

PIFC Conference – 4 October 2017

Check against delivery

Dear Minister of Finance, Minister for European Integration and Minister for Labour and Employment,

Distinguished colleagues,

Ladies and gentlemen,

Today's conference objective is to promote the implementation of the new Public Internal Financial Control strategy 2017-20 as a key part of the negotiation Chapter 32 on financial control.

This chapter in turn is an integral part of general public administration reform efforts.

Internal control reform might sound to the ordinary citizen an abstract and technical concept but in reality - without an appropriate internal control culture and procedures - a government cannot ensure fair treatment and best value for money with its public investments and prevention of corruption in public sector will simply be not possible.

Those are elements that matter to the people

This is the reason why public sector internal control needs to remain high on the political agenda during the accession process.

Ladies and Gentlemen,

Let me go a little more in the specific

The EU opened the accession negotiations on Chapter 32 with Serbia almost two years ago, in December 2015. But in reality the EU has worked with

Serbia earlier than that on the key part of this negotiation chapter, Public Internal Financial Control.

What Public Internal Financial Control reform in short means is that senior managers in ministries and state administration bodies - at regional and local level as well as in state-owned enterprises - set up an internal control system in their institutions that helps them to ensure achievement of organisation's objectives and management of all the operational risks while ensuring that there is no mismanagement or misuse of taxpayers' money.

Managers are supported in this permanent task by functionally independent internal auditors in their institutions.

The Central Harmonisation Unit in the Ministry of Finance gives methodological guidance to managers to ensure that a coherent Public Internal Financial Control system is set up across the Serbian public

sector in line with the internationally recognised frameworks and standards.

When the accession negotiations were opened, some might have thought that this chapter would be quickly closed.

The reality however is that while some technical progress has been achieved, especially by the Central Harmonisation Unit - such as establishing the legal framework and putting in place procedures and training internal auditors – there is still ample margin to improve managerial accountability and modern internal control culture in the Serbian public administration.

According to global standards managers should have as their primary goal the **efficient achievement of organisation's objectives.**

The managers should set and continuously monitor internal control with this primary goal in mind.

Internal control should be seen as a tool to help managing operational risks, avoiding waste, irregularities and mismanagement of funds.

Internal auditors should assess the functioning of the system and support managers to make adjustments, where necessary.

It appears however that the main problem in Serbia is that most public sector managers still take a very mechanistic and formalistic approach to internal control.

Public sector managers seem focusing exclusively **on legality and regularity of their institution's operations, without paying attention** to managing operational risks.

This mind set – encouraged by the fact that operational objectives and expected results are often not made public and therefore highly decreasing the possibility of accountability - the output is highly reduced to detecting individual errors, often after mistakes have already happened, in order to ensure legality and regularity.

Internal auditors therefore end up often doing inspection type audits rather than audits that would help managers to improve their internal control system.

This is a critical area already flagged in the Commission's 2016 enlargement report which says *"Significant efforts are needed to implement managerial accountability and internal control at all levels of the administration and state-owned enterprises."*

Ladies and gentlemen

Today's conference is an important stock-taking moment. We need to learn from the past to improve performance in the future. We need to realise that so far we have achieved only limited technical results as most public sector managers struggle to understand, what managerial accountability really means and the need to move forward.

The EU is here today to signal **strong support** for the implementation of the Public Internal Financial Control Policy paper for the period 2017-2020.

This strategy is very different from the earlier strategies in this area.

For the first time, it clearly places public sector internal control in the overall public administration reform context, in line with the Rule of law approach.

This strategy together with the Strategy for the Reform of Public Administration and the Public Financial Management Reform Programme 2016-20 provide a **clear vision and direction for public administration reform in Serbia.**

They aim to establish all the necessary preconditions for responsible and accountable management in public sector.

I am very encouraged by Serbia's commitment to a fundamental **management reform** which aims to introduce a **new administrative culture and better understanding what managerial accountability really means.**

It is therefore very important that **Ministry of Finance** and **Ministry of Public Administration and Local Self-Government** work very closely and coordinate all these reform efforts with all other ministries and public administration bodies and lead by their own

example by starting to implement internal control differently.

Cooperation with the State Audit Institution, which regularly assesses the weaknesses of internal control in public administration, as part of their regular audit work remains very important.

We are well aware that the implementation of public internal financial control is a complex and long-term process, especially now that there is a clear understanding that public internal financial control cannot be isolated from the general public administration reform efforts.

We will continue to support you in this process, through OECD/Sigma, and through an EU funded twinning support.

We are very happy to have our colleagues from the French administration actively providing critical hands on assistance in the coming period.

The European Commission (DG Budget and DG NEAR) have given very active support and valuable advice in the process of policy drafting. They remain committed to provide strategic support throughout the implementation.

Ladies and gentlemen,

The EU strongly welcomes that Serbia has decided to move away from pure legality and regularity considerations and input focused management towards efficiency and effectiveness considerations and result focused management.

At the centre of these efforts is the public internal financial control reform whereby the focus is placed on managers' responsibility within each organisation

to ensure a proper financial management and control system, supported by internal audit function.

The main requirement for success of this reform is active high level political support. It is now important to set the "tone at the top" and ensure that main targets of the new strategy are sustained by political will.

This reform – as technical as it might appear – is integral part of the public administration reform and economic governance – a fundamental in the accession process.