

ANNEX 8. EC Progress Report - Juxtaposition with countries in the region

Progress Report 2021	Albania - Open Accession Negotiation in 2020	North Macedonia - Open Accession Negotiation in 2020	Montenegro - Accession negotiations opened in 2012	Serbia - Accession negotiations opened in 2014	Turkey - Accession negotiations opened in 2005	Kosovo (Potential Candidate Country)	Bosnia and Herzegovina (Potential Candidate Country)
<p><b>Chapter 32 Objective</b> The EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the Euro against counterfeiting.</p>							
<b>EC Assessment</b>	<b>Moderately prepared</b>	<b>Moderately prepared</b>	<b>Moderately prepared</b>	<b>Moderately prepared</b>	<b>A good level of preparation</b>	<b>Some level of preparation</b>	<b>At an early stage of preparation</b>
<b>Summary 2021 / Progress</b>	Some progress was made in 2020: The approval of a policy document for the strengthening of public internal financial control (PIFC), instructions on delegation of financial responsibilities, guidelines for the monitoring and reporting on follow-up of internal audit recommendations, and revision of external audit quality control and quality assurance procedures.	Limited progress was made in 2020: The improvement of the internal control system and managerial accountability in budget users on central and local level.	Some progress was made in 2020: The development of new strategies improving governance and public internal financial control. The SAI considerably improved its capacities and procedures and set the basis for a more efficient follow-up of audit recommendations and for a more open and transparent communication with the Parliament and with the general public. Some progress was also made on managerial accountability.	Good progress was made in 2020: The EC's recommendations were largely implemented. A new mid-term approach on public internal financial control (PIFC) has been developed. Building on the lessons learned from 2019 pilot projects on managerial accountability, all the relevant guidelines were developed and implementation has started. Guidelines for reporting of irregularities and handling of exceptions were updated in 2020.	Limited progress was made in 2020: Last year's recommendations were not addressed. Audit reports of the Turkey Wealth Fund (TWF) were published on its website, and some companies of the Fund are directly audited by the Turkish Court of Accounts (TCA).	Some progress was made in 2020: On addressing remaining gaps in the implementation of primary and secondary legislation on public internal financial control.	Some progress was made in 2020: In developing and adopting strategies on public internal financial control in all entities.
<b>Summary 2021 / Gap Analysis</b>	Partial progress was made with the Commission's 2020 recommendations. The proper and effective functioning of internal control is not yet ensured across budget entities.	The implementation of the public internal financial control (PIFC) policy paper and action plan has been delayed due to the COVID-19 crisis and limited capacities of key stakeholders. The functioning of the financial inspection is not sufficient. The independence of the State Audit Office (SAO) is not yet guaranteed by the Constitution. The parliamentary oversight of public funds management is not efficient yet.	Further efforts are needed to apply managerial accountability and strengthen the functioning of internal control and internal audit in public bodies and in state-owned companies. A centralised budget inspection function is not operational yet. The coordination capacity of the National Anti-fraud Coordination Service should be further strengthened.	High-level political support remains critical for the required shift to performance management and implementation of PIFC reforms in entire public sectors. Further work on putting in place a comprehensive system for detecting and handling irregularities is required. Additional efforts are needed to embed managerial accountability in the administrative culture and to strengthen the functioning of internal control and internal audit.	The TWF remained not fully subject to the direct audit by the TCA. The anti-fraud coordination service (AFCOS) network has yet to be re-established. The purpose, authority and responsibility of internal audit is undermined by the absence of a legal requirement to have internal audit units in Ministries. Last year's recommendations remain valid.	High level political support is needed for the implementation of appropriate internal controls at all levels of the administration. The functioning of internal control and audit and the timely implementation of internal and external audit recommendations needs to be strengthened.	All central harmonization units need to continue strengthening their capacities and monitor the effectiveness of internal control functions in the public sector, with particular attention to the risk management and internal audit functions. The financial and operational independence of supreme audit institutions must be ensured in practice. Bosnia and Herzegovina should improve the quality of their audit reports, and step up their communication efforts to reinforce the public awareness of their work.
<b>Recommendations:</b>	<ol style="list-style-type: none"> <li>1. Implement the instructions on financial delegation of responsibilities and issue instructions on delegation of management responsibilities with a view to improve managerial accountability;</li> <li>2. Monitor and follow up the implementation of recommendations made in the annual PIFC report across budget entities;</li> <li>3. Increase parliamentary scrutiny of audited bodies in the implementation of external audit recommendations, through more frequent parliamentary hearings and the establishment of a parliamentary monitoring framework to regularly assess government's follow-up action.</li> </ol>	<ol style="list-style-type: none"> <li>1. Adopt and efficiently implement the new PIFC law and methodological tools in order to ensure improved transparency, managerial accountability and sound management of public funds;</li> <li>2. Establish and ensure the efficient functioning of the anti-fraud coordination (AFCOS) network and improve the prevention, management and reporting of irregularities.</li> <li>3. Enhance the co-operation between State Audit Office (SAO) and Parliament and improve parliamentary scrutiny of budget implementation and follow-up of SAO audit recommendations;</li> </ol>	<ol style="list-style-type: none"> <li>1. Operationalise the centralised budget inspection function in the Ministry of Finance;</li> <li>2. Steer and strengthen the application of managerial accountability in public administration;</li> <li>3. Further align with the EU acquis on the fight against fraud to the Union's financial interests.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ensure full coherence of PIFC legal basis with the horizontal legal framework;</li> <li>2. Start implementing peer reviews of internal audit arrangements within public funds beneficiaries;</li> <li>3. Establish an effective internal audit function in all central budget institutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Update the Public Internal Financial Control policy paper and its action plan and ensure that a formal coordination, monitoring and reporting framework is put in place for the updated action plan;</li> <li>2. Re-establish the AFCOS network and adopt a national anti-fraud strategy;</li> <li>3. Reconsider the arrangements that would include municipalities and state-owned enterprises in the treasury single account.</li> </ol>	<ol style="list-style-type: none"> <li>1. Integrate all elements of the PIFC strategy in the new public finance management strategy 2022-2026, and finalise the corresponding PIFC Action Plan;</li> <li>2. Improve accountability by aligning special laws with the overarching Law on the organisation and functioning of the state administration and independent agencies, and clarify the accountability lines within and between public institutions;</li> <li>3. Improve more systematic and timely implementation of external audit recommendations, especially with regard to performance audits that have been undertaken in recent years.</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue with the implementation of the recently adopted PIFC strategies;</li> <li>2. Improve the quality of the monitoring framework on public internal financial control and the implementation of the PIFC report recommendations across budget entities;</li> <li>3. Ensure the functional, financial and operational independence of supreme audit institutions at all levels of government and improve the impact of SAIs work through communication strategies 2021-2025.</li> </ol>

Source: European Commission. Note: The scores in the table are based on the EC's assessment of a country's preparedness to adopt the obligations of EU membership according to the following description:

(1) early stage, (2) some level of preparation, (3) moderately prepared, (4) good level of preparation, and (5) well advanced.