

Jelena Kostić\*

**INTEGRITY OF PUBLIC FINANCES AND CONTROL OF  
PUBLIC SPENDING THROUGH THE PRISM OF THE RIGHT  
TO AN ADEQUATE STANDARD OF LIVING**

*The right to an adequate standard of living was first introduced by the Universal Declaration of Human Rights. It implies the satisfaction of the basic life needs of an individual in relation to food, clothing and housing, preserving his dignity without being exposed to humiliation, such as prostitution, begging etc. Its protection in practice largely depends on the level of wealth of a society. Nevertheless, some minimum standards accepted by international documents should be met in practice. The right to an adequate standard of living has great significance for both the individual and the community. Its realization enables individual social integration, because it refers primarily to the most endangered categories of the population. That is why it is necessary to provide sufficient funds in the state budget, in order to enable effective protection of the right to an adequate standard of living for all citizens. The author starts from the assumption that the realization of the right to an adequate standard of living is often endangered due to inadequate budget policy. Through analysis the content of various international and national documents, as well as using the dogmatic legal method, author seeks to make recommendations for the improvement of budget policy in order to more effectively protect the right to an adequate standard of living in the Republic of Serbia.*

**Keywords:** *protection, right, adequate standard of living, budget*

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\* PhD, Senior Research Fellow, Institute of Comparative Law, Belgrade, email: j.kostic@iup.rs.

## 1. Introduction

The integrity of public finances is an important precondition for the realization of the right to an adequate standard of living. It implies the existence of a balance of budget revenues and expenditures in order to achieve all the goals and priorities of a country in accordance with the plan and within the deadlines. Therefore, it is necessary to establish and take the necessary measures at the national level to enable their implementation. These measures include the establishment of risk reduction mechanisms that may adversely affect their implementation in practice. These include measures that affect the reduction of tax evasion, as well as measures that affect the legal and efficient control of public spending, reducing corruption and money laundering. Illegal activities have a negative impact on budget resources and prevent their investment in priority areas. Therefore, increasing transparency and accountability in the public sector is important for the prevention of such behavior.

The right to an adequate standard of living was first established by the Universal Declaration of Human Rights. Article 22 of the above-mentioned Declaration defines it as the right of every member of society to social insurance, the right to realize economic, social and cultural rights necessary for personal dignity and free development of personality, and with the help of the state and through international cooperation (Ćorić, 2020; Simović, Simović, 2020). However, that depends on the organization of the state, as well as on the resources at its disposal (Article 22 of the Declaration) In addition, the Declaration stipulates that everyone has the right to a standard of living that ensures the health and well-being of each individual and his family, including food, clothing, housing, medical care and necessary social services, as well as the right to unemployment insurance, sickness, disability, widowhood, old age or other cases that may lead to the loss of means of subsistence caused by circumstances independent of his will (Article 25 of the Declaration).

During unforeseen circumstances, the realization of the right to an adequate standard of living is a great challenge for every state. In such situations, it is necessary to find appropriate mechanisms for overcoming the unfavorable situation. One such circumstance was a pandemic caused by the COVID-19 virus (See: Tilovska-Kechedji, 2020: 618). Therefore, the international community has tried to define in its documents the recommendations for the countries that are currently facing and will be faced with the negative economic consequences caused by the pandemic.

There is no strategic approach to poverty reduction in the Republic of Serbia. The last strategy was adopted 2003. Given global trends, that should be established. The United Nations Committee on Economic, Social and Cultural Rights takes the view that poverty should not only be limited to a lack of income, but also to the possibility of living with dignity due to lack of resources and the ability to achieve adequate living standards and civil, cultural, economic and social rights. It is precisely the lack of state resources that reduces the ability to choose, security and the ability to achieve an adequate standard of living, and thus the enjoyment of civil, cultural, economic, political and social rights (United Nations – Committee on Economic, Social and Cultural Rights, Substantive Issues Arising in the Implementation of The International Covenant on Economic, Social and Cultural Rights: Poverty and the International Covenant on Economic, Social and Cultural Rights, 2001: 1, 2 and 3; Sekulović, 2020: 3 and 4).

In the first part of the paper, we will analyze the mechanisms for protecting the right to an adequate standard of living, then the content of various national and international documents, as well as regulations and practices at the level of the Republic of Serbia important for protecting the integrity of public finances. adequate standard of living.

## **2. The realization of right to an adequate standard of living**

The Universal Declaration of Human Rights stipulates that in addition to rights, each individual has obligations to the community that allow the free and full development of his personality, and that in exercising their rights and freedoms everyone may be subject only to such limitations as are required by law. and respect for the rights and freedoms of others and the common good and in order to meet the just demands of morality, public order and general well-being in a democratic society (Article 29, paragraphs 1 and 2 of the Declaration). Accordingly, citizens have the right to give up part of their income in order to ensure the rights and freedoms of others and general well-being in society. The rights to social security and the right to exercise economic, social and cultural rights are conditioned, among other things, by the means at the disposal of the state. That is why it is necessary to establish an adequate level of responsibility of each individual at the state level in order for it to be realized in practice.

The right to an adequate standard of living is also defined in the Charter of Economic, Social and Cultural Rights. This right implies the satisfaction of the basic needs of the individual in relation to food, clothing and housing, while preserving his dignity (without exposure to humiliation such as prostitution, begging, etc.). That would mean living above the poverty line in any particular society. Of course, as societies differ in the degree

of wealth, it is clear that this border differs from country to country. However, some minimum standard at the state level must exist in order for the right to an adequate standard of living to be realized in practice (Paunović *et al*, 2007: 271). This right is at the core of the entire human rights system, which is based on the idea that all human beings are equal in dignity and rights and that they treat each other in a spirit of solidarity. This right enables individual social integration, because it primarily refers to the most endangered categories of the population. (*Ibid*, 271 and 272).

Human rights are protected by various mechanisms (Paunović *et al*, 99). In order to achieve an adequate system of protection of these rights, it is necessary that individuals have both obligations and responsibilities towards the state. Such an approach is contained in theories based on the existence of a social contract. According to these theories, humans were autonomous and sovereign beings in a natural state. By joining the community, a contract was concluded, by which they renounced some of their powers in favor of the state, while retaining some of their rights (Dimitrijević *et al* 1997: 47 and 48). The rights that people have renounced in favor of the state are obligations to the state, and those that have retained human rights that have been proclaimed by international and national documents (*Ibid.*, 370-371). In this way, an opportunity is created for the efficient allocation of resources that enable the realization of the right to an adequate standard of living, but also the realization of social rights. The realization of the right to an adequate standard of living should be given priority when planning public spending, but care should be taken to minimize the risk of exercising that right during public spending. In this way, an opportunity is created for the efficient allocation of resources that enable the realization of the right to an adequate standard of living, but also the realization of social rights.

During 1997, the Maastricht guidelines on the violation of economic, social and cultural rights were adopted. According to mentioned document, violation of these rights means the reduction or redirection of certain public spending, when it results in the non-exercise of such rights as well as situation when no measures are taken to ensure minimum subsistence rights. Therefore, the state should influence the alleviation of inequality as much as possible with its fiscal policy. Increasing transparency and accountability in public financial management is also important for the realization of that goal. This should include not only responsibility for public spending, but also responsibility for planning, public revenues and expenditures, discussion in the assembly, as well as responsibility when adopting the budget (Item 14, sub-item d) of the Maastricht Guidelines on Violations of Economic, Social and Cultural Rights). Such views are also contained in

the report of the United Nations Committee on the importance of financial integrity for sustainable development of 25 February 2021.

### **3. United Nations report and the situation at the national level**

The United Nations Report on Financial Integrity and Sustainable Development from 2021 states that deficiencies in regulations and their implementation enable tax abuse, corruption and money laundering. Such activities not only reduce trust in the work of public institutions and consume resources, but also increase poverty. Concerns have increased especially after the pandemic caused by the COVID-19 virus, which in itself has an impact on social inequalities. As a result, there is a need to protect the economy and reduce poverty both globally and nationally. The need to strengthen financial integrity was emphasized as a priority, which is of special importance for sustainable development and financing the goals necessary for its realization. During the pandemic, budget revenues were reduced due to reduced economic activity, and public spending increased due to investments in health and social protection (Financial Integrity for sustainable development, Report, 2021: 15T). The World Bank estimates that another 176 million people will become extremely poor due to the crisis caused by the pandemic. The economy has recently been affected by a lack of investment, but also jobs, especially in developing countries (*Ibid*, 16). In order to reduce poverty, it is necessary for various institutions to act at both the international and national level, and without that there is no realization of the right to an adequate standard of living. Of importance for the above, the report states the need to strengthen the integrity, improve policies and work of institutions at the national level, as well as the involvement of civil society organizations. The World Bank estimates that another 176 million people will become extremely poor due to the crisis caused by the pandemic. The economy has recently been affected by a lack of investment, but also by jobs, especially in developing countries. In order to reduce poverty, it is necessary for various institutions to act at both the international and national level, and without that there is no realization of the right to an adequate standard of living. Of importance for the above, the report states the need to strengthen the integrity, improve policies and work of institutions at the national level, as

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The recommendations contained in this document are in line with the document Agenda for Sustainable Development until 2030 of the United Nations, which defines seventeen goals necessary for the development and improvement of living conditions at the global level. As an important precondition for reducing poverty, it recognizes the need to improve the health and education system, reduce inequality and improve economic development.<sup>1</sup>

According to the provisions of the Constitution, the provisions on human and minority rights are interpreted in accordance with international standards and the practice of international institutions that supervise their implementation. Therefore, national authorities are obliged to apply them in the manner prescribed by international legal acts. However, according to reports on the application of e.g. The International Covenant on Economic, Social and Cultural Rights, has not been directly applied by the Republic of Serbia. According to international documents, when certain measures are necessary to achieve the consequences of crises, wars or lack of public resources for the realization of economic and social rights, the obligations of the state must be in accordance with Article 2 (1) of the International Covenant on Economic, Social and Cultural Rights. Thus, states have an obligation to make maximum use of available resources for the progressive realization of economic and social rights (Trifković *et al*, 2020: 10).

Regarding the fiscal system of the Republic of Serbia in the period 2012-2020, it was noted that the system of protection of economic and social rights has not been improved, and that fiscal consolidation measures have not been in line with state obligations under Article 2 of the Covenant on Economic, Social and Social Rights. and cultural rights. Therefore, citizens turned to independent state bodies to protect these rights. The

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<sup>1</sup> The agenda was adopted in New York at a UN meeting held on September 25-27, 2015. The goal of its adoption was to promote development in the field of economy, social protection and environmental protection at the global level. Text is available at: <https://sdgs.un.org/2030agenda>, Accessed 20.8.2021.

Commissioner for the Protection of Equality stated in his annual report that numerous complaints relate to the area of labor and employment, a total of 20.8%, and to the area of social protection 13.1%. A similar situation was observed in the execution of the Protector of Citizens. The largest number of complaints sent by citizens (a total of 36, 55%) was sent to the Department for the Protection of Economic and Property Rights, and 14.4% to the Department for the Protection of Social and Cultural Rights. All this indicates that at the national level there was no possibility for a higher level of realization of the right to an adequate standard of living in the observed period (*Ibid*, 7; Abridged Regular Annual Report of the Commissioner for the Protection of Equality for 2018, 2019: 12 and Regular Annual report of the Protector of Citizens for 2018, 2019: 13 and 14).

At the level of the Republic of Serbia, a problem was noticed in connection with certain measures that had a negative impact on the social and economic rights of individuals. An example is the adoption of the Law on Temporary Regulation of the Manner of Payment of Pensions. In order to reduce the budget deficit, the said Law prescribed to reduce pensions for all pensioners who had incomes above 208 euros at that time. However, pensions are not related to the budget, but to public funds. They represent income related to contributions paid into the pension fund. The problem of this measure was reflected in the fact that the law did not establish any mechanism of compensation for the reduction of income, and these reductions were introduced without the right to a legal remedy. Criticism of such a solution is the fact that the circumstances of the individual were not taken into account and that the impact of such a reduction on the exercise of other rights was not assessed. The right to social security, which is an inseparable component of the right to an adequate standard of living, includes the right not to be subjected to arbitrary and unreasonable reductions in social benefits. When it comes to the reduction of pensions, which lasted for four years, the criticism of the lack of a periodic assessment of the justification and proportionality of the reduction is justified (Trifković *et al*, 23).<sup>2</sup>

#### **4. The role of the Fiscal Council and the assessment of economic measures during a pandemic**

Certain social and economic rights are often severely restricted when there is a budget deficit at the national level. The danger of creating a budget deficit is sometimes threatened by inadequate social and economic policy measures. Therefore, a significant

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<sup>2</sup> Law on Temporary Regulation of the Manner of Payment of Pensions, *The Official Gazette of the Republic of Serbia*, no 116/2014).

role in assessing the economic effects of certain measures should be played by the Fiscal Council, which was established by the amendments to the Law on Budget System from 2010 as an independent state body responsible for its work to the National Assembly. The competence of the Fiscal Council is reflected in the assessment of national fiscal policy in order to ensure compliance with fiscal rules, transparency and accountability in conducting fiscal policy, assessment of economic policy and assessment of fiscal risks. The role of this body is of special importance during the preparation and adoption of the budget through the preparation of opinions on the draft Report on Fiscal Strategy, analysis of draft budget laws, draft laws on final budget accounts and preparation and assessment of fiscal impact of various laws.<sup>3</sup>

During the pandemic at the national level, certain economic measures were taken by the state. However, the Fiscal Council assessed that the non-selective payment of financial aid to citizens during 2020 and 2021 was problematic for the state budget. According to the Government, the measures taken were assessed as a significant fiscal incentive to increase domestic demand. In contrast, the Fiscal Council assessed them as inefficient and very expensive. During 2020, the total amount of non-selective cash payments amounted to 72 billion dinars, ie. 610 million euros, and during 2021 over 50 billion dinars, ie. 440 million euros. According to the Fiscal Council, the budget did not have these funds at its disposal, but the expenditures were financed by government borrowing. Therefore, taking such measures was a big expense for the budget (Fiscal and Economic Analysis of Nonselective Cash Payments to Citizens, 5<sup>th</sup> of May 2021: 1).<sup>4</sup>

The economic measures taken during the pandemic caused by the COVID-19 virus were assessed as inadequate from the point of view of social policy. The Fiscal Council stated that payments cannot solve the problem of inequality and poverty, which are permanent, because the same funds in the same amount are allocated to poor and richer citizens. According to the Fiscal Council, it is justified that the budget funds be used to reduce the economic damage for the most endangered citizens and the economy affected by the crisis. In this regard, the said body supports a temporary increase in the budget deficit and public debt. Although mitigating the consequences of the pandemic and the economic consequences for the economy and the population was a big expense for the budget, it is justified to allocate part of these funds for financial support, ie. tax relief for the

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<sup>3</sup> The position, powers and responsibilities of the Fiscal council are defined in Articles 92a-92i of the Law on Budget System, *Official Gazette of the Republic of Serbia*, no 54/2009...149/2020).

<sup>4</sup> Available at: [http://www.fiskalnisavet.rs/doc/analize-stavovi-predlozi/2021/FS\\_Analiza\\_neselektivnih\\_isplata\\_gradjanima\\_maj\\_2021.pdf](http://www.fiskalnisavet.rs/doc/analize-stavovi-predlozi/2021/FS_Analiza_neselektivnih_isplata_gradjanima_maj_2021.pdf). Accessed 20.8.2021.



economically vulnerable population and economy. These measures should be of a temporary nature. In the opinion of the Council, it was justified to postpone certain tax obligations for companies and the population that are not able to pay those obligations with a one-time and limited financial assistance to the most vulnerable population. It is justified to allocate part of these funds for financial support, ie. tax relief for the economically vulnerable population and economy. These measures should be of a temporary nature. In the opinion of the Council, it was justified to postpone certain tax obligations for companies and the population that are not able to pay those obligations with a one-time and limited financial assistance to the most vulnerable population. It is justified to allocate part of these funds for financial support, ie. tax relief for the economically vulnerable population and economy. These measures should be of a temporary nature. In the opinion of the Council, it was justified to postpone certain tax obligations for companies and the population that are not able to pay those obligations with a one-time and limited financial assistance to the most vulnerable population (The State's Debt for Effective Rehabilitation of the Economic Consequences of the Crisis is justified, 20<sup>th</sup> of March 2020: 2).<sup>5</sup>

The draft of the new fiscal strategy of the Government was positively assessed by the Fiscal Council. Although its goals have been assessed as achievable, their realization depends on the Government's determination to implement them consistently in practice. The strategy envisages responsible conduct of fiscal policy and gradual reduction of the budget deficit. However, in order to achieve the goals defined by the said Strategy, it is necessary to increase control over current budget expenditures (pensions, salaries, subsidies and procurement of goods and services). This would have a positive effect on reducing the budget deficit and improving the realization of the right to an adequate standard of living. However, the implementation of these controls depends on the capacity of national institutional mechanisms for external and internal control of public spending (Opinion on the Draft Fiscal Strategy for 2022 with Projections for 2023 and 2024, 28<sup>th</sup> of May 2021: 1).<sup>6</sup>

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<sup>5</sup> Available at: <http://www.fiskalnisavet.rs/doc/analize-stavovi-predlozi/2020/FS%20-%20Saopstenje%2020.03.2020.pdf>. Accessed 20.8.2021.

<sup>6</sup> Available at: [http://www.fiskalnisavet.rs/doc/ocene-i-misljenja/2021/FS\\_Rezime\\_Misljenje\\_na\\_Nacrt\\_Fiskalne\\_strategije\\_2022-2024.pdf](http://www.fiskalnisavet.rs/doc/ocene-i-misljenja/2021/FS_Rezime_Misljenje_na_Nacrt_Fiskalne_strategije_2022-2024.pdf). Accessed 20.8.2021.

## **5. Control of public spending in the regulations and practice of the Republic of Serbia**

Budget policy in the Republic of Serbia is regulated in a general way by the Law on Budget System. Its provisions do not regulate in a direct way that the Republic of Serbia is obliged to provide a certain amount of funds for the realization of economic and social rights. It only defines the goals that need to be achieved by adopting the budget and adequate allocation of funds. The budget system should ensure overall fiscal sustainability and control, which means implementing policies with comprehensive control of budget funds, establishing limits on expenditures and expenditures guaranteed by law, both at the state level and at the level of each individual budget user. The budget should enable the so-called allocation efficiency. It implies the possibility of establishing priorities within the budget, allocating funds in accordance with the Government's priorities within the budget and the possibility of transferring funds from old to new or from less productive to more productive priorities. According to the Law, the priority budget goals in the preparation and execution of the budget are macroeconomic stability, low inflation, economic development, encouragement of regional development and reduction of financial risk of the Republic of Serbia (Article 4 of the Budget System Law). The state policy of revenues and expenditures is very important for the realization of its priorities (Labus, 1997: 83). The importance of taxes and subsidies is reflected in the redistribution of income and the impact on the market operations of consumption entities. In addition to state revenues, there are also expenditures: expenditures for salaries of state and military officials, construction of infrastructure, expenditures for pensions, unemployment benefits, expenditures for social insurance, recourses and subsidies, etc (*Ibid*, 135).

### ***5.1 Importance of external control of public spending***

When we talk about the integrity of public finances, we mean primarily adequate tax and budget policy. Control over the inflow of public revenues that finance various budget expenditures must be effective, as well as control over the payment of social security contributions. In order to use the funds in the right way, there must be adequate control of public spending, and this requires continuous cooperation of various state institutions. Given that the United Nations report on financial integrity and state development emphasizes the importance of financial control and prevention of corruption, it seems that at the national level, more concrete results can be expected from external financial control mechanisms. In the Republic of Serbia, it is embodied in the budget inspection and the State Audit Institution.

The right to an adequate standard of living, arises from the realization of social and economic rights. In order to pass laws that improve the economic standard of individuals and their social position, it is necessary to provide a certain level of public funds necessary for their implementation.

The Government should keep in mind the fiscal principles when drafting the fiscal strategy and the draft law on the budget. One of these principles is the principle of fairness. It implies that the management of a fixed policy is carried out by taking into account its impact on the well-being of both present and future generations. In addition, it is necessary to keep in mind the principle of stability, which implies that fiscal policy is implemented in a way that does not cause sudden changes in the movements of macroeconomic and fiscal indicators (Article 27b, Paragraphs 2) and 4) of the Budget System Law). In that way, the guidelines that need to be taken into account in order to realize and protect the right of individuals to an adequate standard of living are defined in the public budget. Therefore, the Government, in implementing the objectives of fiscal policy, must take into account the sustainability of government debt, orderly debt service, predictability of the levels of tax rates and tax bases for the next year, responsible management of fiscal risks, management of public assets and liabilities, management of natural resources in a way that will not burden future generations, as well as stimulating economic growth.

When it comes to preserving the integrity of the fiscal system, it is necessary to keep in mind the application of preventive measures, which presupposes the activities of mechanisms for controlling the payment of public revenues and mechanisms for controlling public spending. The first means the activity of the tax inspection, and the second the activity of the budget inspection and the State Audit Institution. The activity of the budget inspection consists of controlling public spending over direct and indirect users of budget funds, organizations for obligatory social insurance and public enterprises and legal entities established by the Republic, territorial autonomy units or local self-government, legal entities established by these public enterprises, legal entities over which the Republic, the autonomous province or unit of territorial autonomy and local self-government has direct or indirect control over more than 50% of the votes in the board of directors, as well as over other legal entities in which public funds make up more than 50% of the total capital. It also performs control in other legal entities and other entities to which budget funds for a specific purpose have been allocated directly or indirectly, legal entities and other entities that are participants in the work that is subject to control and entities that use budget funds on the basis of borrowing, subsidies, other state aid in any form, donations, grants and the like (Article 85 of the Budget System

Law). However, the role of the budget inspection is limited to controlling the application of the law in the field of material and financial operations and the purposeful and legal use of funds of users of budget funds, organizations, companies, legal entities and other entities (Article 86 of the Law). The state audit institution has different competencies. In addition to auditing the final accounts of the Republic of Serbia, the Autonomous Province and local self-government units (Article 92 of the Law), it also has other powers prescribed by the Law on State on the State Audit Institution. According to the said Law, it may perform an audit of financial statements, an audit of the regularity of operations, as well as an audit of the purposefulness of operations. Of particular importance for the integrity of public finance is the audit of business expediency. It means examining the spending of funds from the budget and other public funds in order to obtain sufficient, adequate and reliable evidence to report whether the funds by the subject of audit are used in accordance with the principles of economy, efficiency and effectiveness, as well as planned objectives (Article 3 of the Law on the State Audit Institution). Bearing in mind that the Budget Inspection and the State Audit Institution may file misdemeanor and criminal charges against persons who illegally use public funds, this should have a preventive effect on potential violators of the law. Combating crime in accordance with current trends in the field of criminal policy requires a joint action of society as a whole, not only the policy and judicial authorities (Matić Bošković, Kostić, 2019). With their knowledge, various state institutions and individuals can contribute not only to the detection of criminal proceedings and the insurance of the final judgment (Matić Bošković, 2013; Šuput, 2014). However, in order to achieve this effect, controls need to be frequent and effective. Regardless of the existence of the possibility of sanctions, without frequent controls, it can hardly be expected that this prevention of illegal behavior will be realized. If the funds are spent in accordance with the regulations, it exists economically and efficiently, it can be expected that the state budget will have enough resources for the implementation of all activities that enable the realization of the right to an adequate standard of living, which is especially important during the economic crisis. In addition, in this way, public confidence in the work of public institutions increases, which on the other hand can have a positive impact on the attitude towards the fulfillment of tax obligations. The activity of the State Audit Institution should have a positive effect both on accountability in public spending and on its transparency. According to international standards, it is an independent body that controls the legality and expediency of public spending in all modern democracies (Rabrenović, Ćorić Erić, 2012: 282). The SAI's objective is "to help the nation spend wisely" as well as its transparency. According to international standards, it is an independent body that controls the legality and expediency of public spending in all modern democracies. The SAI's objective is "to help

the nation spend wisely” as well as its transparency. According to international standards, it is an independent body that controls the legality and expediency of public spending in all modern democracies. The SAI's objective is “to help the nation spend wisely” (Dobre, 2012: 698). That means that it should ensure that deliveries of public goods and services maintain proper accounts (Northon, Smith, 2018: 924).

In addition to control and accountability, fiscal transparency is also important for the protection and improvement of public finances. Although the State Audit Institution should contribute to its strengthening in the public sector, a lot needs to be done on that, especially having in mind the fact that the Law on the Final Account of Serbia was not adopted from 2002 to 2019 (Kostić, Matić, 2022: 48).<sup>7</sup>

### ***5.2. Internal financial control, its significance and the state in practice of the institutions of the Republic of Serbia.***

Internal financial control in the public sector is also important for improving the integrity of the fiscal system. It includes financial management and control of users of public funds and internal audit of users of public funds.

Financial management and control is organized as a system of procedures and responsibilities of all persons in the organization. The head of public funds is responsible for its establishment and updating. It should be borne in mind that this type of ex ante control contributes to legal and economical not only public spending, but the overall business of users of public funds. Financial management and control is also important for efficient spending planning at the user level. The second level of ex ante control is internal audit, which in accordance with the provisions of the law should be organizationally independent of the activity being audited and must not be part of any business process or organizational part of the organization. In order to ensure the greatest possible independence at the internal level, it is responsible for its work exclusively to the head of the user of public funds. It is of special importance for directing the legal planning, business and spending of users of public funds when it is established. The activity of internal audit consists of an objective review of evidence that provides assurance on the adequacy and functioning of the process of risk management, control and management of

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<sup>7</sup> The Law on the Final Account of the Budget had been adopted retroactively in December 2019 for every year and published in the national official gazette. Bearing in mind the legal definition of the principle of fiscal transparency, subsequent adoption of a law and its publication do not constitute a realisation of that principle. The Law on the Final account of the Republic of Serbia, *The Official Gazette of the Republic of Serbia*, number 95/2019.

the organization, as well as verify whether these processes function properly and enable the achievement of organizational goals. Its activities are not limited to the above, but also consist in the provision of advisory services, which consist of advice, guidance, training, assistance or other services in order to increase the value and improve the management process of the organization, risks and control (Articles 80, 81 and 82 of the Budget System Law). Bearing in mind that the state is a large consumer, given the cumbersomeness of the state apparatus, protecting the integrity of the fiscal system is a prerequisite for exercising the right of citizens to an adequate standard of living. Therefore, the realization of this right should not be viewed exclusively through investment in social protection, health and education, but also through the general direction of fiscal policy at the state level, both in planning and budget execution (About social protection of the elderly see in: Radaković, 2020: 556-557). Only in this way is it possible to talk about the fiscal responsibility of all entities at the level of one state. However, a special problem is the fact that the system of financial management and control in the Republic of Serbia has not come to life at full capacity, while internal audit has been established for most users of public funds. <sup>8</sup>Having in mind the powers of internal audit and the fact that it was established in some users of public funds much earlier than financial management and control, a reasonable question arises whether it exercises its powers in an adequate manner (Kostić, Matić Bošković, 2022: 57). The establishment of internal control in the public sector of the Republic of Serbia seems to have represented only a formal fulfillment of the conditions for membership in the European Union. It is not understood as an effective means of preventing various types of irregularities at the level of public sector institutions (Šuput, 2013: 247-248; Šuput 2012: 160). At the very beginning of the establishment of internal financial control in the public sector of the Republic of Serbia, according to the European Commission's progress

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<sup>8</sup> The State Audit Institution Report on the Audit of Final Account of the Budget of the Republic of Serbia for 2016, number 400-534/2017.03/31, Belgrade, 29<sup>th</sup> of December 2017, 11; The State Audit Institution Report on the Audit of Final Account of the Budget of the Republic of Serbia for 2017, number 400-575/2018-03/36, Belgrade, 14<sup>th</sup> of December 2018, 23, 37 and 43; The State Audit Institution Report on the Audit of financial statements and regularity of operations of the Ministry of Youth and Sports for 2018, number 400-213/2019-03/12, Belgrade, 2<sup>nd</sup> of December 2019, 29; The State Audit Institution Report of the Audit on Financial Statements and Regularity of Operations of the Anti-Corruption Agency for 2017, number 400-658/2018-03/29, Belgrade, 27<sup>th</sup> of August 2018, 10; The State Audit Institution Report of the Audit on parts of the report on budget execution and regularity of operations of the Ministry of Labor, Employment, Veterans and Social Affairs for 2016, number 400-2033/2017-03/26, 21<sup>st</sup> of December 2017, 19 and 21; The State Audit Institution Report on the Audit of Financial Statements of the Ministry of Defense, number 400-2015 / 2019-03 / 13, Belgrade, August 19, 2019, 19; The State Audit Institution Report on the Audit of Financial Statements and Regularity of Business Operations of the Ministry of Youth and Sports for 2018, number 400-213 / 2019-03 / 12, 2<sup>nd</sup> December 2019, 28; The State Audit Institution Report on the Audit of Financial Statements of the Ministry of Culture and Information for 2018, number 400-208 / 2019-03 / 14, Belgrade, 6<sup>th</sup> of June 2019, 9.

report on Serbia, it was emphasized that internal audit cannot reach its full potential if the system of financial management and control in public sector institutions is not developed. Without such an approach, there is no higher level of responsibility in the management of public funds, which is of particular importance for establishing and maintaining the integrity of the fiscal system (Šuput, 2013: 249). The activity of internal financial control should not be exhausted exclusively in the verification of material and financial operations, but should also refer to the control of the application of regulations of importance for the performance of activities.

## **6. Conclusion**

The realization of the right to an adequate standard of living requires the engagement of material resources of the state. The level of invested material resources does not necessarily mean success in its realization. However, poverty is largely contributed by various crises that cause the emergence of the budget deficit, which is reflected in the reduction of public spending and investment and affects the increase of taxes and government borrowing. This makes it difficult to achieve an adequate standard of living for each individual. As can be seen from the analysis of international and national documents in this paper, the Republic of Serbia in the previous period did not adequately cope with poverty, while in some situations inadequate fiscal policy measures also had negative or erroneous effects on living standards. citizens. Bearing in mind the United Nations report on the importance of financial integrity for sustainable development from 2021, the role of public spending control mechanisms in the process of establishing and improving the integrity of the fiscal system should not be neglected. However, in the Republic of Serbia, the mechanism of internal financial control has not come to life in full capacity. Given its importance for improving accountability in public financial management, we should insist not only on its formal establishment, but also on additional training of public sector managers to understand the importance of this mechanism for improving the accountability of all employees in the institutions they manage. The existence of an adequate system of control over public spending is also important for the prevention of corruption. In order for state resources to be provided for the realization of all priorities, one of the main of which should be the realization of the right of each individual to an adequate standard of living, it is necessary to take into account when planning public spending. On that occasion, the views and opinion of the Fiscal Council as an independent institution should be taken into account. Bearing in mind that the role of the said institution is of an advisory nature, its opinions and advice are not legally binding. Nevertheless, they are important for increasing accountability and transparency in public financial management, which can further contribute to improving the integrity

of the fiscal system. However, given that the Law on the Final Account of the Republic of Serbia has not been adopted for seventeen years, continuous work should be done to improve transparency. A responsible public financial management policy should contribute to the well-being of society as a whole, and thus to the realization of the right of individuals to an adequate standard of living.

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