



## Global Call for Proposals – SAI Serbia Concept Note

### 1. Concept note proposal and SAI background

<b>1.1 Applicant</b>	SAI Serbia  Application approved by: Dr. Duško Pejovic, Auditor General
<b>1.2 Legal Applicant</b>	SAI Serbia is the legal applicant
<b>1.3 Contact Details</b>	Mr Ivica Gavrilović, Supreme State Auditor for Audit Methodology and Quality Control, Tel: +381 65 3933 051, e-mail: ivica.gavrilovic@dri.rs
<b>1.4 Title and Duration</b>	Capacity Development Support to SAI Serbia, 2019-2021
<b>1.5 Project Purpose</b>	To enhance effective and efficient management and use of public funds in the Republic of Serbia by strengthening audit capacity of the State Audit Institution (SAI)
<b>1.6 Project Outcome</b>	<p>The intended outcome of the project is improved management and use of public funds in the Republic of Serbia, through increase of diversity and number of audit products.</p> <p>This entails:</p> <p><b>Improved strategic and annual planning processes</b></p> <p><b>New types of audit implemented: Environmental audit and IT audit implementation commenced</b></p> <p><b>Developed audit recommendation implementation system</b> which demonstrates values and benefits for citizens</p> <p>Accompanying high-level outcome indicators, including targets, are proposed as:</p> <ol style="list-style-type: none"> <li>1. Policies and Procedures for strategic and annual planning processes drafted by 2020</li> <li>2. Manuals and checklists for IT audit drafted by 2019 and for Environmental audit drafted by 2020</li> <li>3. At least two pilot IT audits performed by 2019 and at least two pilot Environmental audits performed by 2020</li> <li>4. Methodology and manual for calculating effects of audit recommendations drafted by 2020</li> <li>5. New audit recommendation implementation system set up by 2021</li> </ol>
<b>1.7 Problem analysis</b>	SAI Serbia is a relatively young organization, having been established in 2007. It undertakes three types of audits – financial, compliance and performance audits. SAI



Serbia publishes regularly audit reports at the website.

SAI Serbia is embedded into the Serbian Constitution in Articles 92 and 96, stating that “SAI Serbia is the supreme state body for auditing public finances in Serbia, independent and subject to supervision by the National Assembly to which it accounts for its work”. The fundamental law is the Law on the State Audit Institution adopted in 2005 by the Serbian Parliament, with amendments made in 2010. The Law provides the SAI Serbia to conduct its audit activities in compliance with the ISSAI standards.

The Strategic Plan for the period 2011-2015 was not implemented in full, partly because of lack of human resources and partly due to lack of proper monitoring of action plan implementation. SAI Serbia adopts only Annual Audit Program, and not comprehensive Annual Work Program that includes all activities of SAI.

SAI Serbia adopted new Strategic Plan for the period 2016-2020 which did not include all goals and objectives that were not implemented in the previous strategic period. Problems that affected implementation of the previous strategic plan are still present. Current strategic plan is focused on the SAI development, rather than on strategically important fields for the State and the society. For those reasons Strategic Plan cannot be used as an input for the Annual Audit Program.

Systematization Act does not include job position responsible for strategic management, which includes planning and supervising implementation of the SP, the AP and annual plans.

Regarding recommendation implementation, there are lot of recommendations which are currently in progress. SAI Serbia does not have audit recommendation implementation system after completing the audit cycle meaning after receiving response report from an auditee. As a consequence, on average more than 20 percent of audit recommendations are in progress each year. If we do not conduct audit of those auditees again in the next several years, which is more likely, we do not have any information of recommendation implementation.

Public Financial Management Reform Program 2016 – 2020 states that we should have public register of audit recommendations, in order to compare data and analysis of effects of external audit. Such register would significantly facilitate recognition of systemic problems and improve database for parliamentary supervision over government.

A 2017 Assessment Report of Twinning Light Project recommends that:

- The SAI Serbia might consider improving the strategic audit planning process – there seems to be an obvious need to prepare an overall strategy, clearly

defining the scope of mandatory audit work and the priorities for compliance issues.

- The SAI Serbia could develop general guidelines and requirements for sectorial risk assessment for overall audit planning purposes.
- The SAI Serbia might introduce a system for audit work planning, which includes overall assessment of the existing resources, allocation of the resources among audits as well as the deadlines for the most critical audit steps – planning and reporting. The SAI might introduce a resource planning system to identify, how many working hours by certain type of auditors are necessary to perform audits.
- Differing requirements in planning of audit costs for financial / compliance auditing and performance auditing should be avoided.
- Based on the HRM Strategy, the SAI Serbia should establish a detailed manpower plan to define the actual human resource needs of the SAI Serbia to deliver its mandate and to achieve the SP goals. The manpower plan shall be based on overall annual audit planning system that should be improved by introducing adequate strategic planning approach.
- The SAI Serbia might wish to update the Systematization Act by setting responsibilities over strategic management, which includes, but is not limited to planning and supervising implementation of the SP, the AP and annual plans, as well as clarify the responsibility over the QA.
- Human resources allocated to Audit Sectors are quite unbalanced and this raises additional quality risks, - since management models usually differ for differently sized units. Therefore the SAI Serbia might consider reviewing the organizational chart in order to strengthen the management of “over-sized” structural units, for example, by introducing additional management layer.

Against this background, SAI Serbia is trying to develop its capacity and working on amending Systematization Act and organizational structure. SAI Serbia implemented the last development programmes through Twinning Project Audit Quality Control. The next logical stage of development is improvement of the overall strategic planning process in SAI Serbia.

The 2016-2020 Strategic Plan identifies four goals for in respect which activities have already started. The objectives within those goals for which we need assistance are the following:

1. Objective 2.3: To further develop performance audit and raise capacities for carrying out other types of audits
2. Objective 3.1: To develop capacities for strategic and annual planning
3. Objective 4.1: To continually present values and benefits that SAI Serbia



	<p>provides to the Republic of Serbia</p> <p>4. Objective 4.4: To ensure existence of efficient system for following up SAI Serbia recommendations</p> <p>SAI Serbia recognises three categories of capacity development initiatives as a response to these top priorities:</p> <ul style="list-style-type: none"> <li>• COMPONENT 1: Strengthening of strategic and annual planning processes</li> <li>• COMPONENT 2: Developing capacities for audits of specific subjects/new types of audits</li> <li>• COMPONENT 3: Developing audit recommendation implementation system which demonstrates values and benefits for citizens</li> </ul>
<b>1.8 Beneficiaries</b>	The main beneficiary is SAI Serbia. Country Serbia is a Developing Country.
<b>1.9 Financing Sought</b>	The financing sought is US \$ 565 165 over three years, to cover all three components
<b>1.10 Implementing Partner(s)</b>	<p>State Audit Office of Republic of Latvia is proposed as the implementing partner for Component 1 of this initiative. SAO Latvia is suggested to implement Component 1, given the fact that SAI Serbia has already implemented a very successful Twining Light Project with SAO Latvia as the implementing partner.</p> <p>A desired implementing partner for the Component 2 is Office of the Auditor General of Norway, given that OAG of Norway in its Capability Statement stated their expertise in various types of audit, such as environmental audit, IT audit.</p> <p>Proposed implementing partner for Component 3 is Centre for Audit Excellence of the Government Accountability Office (GAO) of the United States of America. The reason behind this proposal is that the State Audit Office of Republic of Latvia had already cooperated with GAO regarding monitoring of recommendation execution and their effects. Also, GAO is one of the leading institutions globally in the area of measuring effects of recommendations.</p> <p>General requirements for the implementing partners will include: experience of providing support to SAIs, developing relevant audit procedures and rolling out through joint audits and on the job training, strengthening SAI governance and corporate support, working with Parliamentary Accounts Committees, experience of public administration and SAI capacity development in the region and ability to deploy experts with appropriate language skills.</p>
<b>1.11 Delivery approach</b>	<p>The implementation of the proposal would require a combination of peer-support, and use of third-party implementers.</p> <p>For component 1, SAI Serbia proposes peer support by State Audit Office Latvia. The</p>

State Audit Office has been successful in supporting SAI Serbia through Twinning Light Project “Audit Quality Control in the State Audit Institution”.

For component 2, SAI Serbia aims to provide professional training to 50 participants (40 participants for environmental audit – particularly regarding role of communal services - and 10 participants for IT audit). Also, at least four pilot audits should be conducted (two for environmental audit and two for IT audit).

Component 3 is suggested to be implemented through peer support, by „Centre for Audit Excellence of GAO USA. Its staff would assist in the implementation of all activities under component 3, and responsibilities would further be identified through a ToR.

**1.12 Alignment with recent or ongoing support projects**

The proposed project is building on the results of the recent Twinning Light Project, and it is aligned with two ongoing support projects carried out by the SAI. After completion of Twinning Light Project, we received recommendations for improving the strategic audit planning process – there seems to be an obvious need to prepare an overall strategy, clearly defining the scope of mandatory audit work and the priorities for compliance issues. That is a clear link with the proposed Component 1 of this Project.

Within the Project “Accelerating Accountability Mechanisms in Public Finances” we are currently mapping audit process for all three types of audit, including recommendation follow-up and quality control, for the purpose of establishing Audit Management System. One of the modules within AMS is planned for measuring effects of recommendation, which is linked to Component 3 of this proposed Project.

Regarding the GGF Project, one of the results is that the SAI will better understand the impact of the performance audits conducted by SAI to date and what works well, and what doesn’t; and to have access to an audit monitoring methodology and manual, which is also linked to Component 3 of this proposed Project.

<i>Name and Brief Description</i>	<i>Duration (Dates)</i>	<i>Funding Provider(s)</i>	<i>Implementing Partner(s)</i>	<i>Budget (USD)</i>
<b>Twinning Light contract “Audit Quality Control at the State Audit Institution”</b>	2017-2018	EU	State Audit Office Latvia	285.000
<b>Accelerating Accountability Mechanisms in Public Finances</b>	2016-2018	SIDA	UNDP	344.000
<b>Improvement of financial accountability of Serbian institutions</b>	2018-	Good Governance	PwC Serbia	Tbc



	through external audit (short title: <b>Financial Accountability</b> )	2019	Fund			
<b>1.13 Existence of SAI-Donor Coordination Mechanism</b>	<p>SAI Serbia has established IPA Unit, chaired by the Head of the Office of the SAI President, which is responsible for initiating, approving and coordination any capacity development projects. The IPA Unit has facilitated entire communication regarding recent projects and programs.</p>					
<b>1.14 Risk assessment of project</b>	<p><u>Critical Risks to Initiative Outputs and Outcomes:</u></p> <ul style="list-style-type: none"> <li>i. There is the risk that SAI management and staff will have limited time for participation in the joint work and workshops</li> <li>ii. There is the risk that manuals for specific audits will not be tested/implemented properly, due to lack of experience in such areas</li> <li>iii. Implementing partners not ready/lack time to provide support</li> </ul> <p><u>Critical Assumptions</u></p> <ul style="list-style-type: none"> <li>i. SAI Serbia and implementing partners are fully committed to engage in providing inputs and all necessary information within the timeframe outlined in this Concept Note.</li> <li>ii. Readiness of the key decision makers (National Assembly) to support project activities</li> <li>iii. Ownership over the project outputs is fully taken on board by the SAI</li> </ul> <p>The IPA Unit Project Manager, responsible for implementation of the Project, will be responsible for risk management regarding this Project.</p> <p>SAI Serbia will adopt a recognised risk management approach that focuses on identification, tracking and mitigating measures for key risks.</p>					
<b>1.15 Monitoring of the project</b>	<p>The IPA Unit provides support to the Auditor General in ensuring effective monitoring, reporting and evaluation.</p> <p>In the first three months of the project, the IPA unit (including implementing partners) will prepare a project work plan and budget identifying key activities and milestones for each component, including responsibilities for each task.</p> <p>6 monthly progress reports will be prepared in advance of each IPA unit meeting, and shared with the funding donors. These will cover:</p> <ul style="list-style-type: none"> <li>• Overall progress against expected outputs and key issues arising</li> <li>• Progress against key milestones under each component</li> <li>• Proposed changes to the project work plan</li> </ul>					



- A financial report, showing use of resources by component, against the project budget

Within three months of the end of each financial year, key outcome indicators (below) will be measured, and progress towards outcome milestones will be reviewed, and the need for changes to the project plan will be considered.

## 2. Project design

### 2.1 Indicate the tangible outputs to be produced by the proposed project.

#### Expected outputs:

#### **Component 1: Strengthening of strategic and annual planning processes**

1.1 New Policies and Procedures for strategic and annual planning processes.

1.2 At least three workshops, in duration of at least two days, for at least 25 participants of SAI Serbia auditors performed.

#### **Component 2: Developing capacities for audits of specific subjects/new types of audits**

2.1 Manuals and checklists for Environmental audit and IT audit drafted.

2.2 At least four consultative meetings.

2.3 At least 40 training hours for at least 50 participants (40 participants for environmental audit – particularly regarding role of communal services - and 10 participants for IT audit).

2.5 At least Two study visits for the SAI Serbia representatives to Norway, one for IT audit and one for Environmental audit (4 working days each, 8 participants per study visit).

2.4 At least four pilot audits (two for environmental audit – particularly regarding role of communal services - and two for IT audit).

#### **Component 3: Developing audit recommendation implementation system which demonstrates values and benefits for citizens**

3.1 New Policies and Procedures for recommendation follow-up.

3.2 Methodology and manual for calculating effects of audit recommendations.

3.3 New methodology and manual for calculating effects of audit recommendations tested on at least 5 audit reports including all three types of audits (financial, compliance and performance audit).

3.4 At least 40 training hours for at least 70 participants for implementing new methodology and manual for calculating effects of audit recommendations.



## 2.2 Group of Activities proposed to deliver the tangible outputs

### Component 1:

- Develop Policies and Procedures Plan for strategic and annual planning processes. Policy and Procedures should be adapted to the specificity of SAI in Serbia
- Workshops and practical trainings adjusted to the needs of SAI Serbia aimed for members of top and middle management

### Component 2:

- Develop Manuals and checklists for environmental audit and IT audit. Manuals should be adapted to the specificity of SAI Serbia
- Meetings with top and middle management
- Workshops and practical trainings adjusted to the needs of SAI Serbia intended for audit staff
- Performing pilot audits in order to test and modify draft Manuals

### Component 3:

- Develop Policies and Procedures for recommendation follow-up. Policies and Procedures should be adapted to the specificity of SAI Serbia
- Meetings with top and middle management and selected auditors
- Workshops and practical trainings adjusted to the needs of SAI Serbia intended for audit staff including top management
- Performing pilot audits in order to test and modify draft Methodology and manual for calculating effects of audit recommendations

## 2.3 Roles of the Applicant and Implementing Partners in the Proposed Project

State Audit Office of Republic of Latvia is proposed as the implementing partner for Component 1 of this initiative. SAO Latvia is suggested to implement Component 1 given their previous experience in supporting SAIs in their early stages of development in the region. Their staff is highly experienced and knowledgeable in strategic planning area.

Office of the Auditor General of Norway is proposed as implementing partner for the Component 2, and their staff is expected to provide assistance in introduction of different types of audits, such as environmental audit and IT audit. Also, OAGN is expected to assist in conducting pilot audits regarding specific topics and in drafting Methodological Guidelines for new types of audits.

Proposed implementing partner for Component 3 is Centre for Audit Excellence of the Government Accountability Office of the United States of America. It is expected that GAO should assist in monitoring of recommendation execution and their effects. Also, GAO could assist in designing recommendation follow-up database.

Key requirements for the implementing partners will include: experience of providing support to SAIs, developing relevant audit procedures and rolling out through joint audits and on the job training, strengthening SAI governance and corporate support, working with Parliamentary Accounts Committees,

experience of public administration and SAI capacity development in the region and ability to deploy experts with appropriate language skills.

## 2.4 Inputs

Inputs are further elaborated in the budget including;

Funding for daily rates for regional or peer experts to deliver support activities under components 1, 2 and 3.

Budget for Flights and accommodation for all experts to deliver activities.

INTOSAI or ISA standards for environmental and IT audits, relevant Global Public Goods and guidance material, as well as training material.

## 2.5 Budget

The costs are budgeted to be USD 189 340 in 2019, USD 284 375 in 2020 and USD 91 450 in 2021, in total USD 565 165.

SAI Serbia Budget									
Budget Head	Description	Units, 2019	Units 2020	Units 2021	Rate, USD	Total, 2019, USD	Total, 2020, USD	Total, 2021, USD	TOTAL BUDGET
<b>Component 1: Strengthening of strategic and annual planning processes</b>									
<u>Flights</u>	Latvia-Serbia round trip, premium economy	8	8		455	3,640	3,640	-	7,280
<u>Other travel</u>	Visa, airport transfers, airport taxes etc.	8	8		150	1,200	1,200	-	2,400
<u>Accommodation and Subsistence</u>									
Short Term	Per night	120	120		180	21,600	21,600	-	43,200
<u>Workshops and Publications</u>	Lump sum	1	2		3,000	3,000	6,000		9,000
<u>Translators fees</u>	< No Pages >	167	172		15	2,505	2,580		5,085
<u>Interpretators fees</u>	< Per day >	24	24		340	8,160	8,160		16,320
<u>Contingency</u>	Funds for unforeseen circumstances					39,200	39,200		78,400
<b>Component 1 Total</b>						<b>79,305</b>	<b>82,380</b>	<b>-</b>	<b>161,685</b>
<b>Component 2: Developing capacities for audits of specific subjects/new types of audits</b>									
<u>Flights</u>	Norway-Serbia round trip, premium economy	9	9		455	4,095	4,095	-	8,190
<u>Other travel</u>	Visa, airport transfers, airport taxes etc.	8	8		150	1,200	1,200	-	2,400
<u>Study visits</u>	Two study visits for the SAI Serbia representatives in Norway, one for IT audit and one for Environmental audit (4 working days each, 8 participants per study visit).	1	1		14,550	14,550	14,550	-	29,100
<u>Accommodation and Subsistence</u>									
Short Term	Per night	130	130		180	23,400	23,400	-	46,800
<u>Workshops and Publications</u>	Lump sum	3	3		3,000	9,000	9,000		18,000
<u>Translators fees</u>	< No Pages >	246	312		15	3,690	4,680		8,370
<u>Interpretators fees</u>	< Per day >	25	25		340	8,500	8,500		17,000
<u>Contingency</u>	Funds for unforeseen circumstances					45,600	45,600		91,200
<b>Component 2 Total</b>						<b>110,035</b>	<b>111,025</b>	<b>-</b>	<b>221,060</b>
<b>Component 3: Developing audit recommendation implementation system which demonstrates values and benefits for citizens</b>									
<u>Flights</u>	USA-Serbia round trip, premium economy		6	6	1,140	-	6,840	6,840	13,680
<u>Other travel</u>	Visa, airport transfers, airport taxes etc.		6	6	150	-	900	900	1,800
<u>Accommodation and Subsistence</u>									
Short Term	Per night		90	90	180	-	16,200	16,200	32,400
Long Term	Per month		12	12	2,000	-	24,000	24,000	48,000
<u>Workshops and Publications</u>	Lump sum		3	3	3,000	-	9,000	9,000	18,000
<u>Translators fees</u>	< No Pages >		182	214	15	-	2,730	3,210	5,940
<u>Interpretators fees</u>	< Per day >		18	18	340	-	6,120	6,120	12,240
<u>Contingency</u>	Funds for unforeseen circumstances					-	25,180	25,180	50,360
<b>Component 3 Total</b>						<b>-</b>	<b>90,970</b>	<b>91,450</b>	<b>182,420</b>
Contingency						10,000	10,000	10,000	30,000
<b>PROJECT TOTAL</b>						<b>189,340</b>	<b>284,375</b>	<b>91,450</b>	<b>565,165</b>
<b>FINANCING</b>									
Net funding applied for (100%)						189,340	284,375	91,450	565,165