representatives of the private and civil sector in the process of adopting public policy.

As a part of Regulatory Reform and the System of Managing Public Policies new regulations have been drafted but not yet adopted. The most important is the Draft Law on Planning System which for the first time regulates planning and policy documents, medium-term planning, policy setting and implementation procedure, reporting, etc. Appropriate bylaws are also in the draft phase (Draft Regulation on Medium-Term Planning and Draft Regulation on Public Policy Management) - Draft Law on Planning System reads that at the proposal of the public authority competent for policy coordination, the Government of the Republic of Serbia shall prescribe in detail, inter alia: the policy management methodology, in particular the scale, process and control of impact assessment in preparing policy documents and regulations, including the modality of conducting consultations on and public reviews of policy documents; the types of policy instruments and the contents and form of policy documents adopted in the policy system management process in the Republic of Serbia; the form and contents of impact assessment reports, which include data on the consultations and public reviews conducted; the form and contents of statements on conformity with the opinion of the public authority competent for policy coordination; the policy documents and regulations which do not require impact assessments; the modality of reporting on the results of implementation of policies and regulations, as well as sectors within which the policy system is managed or medium-term planning performed (policy planning and implementation areas).

RESEARCH FINDINGS

About the research

One of the first FINAC project activities was preparation and organization of the research that would map the current level of knowledge of employees in public administration in the following fields: Financial management and control; Internal audit; Programme budgeting; Budget implementation; Accounting; and Policy management process. This was understood as an important starting point for the Project to get valid findings which will guide the development of new master programmes and in-service trainings so they are tailored to the real needs of public administration and its employees.

This research was designed as a mixed-method research. Quantitative segment had a form of an on-line survey – participants were provided with a link to an on-line questionnaire presented in Serbian language. Qualitative part, in its data gathering segment, was done in a form of semi-structured interviews. The complete questionnaires and interview guides can be found in *Research report 1.1: Albania. Mapping of current level of knowledge of employees in public administration in the field of financial management, accounting and control.*

In on-line questionnaires, for each item (specific work practice) participants were asked to assess to what extent do they need further professional development in order to perform each of the practices more effectively. They could mark one of the provided answers: High level of need; Moderate level of need; Low level of need; No need at all; and the last answer option was This is not relevant for my job position. At the same time participants were asked to state whether they take part in each of the practices listed² (whether they actually perform it, organize it or manage/supervise it). Here, they could mark one of the following answers: Yes, to a greater extent; Yes, to a lesser extent; No; and This is not relevant for my job. The purpose of this question was to assess how often different practices in targeted areas (e.g. financial management and control, programme budgeting) are being exercised.

On-line questionnaires were created using Qualtrics platform (www.qualtrics.com). In Serbia, the survey commenced on April 19th when the Ministry of Public Administration and Local Self-government sent invitation letters with links to on-line questionnaires to contact points in participating institutions. In order to enhance the response rates, the second call for participation was sent by Human Resource Management Service of the Government of the Republic of Serbia on May 20th. Data collection lasted until mid June 2017.

Qualitative part of data gathering was done in the form of semi-structured interviews. Its purpose was to go more in depth of the investigated phenomena. The aim was to capture the perceived purpose and

² Except in a questionnaire that was administered to internal auditors.



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personal meanings that civil servants attach to emerging approaches in public administration – all areas that were subject to investigation in the survey were present as topics in interviews, as well: financial management and control, internal audit, programme budgeting, budget implementation, accounting, and public policy management. The focus of interviews was placed on perceptions of these processes in whole and their specific elements in terms of 1) its effectiveness, 2) biggest challenges, and 3) competencies of civil servants needed to be improved in order to be more effective in the tasks in the given area. Interviews were carried out in the first half of June 2017.

Research was focused on central level of public administration, i.e. civil servants working in public administration organizations. More specific division of target sample of civil servants was influenced by the chosen topics for investigation. Three main sub-samples were defined: general managers³, financial departments' staff (heads of units and subordinate staff), and internal auditors. Accordingly, there was three different versions of on-line questionnaires consisting of a different combination of topics covered, corresponding to the responsibilities of a given type of job.

The sample encompassed four types of public administration authorities: ministries, integrated authorities within ministries, special organizations, and Government's services (offices).

The target sample in fact reflected the whole population of these institutions – and within them the whole population of managers, managers and staff in finance departments (except clerks and junior clerks), and internal auditors. Recruitment of these institutions for participation in this survey firstly was done by the Ministry of Public Administration and Local Self-Government of the Republic of Serbia, and in the second round by the Human Resource Management Service of the Government of the Republic of Serbia. These two institutions have used their internal data base of contact points in all the institutions to send an invitation letter containing a link to on-line questionnaires. In the first round of participants' recruitment those contact points were secretaries of ministries, chiefs of cabinet of ministers, and in the second-round contact persons in human resource departments. Those contact points were asked to disseminate invitation e-mail with a link to on-line questionnaire to all civil servants who satisfy required conditions (that is being a manager / working in finance departments / being an internal auditor).

Having this two-step recruitment process as a consequence had a fact that final number of civil servants who actually get an invitation e-mail is unknown and thus the response rate could not be calculated. More significant note is that the realized sample of civil servants can not be considered as representative for the given populations, so the findings should be understood as indications of certain patterns and with limited generalizability. However, qualitative part of the research strongly validated many of the findings of the quantitative survey, thus providing an argument that survey findings can be regarded as valid. Table 1 presents realized sample in the survey.

³ By managers here we understand those individuals who are responsible for meeting organizational objectives in a specific functional area or line of business, disregarding their position in command hierarchy (ranging from, for instance in a ministry, assistant minister to a manager of the smallest organizational unit).

Table 1. Realized survey sample

Sub-sample	Number of respondents in on-line survey	Number of interviewees
General managers	152	4
Finance departments' staff	58	6
Internal auditors	21	5

In relation to data gathering via interviews, a sample of 15 civil servants came from 6 different ministries, which were chosen in a way to well represent various sectors of public administration: Ministry of Economy, Ministry of Justice, Ministry of Finance, Ministry of Health, Ministry of Education, Science and Technological Development, and Ministry of Public Administration and Local Self-Government. Recruitment of interviewees was done by Ministry of Public Administration and Local Self-Government following defined criteria.

Results

Financial management and control

Results show that **general managers** are more engaged in human resource management, but when it comes to practices which are more closely connected to the other aspects of control environment, or risk management, control activities, and system monitoring and assessment general managers tend to be much less involved or to often express a view that certain practice is not relevant for their job position.

In relation to perceived needs for further professional development, for the majority of practices around 50% of general managers (who see these practices relevant for their job position) stated that they have high or moderate level of need for further professional development in order to perform those practices more effectively. Practices for which general managers have highest need for professional development are in area of 1) human resource management (Reviewing training needs, promotions, and performances of employees and Supervising the employees and providing them with the support they need to perform key tasks) 2) regulating control environment (Preparing detailed descriptions for business processes, including documentation flow, steps in decision-making process, deadlines for job completion and Establishing clear policies on authorizations and approvals of certain activities and transactions in writing), 3) information and communication system (Developing information and communication system that will provide employees with clear and precise directives and instructions on their role and responsibilities concerning financial management and control and Using of the documentation and documentation flow system that includes rules for registration, preparation, flow, use and filing of documents), 4) risk

management (Identifying reputational risks; Developing risk management strategy; and Assessing the risks in terms of their impact and probability) 5) control activities (Performing corrective control activities; Ensuring that the procedures for access to data and records in place and applied; Safeguarding and protecting assets and information from loss, theft, unauthorized or improper use). More than 55% of respondents expressed high/moderate need for professional development as well for the practice Establishing and applying of a reporting system (including levels and deadlines for reporting, types of reports to be delivered to the management and manner of reporting in case of any observed errors, irregularities, funds or information misuse, frauds or illegal activities).

Results show that in the area of control environment and information and communication **managers of finance departments** for a number of practices in financial management and control claimed that they take part in to a greater extent. There is a significant difference between the areas of risk management and control activities in terms of the extent to which the finance managers are involved in - control activities are more often reported as those in which they take part to a greater extent (range from 39% to 67%). In risk management only the processes of identifying risks (financial, operational and reputational) are reported to be present to a greater extent in higher percentages (from 35% for reputational to 58% for financial risks).

Finance managers expressed strong need for professional development in all the practices of COSO framework. In the area of control environment results indicate that, when looking at all practices, 45% to 76% states high/moderate level of need (out of those who see these practices as relevant for their job position). In the areas of risk management and control activities the smallest number of respondents saying that they have high/moderate need for development was observed for Using technique *risk exposure matrix* (46%), and the highest was for Identifying financial risks (79%). For the most practices percentages range between 60% and 70% of respondents reporting high/moderate level of need for professional development.

Interviews conducted with general managers and managers of finance departments indicates that full awareness of the meaning and importance of financial management and control is not widespread in public administration, although it was within the interviewees. In their view, it rather takes a sort of formalized approach - it is rarely seen as a continual process, fundamental public administration approach, but more as something that is done to satisfy external requirements. In other words, public administration organization did complete the maps of business processes, devise new directives, have identified risks, design risk management strategy etc., but this did not have strong impact on daily work of its employees. However, even where this is the case, the very process of creating basic pillars of financial management and control in each organization had positive impact. Moreover, overall perception of more experienced civil servants is that the control environment in public administration is certainly significantly better than it was earlier (e.g. ten years ago) thanks to many different processes of public administration reforms. Managers of finance departments also note that financial management and control is often understood just as a 'matter of finance departments'. Some of them even think that it is unfortunate that the name of the approach starts with a word financial, thus making other civil servants believe that it has only to do with finances, and because of that it is a matter finance specialists. Interviewees also stressed the

importance of quality communication in organization and that it is often an issue that requires significant improvements. In that sense, a crucial role of top managers is emphasized. Moreover it was prioritized that top managers should be very well educated in financial management and control, as they should set the tone and strive to broad acceptance of the approach. This seems not to be happening often and adding to this a fluctuation of management, it brings us to conclusion that training of top management in financial management and control is of paramount importance. Finally, aside of needed widespread awareness raising on financial management and control throughout public administration, interviewees stresses the need for additional trainings and assistance in developing knowledge and skills for establishment of basic elements of financial management and control - especially in the area of risk management and control activities.

Programme budgeting

Programme budgeting was also a topic for which questions were posed both to general managers and finance managers, but also were included other employees of finance departments. Results indicate that a surprisingly high percent of **general managers** do not see programme budgeting to be relevant for their job position. This stands for different aspects of programme budgeting: establishing programme structure, programmes, programme activities and projects, establishing its objectives, establishing different indicators, monitoring, analysis and reporting the results. When thinking about their professional development needs for these programme budgeting practices, 33% to 52% of general managers who understand them as a regular part of their work, expressed that they have high or moderate need for additional training. In other words, managers more often think that they have low level of need or no need at all for further training. Above 50% of high/moderate level of need was observed for the following practices: Analysing how the achievement of the objectives can most appropriately and practically be measured; Defining indicators measuring the quality of services provided; and Reporting the achieved values through the use of selected indicators. For practices that have more to do with financial aspects (examining spending, planning costs, establishing direct and indirect costs) on average about one third of general managers (who perceive them as relevant for their job position) state that they have high or moderate need for further training.

Results for **employees in finance departments** in the area of programme budgeting are largely different then those observed for general managers. The biggest difference can be seen in the percentages of respondents who stated that they are performing the practices to a greater extent, which are significantly more present with employees in finance. Nevertheless, even here findings indicate that there is a substantial number of perceptions that programme budgeting practices are not relevant for their job position.

On the other hand, at least 40% of employees in finance departments (who see these practices as part of their job) stated that they have high or moderate level of need for professional development for all the practices in programme budgeting. The highest needs were expressed for the following practices: Developing budget programme structure; Establishing objectives of a programme; Establishing objectives of a programme activity or project; Defining programme objectives with reference to SMART criteria

(Specific, Measurable, Achievable, Relevant, Time-bound); Analysing how the achievement of the objectives can most appropriately and practically be measured; Defining indicators measuring the quantity or volume of service provided; Defining indicators measuring the quality of services provided; and Defining efficiency indicators used to measure the achievement of results at an appropriate cost.

Interviews with general managers and managers of finance departments showed that they are very knowledgeable and supportive to the programme budgeting approach. They see it as a very instrumental for increase of the transparency and efficiency of public administration. However, it is still rather new approach and there are plenty of challenges to its implementation. Firstly, it is a question of defining the programme structure and general and specific goals. Sometimes there are no updated sectorial or inter-sectorial strategies where the overall goals are explicated. If there are, than the issue is defining specific goals. However, it seems that even bigger challenge is devising appropriate indicators that would be used to monitor and evaluate the progress, especially real performance indicators. They need to be relevant, measurable, available, etc. and that is not always easy to select. Closely connected to this is a new monitoring and evaluation culture programme budgeting brings - performance reporting with financial elements is a novelty in the system and a source of concerns. Another challenge with programme budgeting stressed by interviewees is that it requires very precise planning than earlier line budgeting. Less 'improvisations' is allowed and it dictates the need that managers know exactly not only what they want to achieve, but exactly how to that and to have refined plan for it. Furthermore, programme budgeting necessities better coordination and communication between finance departments and other sectors within an organization than it was traditionally present. All these challenges require additional and extensive further professional development of civil servants if programme budgets are to become effective tool for public administration reform.

Budget implementation and accounting

Respondents (employees in finance departments), expectedly, frequently stated that they are involved in the practices of budget implementation and accounting, often to a greater extent. Nevertheless, for each practice there was a number of respondents who stated that they are not taking part in it or it is not relevant for their job position - an expected consequence of job division within finance departments (e.g. on budget planning, execution and accounting and reporting).

In terms of perceived needs for professional development in listed practices, a range of 24% to 55% of respondents stated that they have high/moderate level of such needs. Among the practices which were most often mentioned as those needed to be developed more are: Preparing budget implementation plans; Preparing drafts of medium-term and financial plan; Preparing proposals for determining priority areas of financing for the budget year and the two following fiscal years; Preparation of reports on budget implementation; Working with Financial Management Information System application run by the Treasury; Producing periodical and annual financial statements and Producing cash flow statements .

When it comes to management accounting - those accounting practices that are dominantly of analytical character and are aimed for informing organizational management - in most of the cases, finance

department personnel stated that these practices are not important part of their work, i.e. most often they are not involved in their implementation or it is not even relevant for their job position. Needs for professional development in this field were less prominent than for previous sets of practices. For all practices claims of high/moderate level of needs ranged from 20% to 53%. The highest level of development need was found for the following practice: Performing cost-benefit analysis and cost-efficiency analysis.

Final topic in this section placed (Table 28). Significant percentages of respondents stated that practices of implementing procedures of financial management of European Union and co-financing funds are not relevant for their job position (percentages ranging from 40% to 45%) or that they are not involved in them (28% to 40%). This signals that finance departments are not participating in any substantial manner in implementing financial management of EU and co/financing funds. When it comes to professional development, between 40-45% of respondents (out of those who think the practice is relevant for their job) report high/moderate need for development for each of the listed practices.

Interviews with managers of finance departments indicate several conclusions. Firstly, budget execution is rather routine activity and was not stressed as an area in need for further improvements. Secondly, the system at the moment is requiring double accounting base to be performed - officially and by law public administration organization are required to follow cash basis accounting principle. On the other hand, a request from the State audit institution is that organizations apply literally accrual accounting approach. Interviewees are of opinion that this needs to be reconciled and are aware of the general reform orientation towards accrual base. In that sense, they are certain that this shift will need to be accompanied with additional training of their personnel. Third conclusion from the interviews is that management accounting is rarely present in public administration organizations. This is partly due to lack of awareness of its importance and partly due to lack of analytical skills in finance departments. Better communication between finance departments and other sectors and top management is required in this context as well. All these challenges could be seen as call for further professional development. Final conclusion from the interviews is that finance departments role in financial management of EU funded projects is very limited. They usually have very technical role, but all the planning and decision making is placed in specific sectors in an organization and centrally in the Ministry of finance.

Managing public policy

Questions about managing public policy were administered only to general managers. Results show that not many managers are taking part in to a great extent policy management process (analysing problems, establishing policy objectives and performance indicators, monitoring and evaluation framework and conducting elements of ex-ante policy impact analysis, etc.) There are a number of practices in this domain for which percentages for answers No (I am not taking part in the practice) and This is not relevant for my job position are relatively high.

When thinking about their needs for professional development, for a number of practices more than 50% of respondents stated that they have high or moderate level of need for professional development:

Analyzing the impact of obligations assumed in the accession to the EU and in other ratified international treaties in the relevant policy area; Assessing the legal framework in the respective area; Performing comparative analyses of problems/solutions for similar issues in other countries; Performing systematic analysis of problems in respective area, including examination of cause and effect relationships; Identifying assumptions/external factors that have the potential to influence (or even determine) the success of a project, but lie outside the direct control of public authority; and Using statistical data and analysis for assessing key issues and associated risks. Also for practices which are framing the processes of establishing objectives of new policies, performance indicators and means and methods for monitoring and evaluation 50% or more of respondents stated that they have high or moderate need for professional development. On the other hand, conducting elements of ex-ante policy impact analysis was somewhat lesser reported as high/moderate need for professional developments.

Interviews with top managers indicate a few challenges for effective policy management. Firstly, investment in public administration capacities to effectively manage public policy is not systemically supported - meaning organizations usually do not have strategic (policy) units, there are no job positions of policy analysts, nor the policy analysis is part of job descriptions of other positions. In other words there are no formal requirements and expectations from civil servants to engage in such important tasks. In that sense, there is no professional ownership over policy analysis and policy development in organizations. Ownership over these processes is additionally hampered by often outsourcing - analytical tasks of this kind are often done by external consultants and through different projects or via numerous ad hoc working groups. This means that there is no continual investments in such capacities of employees in public administration organizations, nor any additional incentives. If we add to that burden of daily duties, it is not difficult to understand why civil servants are not engaged in some substantial extent in policy analysis. When thinking about possible areas of professional development what was stressed were different analytical skills that fall in the realm of policy analysis and project management. The analysis of interviews also showed that among most important challenges in managing public policy are those connected to policy implementation and its monitoring.

Internal audit

Questionnaire covering internal audit was administered only to internal auditors in public administration organizations. In contrast to other questionnaires, this one asked only for perception of professional development needs for varying internal audit practices.

Results show that, in general, internal auditors are frequently of opinion that they need further professional development - on average, this is more frequent than with other investigated subsamples. Only as exception there can be found an internal audit practice for which less than 50% of auditors feel they have high/moderate level of need for professional development. By rule, these percentages are considerably higher. Most notably, internal auditors express the need for professional development in evaluating risk exposures, assessing whether relevant risk information is captured and communicated in a timely manner across the organisation, performing performance audit, performing information system audit, and reviewing whether purchases are done economically, efficiently and effectively - for all these

practices more than 90% of auditors reported high or moderate need for professional development. High/moderate need for professional development in performing audit of programs and projects funded by the European Union is reported by 81% of auditors.

Interviews to a great extent have validated these findings about the areas where the most of further professional development should be directed. When it comes to perception of the internal audit by the rest of the employees in the organization, internal auditors feel that they usually feel sceptical and suspicious, even before they had any contact with the internal audit activities. They perceive internal audit as some sort of “police” which only look for mistakes and has a mandate to punish them. After their first internal audit (and after they learn the fact that there are no legal sanctions for not accepting recommendations given by the internal auditors) employees start to cooperate more and feel more relaxed. They even tend to ask for advice and try to improve their work and system in their unit. This calls for consideration of raising awareness of other civil servants about the importance and benefit that internal audit can provide to their work and performance.

RECOMMENDATIONS FOR NEW CURRICULA

A possible, and widely accepted approach to designing higher education curriculum is a competence based approach, i.e. creation of competence based curriculum. Research performed within FINAC project used a kind of practice-based approach. Each of the FINAC topics (financial management and control, internal audit, etc.) was segregated onto a set of fairly specific practices. However, a relation between a specific work practice and corresponding competencies is overlapping. Competence is ability to deploy a specific combination of psychosocial resources, i.e. knowledge, skills, and attitudes (and values, experiences and the like), needed to effectively respond to a given situation, task or problem. These tasks for which engaged personal resources should provide an adequate answer in our case are in fact these practices which were used as items, stimuli on which respondents did assess their own need for further professional development. These practices should be considered in that respect as expected learning outcomes - student, after earning master degree should be able to effectively perform or adequately contribute, for instance, to proper assessment whether appropriate risk responses are selected that align risks with the organisation's risk appetite or to proper reporting of the achieved values through the use of selected indicators. What kind of knowledge, skills or attitudes are necessary in order to effectively respond to these required practices and will be developed through master programs (i.e. teaching objectives) is out of scope of this research and it is left to the academic expertise of university teachers from regional partners from Serbia and Albania and their counterparts from European Union to decide upon.

In that sense, in this section for each of the main topics that was in the focus of the FINAC research, a set of specific work practices (formulated in terms of learning outcomes) whose importance was surfaced in the research⁴, will be put forward as key learning outcomes which curriculum designers should bear in mind. In sum, it is a large number of work practices / learning outcomes but it is substantially smaller than the full list of work practices used in the research.

Financial management and control

In accordance with the adopted approach of financial management and control in the Republic of Serbia, the curriculum is expected to follow the globally accepted COSO framework:

1) control environment - sets the "tone" of an organization and has an impact on employee awareness about controls. It is the basis for all other components of internal control, providing discipline and structure. Control environment factors include employee integrity, ethical values and expertise,

⁴ Certain practices are more relevant to certain job positions. Here, all the practices that showed to be relevant and important to different subsamples of civil servants were presented.



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management philosophy and workstyle, the way in which the management assigns authority and responsibility, organizes and improves personnel.

2) risk management - includes identifying, assessing and controlling the potential events and situations that can have a negative impact on achieving the goals of the public fund beneficiary, with the task of providing reasonable assurance that these goals will be achieved.

3) control activities - are policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to tackle risks jeopardizing the achievement of the entity's goals.

4) information and communication - should flow down, across and upwards in the organization (and with external parties, as well) to facilitate the running and control of business.

5) system monitoring and assessment - includes introducing a system for overseeing financial management and control by assessing its adequacy and functioning.

All of the above elements of COSO framework consist a number of specific work practices for which to be successfully performed

Table 2. Selected learning outcomes in the area of financial management and control

COSO framework elements	Student should be able to effectively take part in (whether he or she actually performs it, organizes it or manages/supervises it):
Control environment	<ul style="list-style-type: none"> Reviewing training needs, promotions, and performances of employees; Analyzing the needs of employees for training in financial management and control; Supervising the employees and providing them with the support they need to perform key tasks; Segregating duties among the employees; Preparing detailed descriptions for business processes; Establishing clear policies on authorizations and approvals of certain activities and transactions in writing; Documenting all business processes and transactions required for preparing appropriate audit trails;
Risk management	<ul style="list-style-type: none"> Identifying financial risks; Identifying operational risks; Checking whether the risk level is changing;
Control activities	<ul style="list-style-type: none"> Assuring that controls that should minimize the risk are in place and functioning efficiently; Performing directive control activities; Ensuring that financial and other information required for accounting and financial reporting purposes are kept in compliance with the law on the budget and other relevant regulations;
Information and communication	<ul style="list-style-type: none"> Developing information and communication system that will provide employees with clear and precise directives and instructions on their role and responsibilities concerning financial management and control; Using of the documentation and documentation flow system that includes rules for registration, preparation, flow, use and filing of documents;

System monitoring and assessment	Monitoring of control adequacy to provide reasonable assurances that the organization is likely to achieve its objectives; Establishing and applying of a reporting system.
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Internal audit

Curriculum in the area of internal audit should strive to equip students in all the basic elements of internal audit, but substantial emphasis should be placed on teaching students to evaluate risk exposures, to perform performance audit, information system audit, and audit of programs and projects funded by the European Union reviewing whether. In terms of financial audit students should be able to review whether purchases are done economically, efficiently and effectively. Table 3 presents wider set of highly important learning outcomes (as found by the FINAC research).

Table 3. Selected learning outcomes in the area of internal audit

Elements of internal audit	Student should be able to effectively take part in (whether he or she actually performs it, organizes it or manages/supervises it):
Planning internal audit and assessment of organizational objectives	Evaluating the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities; Assess whether the information technology governance of the organisation supports the organisation’s strategies and objectives; Assessing whether organisational objectives support and align with the organisation’s mission;
Assessment of organisation’s stance towards risks	Assessing whether relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff and management to carry out their responsibilities;
Evaluation of risk exposures	Evaluating risk exposures relating to achievement of the organisation’s strategic objectives; to reliability and integrity of financial and operational information; to effectiveness and efficiency of operations and programmes;
Evaluating the adequacy and effectiveness of control in responding to risks	Evaluating the adequacy and effectiveness of controls in responding to risks regarding reliability and integrity of financial and operational information; to risks regarding the effectiveness and efficiency of operations and programmes
Planning and executing individual internal audit engagement	Developing and documenting a plan for each engagement, including the engagement’s objectives, scope, timing and resource allocations; Documenting and filing relevant information to support the conclusions and engagement results (working papers);
Audit reports, recommendations to the management and monitoring the follow up activities	Recommending correcting or changing existing controls for the purpose of improving their effectiveness; Recommending ensuring that existing controls are implemented constantly and consistently; Recommending decreasing (discontinuing) redundant controls;

Performing different types of internal audit	Performing performance audit; Performing information system audit; Performing audit of programs and projects funded by the European Union; Performing financial audit;
Focus on financial audit	Reviewing whether purchases are done economically, efficiently and effectively and reviewing of the completeness, occurrence, measurement, regularity and disclosure of purchases and payments; Reviewing whether non-monetary assets are properly safeguarded, verified and utilised effectively;
Human resource management audit	Reviewing whether there are adequate procedures for monitoring, improving and rewarding performance in the organisation;
Methods and techniques for conducting internal audit	Performing compliance tests; Performing substantive tests; Performing analytical reviews; Conducting interviews as a part of enquiry process;

Programme budgeting

Curriculum in the area of programme budgeting should cover the full budgeting process cycle, from the establishing program structure and its goals, through strong emphasis on defining various types of indicators, planning skills, to monitoring, analysing and reporting the achieved values through the use of selected indicators (Table 4).

Table 4. Selected learning outcomes in the area of programme budgeting

Student should be able to effectively take part in (whether he or she actually performs it, organizes it or manages/supervises it):
Developing budget programme structure
Defining the grounds of a programme and its programme activities and projects.
Describing the programme, programme activity, or project.
Establishing objectives of a programme.
Establishing objectives of a programme activity or project
Defining programme objectives with reference to SMART criteria
Analysing how the achievement of the objectives can most appropriately and practically be measured
Establishing performance indicators which ensure information on the effectiveness and efficiency of programmes, programme activities and projects
Defining indicators measuring the quantity or volume of service provided
Defining indicators measuring the quality of services provided
Defining efficiency indicators used to measure the achievement of results at an appropriate cost
Using logical framework matrix (Logframe) as a tool for programme/project management
Monitoring which allows the collection and provision of information on how a programme, programme activity, or project is implemented against its expected results.
Reporting the achieved values through the use of selected indicators

Reporting on the results of activities carried out over the course of the preceding fiscal year in terms of values achieved as measured by output indicators, including any departures from target values.

Budget implementation, accounting and reporting

This area is fairly diverse and summary of recommendations for it is difficult to provide. Instead, a list of practices which student should be able to perform (aside the basic functions of each field) are presented in the Table 5.

Table 5. Selected learning outcomes in the area of budget implementation, accounting and reporting

Area	Student should be able to effectively take part in (whether he or she actually performs it, organizes it or manages/supervises it):
Budget preparation / implementation	Preparing proposals for determining priority areas of financing for the budget year and the two following fiscal years; Preparing drafts of medium-term and financial plan; Preparing budget implementation plans;
Bookkeeping	Assuring that bookkeeping is made on the basis on reliable accounting business information and valid documents; Controlling the accuracy of accounting records and compliance with procedures established by the regulations;
Reporting	Producing periodical and annual financial statements; Producing cash flow statements; Producing balance sheet;
Management accounting	Assessing financial means required for the realization of each policy measure or regulation; Performing cost-benefit analysis and cost-efficiency analysis; Analyzing non-financial information (with financial information);
Implementing procedures of financial management of European Union and co-financing funds	Implementing procedures of financial management of European Union and co-financing funds; Managing flow and transfer of European Union and co-financing funds; Managing funds of national co-financing (under the management of financial assistance of the European Union);

Policy management process

Curriculum in the area of policy management process should entail developing competencies which are relevant for the whole policy cycle process: agenda setting (identifying problems), policy formulation, legitimation, implementation, and evaluation. Competencies needed for all these elements are quite

diverse and complex, therefore a kind of profiling student abilities and preferences should be taken into account when devising learning outcomes.

Table 6. Selected learning outcomes in the area of policy management process

Area	Student should be able to effectively take part in (whether he or she actually performs it, organizes it or manages/supervises it):
Identifying and defining an issue that needs to be resolved by new policy	Performing systematic analysis of problems in respective area, including examination of cause and effect relationships; Assessing the legal framework in the respective area; Analyzing the impact of obligations assumed in the accession to the EU and in other ratified international treaties in the relevant policy area; Using statistical data and analysis for assessing key issues and associated risks; Performing comparative analyses of problems/solutions for similar issues in other countries; Identifying assumptions/external factors that have the potential to influence (or even determine) the success of a project, but lie outside the direct control of public authority;
Defining general and specific policy objectives and performance indicators	Establishing objectives to be achieved by implementing measures contained in the policy document or policy-implementing regulation; Establishing performance indicators for measuring the efficiency and effectiveness of policy implementation and for monitoring the realization of set objectives; Establishing performance indicators at the level of impact, outcome, and output indicators; Within performance indicators defining the base value (the existing value), target value, and the source of verification for achieved values; Establishing framework for monitoring and evaluating policy implementation and its results; Defining the method for assessing achieved results, or the method for evaluating the efficiency of policy document implementation;
Identifying policy options and analysing its impact	Assessing new policy idea in relation to development policy and priorities and on-going development activities in the country; Examining the effects of considered policy options on the economy in general, and on the certain economic sectors and businesses; Examining legal, organizational, managerial, and institutional aspects of the considered policy options' effects; Comparing the advantages and disadvantages of each analyzed option in order to determine the most efficient one for achieving set objectives, or the one with least disadvantages;
Managing consultations about the new policy	Consulting relevant public administration and state bodies, including civil society organizations and scientific and research organizations.
Monitoring policy implementation and policy impact evaluation	Monitoring the realization of set objectives for each of the defined performance indicator; Employing quantitative techniques such as the cost-benefit analysis and cost-efficiency analysis;

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