

# Verification of reliability of regulatory reports of the Public Postal Operator for 2021

## *Report on the established facts*

December 2022



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## Abbreviations and terms

<b>RATEL / Agency</b>	Regulatory Agency for Electronic Communications and Postal Service
<b>PPO/ Post</b>	Public Postal Operator/PE Post of Serbia
<b>EY</b>	„Ernst & Young“ d.o.o., Belgrade
<b>EU</b>	European Union
<b>Directive</b>	Directive 2008 / 06 / EC
<b>UPS</b>	Universal postal service
<b>Law</b>	Law on Postal Services of the Republic of Serbia ("Official Gazette of RS" no. 77/2019)
<b>Rulebook</b>	Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory reports ("Official Gazette of RS", no. 126/2020 from 23 October 2020, in effect from 31 October 2020)
<b>Methodology</b>	Methodology on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports, 2020
<b>Implementation description</b>	Implementation description as defined in Article 34 of the Rulebook



## **1. Purpose and framework of Report preparation**

The aim of this project is verification of the reliability of regulatory Reports of the PPO and compliance with the Rulebook by an external consultant, so that the Agency would be able to publish the Report prescribed by the implementation plan.

Our comments, conclusions and recommendations are based on the provisions of the Law, Rulebook and best practices within the field of regulatory Reporting.

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This Report is based solely on the documentation prepared and submitted for inspection by the Post of Serbia (the list of submitted and analysed documentation can be found in the Annex), in connection with the fulfilment of the obligation of accounting separation and allocation of costs of services, defined by the Law and the Rulebook. During the preparation of this Report, we did not conduct an independent audit of operations and documents of the Post of Serbia in order to verify the accuracy of the statements in the submitted documents. We base our conclusions and recommendations on the accuracy of the facts and assumptions presented in this Report. If any fact or assumption is not complete or precise, it is imperative to notify us in writing as soon as possible, as such incomplete or inaccurate information could significantly affect our conclusions.

This Report was prepared exclusively for the needs of the Agency and is based on certain facts and conditions, in accordance with the terms of the Service Procurement Agreement no. 1-06-4042-51/22-4, concluded on July 4, 2022, between the Agency and EY. This document refers to the part of the project assignment that concerns the preparation of a Report for the Agency on the established factual situation and possibly observed deficiencies and irregularities, in order to ensure the conditions for fulfilling the Agency's legal obligations.

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## 1.1. Approach to analysis

Within this Report, we have carried out an analysis of regulatory Reports and forms submitted by the Post of Serbia to the Agency, in order to verify the compliance of accounting separation by the public postal operator, in accordance with the Rulebook and best practices within the field of regulatory Reporting. Also, an analysis of the consistency of the Implementation description and model submitted by the PPO with the Rulebook was carried out. The full analysis, with findings and recommendations, can be found in Chapter 3 of this Report.

Our approach to analysing submitted Reports and forms included the following:

- Understanding and documenting the process of preparing regulatory reports and reviewing the control environment;
- An overview of the control environment of the IT systems used in the framework of regulatory reporting;
- Review of submitted documentation and identification of missing documentation
- Overview of the allocation flow, i.e. allocation phases;
- Overview of cost centers and cost segmentation;
- Review of methods of allocation of income, costs, assets and liabilities according to different reports and their alignment with company processes and principles defined within the Rulebook;
- Review of the allocation keys of significant cost categories, with a control of the adequacy of the used allocation keys, that is, a control of compliance with the principle of causality, and then a check of the application of the defined keys;
- Overview of costs that are not included in the allocation;
- Overview of working capital treatment and calculation;
- Verification of the adequacy of the calculation of capital costs and the application of the WACC rate to the employed capital;
- Overview of the calculation of internal transfers within the model;
- Verification of compliance of input data and their sources, as well as their allocation through the model, with audited financial statements;
- Verification of compliance of input data at each level of allocation with output data, that is, allocation results;
- Verification of the conformity of the same data with those presented in the set of regulatory reports.

Within this Report, we paid special attention to the analysis and verification of the consistency of the Implementation description and allocation model with the Rulebook, as well as the verification of the reliability of regulatory Reports – forms. The regulatory basis of our analysis, which is presented in more detail in section 2.2, consists of:

- Law on Postal Services of the Republic of Serbia ("Official Gazette of RS" no. 77/2019);
- Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports ("Official Gazette of RS", no. 126/2020 from 23.10.2020., take effect 31.10.2020.);
- Relevant EU directives



In our analysis, we considered the documentation (Annex) submitted to the Agency by the PPO in accordance with the obligations from the Rulebook on the manner of accounting separation application and verifying the reliability of regulatory Reports of the PPO.



## 1.2. Review of regulations that are the basis for analysis

### 1.2.1. EU Directives

The regulatory framework for postal services within the EU was initially defined by Directive 97/67/EC on common rules for the development of the internal market of postal services and the improvement of the quality of services. Framework is upgraded by Directive 2002/39/EC on further opening of the postal services market and Directive 2008/6/EC, which covers the full achievement of the EU internal market.

Directive 2008/6 / EC sets the framework for EU Member States, which obliges them to define their own legislation as the legal framework that will regulate the business of the universal postal operator.

Postal Services Directive:

- defines the minimum characteristics of the universal postal service, which must be provided by each EU country in its territory;
- fully opens the competition sector;
- prescribes the principles of management of authorization / licensing of postal services;
- defines the principles of universal service tariffs as well as the transparency of the accounts of universal postal service providers;
- regulates the creation of service quality standards for national and cross-border services within the EU and requires EU countries to do the same at the national level;
- confirms the mechanisms aimed at encouraging technical harmonization in the postal sector;
- establishes appeal procedures for all users of postal services;
- calls for the creation of national regulatory bodies that are independent of postal operators;
- creates rules for financing the net costs of universal services in the event of a net cost that represents an unfair financial burden;
- requests the sending of regular application Reports to the European Parliament and the Council on the implementation of the Postal Services Directive.

#### Providing postal services

This Directive defines the provision of universal service through the designation of universal postal service providers. Member States may require the provision of universal service to cover the entire national territory. Increased competition and choice mean that Member States should be given more flexibility in defining an appropriate mechanism to guarantee the availability of universal service, respecting the following principles:

- objectivity,
- transparency,
- non-discrimination,
- proportionality,
- the minimum market distortions required to ensure the freedom to provide postal services in the internal market.

Member States may apply one or a combination of the following approaches:

- providing universal service using market power,
- the designation of one or more enterprises that will provide different elements of universal service,
- covering different parts of the territory and public procurement of services.

### User protection

Citizens are still recognized as important users of postal services and their interests are protected in many ways. Directive 97/67/EC defines that price must be such that all users can afford such a service, increasing the ability to access services and reduce costs, which ensures the economic sustainability of the service. The Postal Services Directive also defines that postal operator providing universal postal services must not apply discriminatory tariffs and must allow providing the uniform tariffs.

In terms of quality, the Postal Services Directive requires European Union countries to establish standards governing access to postal services as well as delivery objectives. If these goals are not met, EU countries can take corrective action, including fines. The Postal Services Directive also establishes quality standards for cross-border mail and defines that user should be provided with a simple and low cost, as well as a system through which they can lodge their complaints about access to or quality of service.

#### **1.2.2. Law on Postal Services of the Republic of Serbia**

According to the Law, postal services are defined as universal postal service and other postal services.

#### Universal postal service

Universal postal service is defined as: "a service of general interest and it represents a set of postal services performed continuously on the entire territory of the Republic of Serbia, within the prescribed quality, at affordable prices and on equal terms for all users, without discrimination."

According to Article 18 of the The Law on Postal Services, universal postal service includes receipt, processing, transportation and delivery:

- 1) Letter post mailings weighing up to two kilograms;
- 2) Documents in court, administrative and misdemeanour proceedings, regardless of the limits;
- 3) Receipt of packages of up to ten kilograms in domestic and international postal traffic;
- 4) Delivery of packages of up to 20 kg in international postal traffic
- 5) Secograms which weigh up to seven kilograms without charging postage in internal postal traffic.

**Universal postal service** from paragraph 3 of this Article, in internal and international postal traffic includes the receipt, transfer and payment of the postal order.

Universal postal service must:

- 1) be available on the entire territory of the Republic of Serbia;
- 2) be performed within the prescribed quality;
- 3) be done at an affordable price;
- 4) be performed on equal terms for all users without discrimination

The universal postal service provider is obliged, according to Article 21 of the Law, to ensure the availability of universal postal service at least five days a week:

- 1) with a minimum of one receipt of a postal mailing, except in special circumstances and geographical conditions, when at least one reception per week is guaranteed on a predetermined working day;
- 2) with one delivery of a postal mailing at the address of the recipient, except in special



circumstances and geographical conditions, when at least one delivery per week on a predetermined working day is guaranteed;

- 3) by placing mailboxes, aggregated mailboxes and vending machines, in accordance with the prescribed density of access points.

Performing certain services belonging to a universal postal service may be terminated or suspended by the legal act of the competent state body in order to protect the general interest, public morality, public safety, criminal investigation, public policy and in other cases according to the law.

According to Article 24 of the Law on Postal Services, **reserved postal services** are part of a universal postal service entrusted to the public postal operator and include:

- 1) receipt and/or processing and/or transport and/or delivery of letterpost mailings of up to 50 grams;
- 2) receipt and/or processing and/or delivery of documents in court, administrative and misdemeanor proceedings, as recommended mailings, regardless of limits;
- 3) receipt and/or transfer and/or payment of postal orders.

According to the Law, the public postal operator has the authority to perform reserve postal services from paragraph 1 of this Article in both domestic and international postal traffic.

#### Other postal services

According to Article 26 of the Law on Postal Services, other postal services include:

- 1) reception, processing, transportation and delivery of packages over ten kilograms in domestic postal traffic;
- 2) reception, processing and transportation of packages over ten kilograms in international postal traffic, in departure;
- 3) processing, transportation and delivery of packages over 20 kg in international postal traffic, in coming;
- 4) value-added services;
- 5) additional services.

Other postal services can be performed by all postal operators in accordance with this Law and acts enacted under this Law.

According to Article 27 of the Law on Postal Services, **value-added services** are postal services that have special requirements in terms of quality and manner of receipt, processing, transportation and delivery.

Value-added services are considered to be:

- 1) courier services that include receipt of mailing at the sender's address and direct transportation and delivery at the recipient's address, without processing;
- 2) express services that include receipt, processing, transportation and delivery of mailings in the shortest and guaranteed deadlines;
- 3) electronic tracking services from receipt to delivery of mailing
- 4) services in which the sender, for additional instructions regarding the delivery of the mailing, has direct communication with the person who performs the mailing service
- 5) delivery of the mailing with the agreed time of delivery;
- 6) other services in accordance with the Law.

### Principles of performing postal services

Performing postal services is based on principles:

- providing conditions for equal development of postal services on the territory of the Republic of Serbia;
- providing the availability of universal postal service, of prescribed quality and at affordable prices, to all citizens in the Republic of Serbia, while meeting the needs of specific social groups, including people with disabilities;
- providing equality, prohibition of discrimination and a high level of protection of the interests of postal service users;
- providing conditions for equal operation of postal operators;
- encouraging competition, economics and efficiency in performing postal activities
- ensuring development of postal activity
- adjustment of activities in the field of postal services with Serbian and international standards
- inviolability of secrecy of letters and other means of communication
- enabling equal access to the mail network and postal services
- providing the sustainability of universal postal service

### Postage for universal postal service

In accordance with Article 32 of the Law, postage for universal postal service must be:

- 1) the same for all users in the entire territory where the universal postal service provider provides the service;
- 2) affordable, based on real costs and incentives for efficient performance of universal postal service
- 3) free for secograms used by blind and visually impaired people
- 4) transparent
- 5) determined in a way that does not give individual users an advantage over other users under the same or similar conditions.

On postage, except for reserved postal services, consent is given by the Agency. The public postal operator act, which determines postage for reserved postal services, is consented by the Government.

### Postal Service Sustainability and Separate Accounting

When it comes to the sustainability of the postal service, the public postal operator achieves the sustainability of performing universal postal service from the funds provided from the revenues generated by providing universal postal service, i.e., income generated by performing reserved and unreserved postal services, from the domain of universal postal service.

When it comes to the accounting of postal operators and the universal postal operator, according to Article 36 of this Law, the Law defines that:

- if the postal operator performs one or more other activities in addition to postal services, it is obliged to conduct separate accounting for the performing of postal services;
- the postal operator is obliged to separate the income and expenses incurred from the universal postal service from other income and expenses according to service types;
- The UPO is obliged to provide the allocation of costs of all services through its internal calculation, in order to enable an overview of revenues by postal service types, by postal service phases and per postal service unit;
- The UPO is obliged to separate the proceeds from reserved postal services from the income generated from unreserved postal services in the field of universal postal service
- costs that can be attributed directly to an individual service are attributed to that service.

Common costs, i.e., costs that cannot be directly attributed to individual services, are distributed, when possible, based on a direct analysis of the origin of these costs.

The public postal operator cannot use the proceeds from reserved postal services to subsidize other postal services or other business activities, except for expenses incurred by performing a universal postal service.

The Agency may further regulate the manner of keeping separate accounting and verification of authenticity. Also, the Agency is obliged to publish Reports on the compliance of accounting separation by the public postal operator once a year, in accordance with this Law and the act referred to in paragraph 11 of this Article.

### **1.2.3. Rulebook and Methodology**

The Rulebook prescribes how to manage accounting, accounting records, cost accounting and calculating the net costs of a universal postal operator.

The key objectives of the Rulebook are to provide the following areas for the needs of the Agency and the Public Enterprise:

- appropriate accounting information bases for planning, implementation, correction and control of activities aimed at creating, improving and maintaining relations in the postal services market;
- accurate and transparent information on costs, revenues, balances and assets by postal service groups and individual UPO groups;
- bases for determining the price level of the universal postal service;
- prevention of the dominant position of UPO in the postal services market;
- establishment of an appropriate internal accounting system, as well as appropriate analytical aspects in financial accounting and harmonization of that system with the Agency and its availability to the Agency.

The internal accounting system of the UPO must be based on established principles of cost accounting and their consistent application, in a way that allows review and control of revenues and expenses generated by the provision of all services, considering the adopted accounting standards.

Principles of separate accounting (accounting separation):

- 1) completeness principle;
- 2) causality principle;
- 3) objectivity principle;
- 4) correlation principle;
- 5) transparency principle;
- 6) consistency principle;
- 7) accuracy principle;
- 8) comparability principle;
- 9) flexibility principle;
- 10) principle of reliability (verifiability) of data;
- 11) principle of confidentiality of information;
- 12) cooperation principle.

The anticipated basis for calculating costs is based on the model of historical (actual) costs, which needs to be applied by the UPO, based on the "top-down" method, i.e., according to the model of cost allocation based on historical (actual) financial data for the Reporting year. The Rulebook also defines that the methodology of separate accounting and calculation of net costs based on the Fully Distributed Costs (FDC) method is applied, as well as the activity-based costing model (ABC model). The methodology on the manner of keeping separate accounting and verifying the

authenticity of the Post's regulatory Reports provides for a more detailed explanation when applying separate accounting (accounting separation) and verifying its authenticity, which is prescribed within the new Rulebook on the manner of accounting separation application and review of reliability of public postal operator's regulatory Reports and in accordance with the Law on postal services.

Reporting on the application of the cost principle and the results of the accounting separation of the Agency by the UPO is done through regulatory Reports determined by the rulebook and defined forms and guidelines defined within the Methodology. According to Article 33 of the Rulebook, the operator is obliged to Report to the Agency in the form of the following Reports:

- 1) Forms from the Annex to the Rulebook on the manner of accounting separation application and review of reliability of public postal operator's regulatory Reports
  - Table 1. UPO cost account segmentation
  - Table 2. Segmentation of UPO cost centres by related costs
  - Table 3a. Internal transfer of UPO income
  - Table 3b. Internal transfer of UPO income
  - Table 4. Production MT: Allocation of actual direct costs and MT costs to UPO phases
  - Table 5. Non-productive MT: Allocation of actual direct costs and MT costs to UPO phases
  - Table 6. Allocation of phase costs to UPO postal services
  - Table 7. Total revenue from postal services
  - Table 8. Summary balance of postal services
  - Table 9. Balance of individual postal services
  - Table 10. Calculation of the borrowed capital cost rate
  - Table 11. Calculation of engaged capital (investment basis) for the application of weighted average cost of capital (WACC)
  - Table 12. Calculation of target revenue of postal services
  - Table 13. Alignment of the statutory income statement with regulatory Reports
- 2) Report on the scope of services
- 3) Report on the proposed sales prices of postal services
- 4) Description of the implementation of accounting separation for the Reporting year
- 5) Independent auditor's Report
- 6) Financial statement
- 7) Business program for the next year
- 8) Valid Price lists of all UPO services, with clearly indicated dates of their application.
- 9) Other Reports at the request of the Agency

## **2. Analysis of the Implementation description, Model and reliability of public postal operator's regulatory Reports**

### **2.1. Analysis of the Implementation description and Model**

In order to check the compliance of the accounting separation application, Article 34 of the Rulebook defines the obligation of the PPO to prepare the Implementation description, which should contain the following items:

1. A comprehensive explanation of the basics of the preparation of regulatory Reports, including an explanation of the key regulatory accounting policies that have been adopted, as well as:
  - list of services/organizational units for which accounting separation was performed;
  - trends related to volume and revenue for each service, expected significant changes and how these changes may affect the business environment;
  - description of the process of accounting separation application and preparation of regulatory Reports;
  - methods and principles of accounting separation application;
  - changes in the accounting policies for the Reporting year, impact of these changes on the result, as well as their comparability with the previous year;
  - changes compared to the previous period that affect the accounting separation;
  - significant adjustments to regulatory Reports.
2. Methodology of application of accounting separation, namely:
  - description of costs that are the subject of allocation;
  - description of costs that are not the subject of allocation;
  - cost centre structure;
  - identified direct and indirect costs;
  - detailed information about the stages of cost allocation, cost centre structure, by activities, making a distinction between direct costs, indirect, that is, common costs (according to the type of costs, combined costs and costs allocated by the general allocator);
  - description of cost drivers for each allocation stage;
  - description of the calculation of internal transfers;
  - description of the process of preparation of regulatory accounting Reports, as well as
    - a detailed description of how the target service revenues were calculated.

Also, Article 38 of the Rulebook defines the obligation of the PPO to submit completed forms from the Annex of the Rulebook, i.e., regulatory Reports, no later than June 30 of the current year, for the previous business year.

In accordance with all of the above-mentioned, we performed an analysis of the consistency of the Implementation description and the model described in it with the Rulebook, as well as with the activities that take place in practice. By analysing the submitted documentation, we found that the Post of Serbia made some progress in terms of compliance with the Rulebook compared to the previous Report. Primarily, when allocating the costs of vehicles, facilities and equipment, new allocation keys were defined (the surface of the facilities, and the purpose of vehicles and equipment) that more adequately indicate the cause-and-effect relationship of resource consumption. Also, the Implementation description was supplemented with an analysis of the impact of market changes on PPO operations. A special section was added to the Implementation description, within which the changes that occurred in relation to the previous period, which may affect the accounting separation, were analysed.

Additionally, we believe that it is necessary to work further on improving the model itself, as well as harmonizing the Implementation description with it. Also, there is a certain scope for progress and adequate formulation and setting of the Rulebook. In accordance with that, below are presented the findings we came to, as well as other recommendations for improvement.

### 2.1.1. Findings and recommendations

#### F1. Undefined methodology for determining the allocation key in the second round of allocation

**Regulatory framework:** Rulebook on the manner of accounting separation application and review of reliability of public postal operator's regulatory Reports – Article 4

##### Comment:

The Implementation description does not clearly show the methodology and method of collecting data regarding the area of facilities and the purpose of equipment, i.e., vehicles, which were used as a key for allocation from the cost centre to the phases for the mentioned types of costs.

##### Recommendation:

Considering that the allocation keys of costs from the cost centres to the phases in the second allocation round are determined based on the parameters of the surfaces of the facilities and the purpose of equipment and vehicles, namely on a sample of facilities, vehicles and equipment, by measurements carried out during 2022, we are of the opinion that it is necessary to supplement the Implementation description with information on the method of collecting this data. Also, we are of the opinion that it is necessary to add specific data regarding the above-mentioned parameters (measured areas, objects in which they were measured, vehicles and equipment by purpose) in the Annex to the Implementation description, in order to be able to do the review of reliability of public postal operator's regulatory Reports.

#### F2. Incompleteness of information on the allocation of vehicle costs in the second round of allocation

**Regulatory framework:** Rulebook on the manner of accounting separation application and review of reliability of public postal operator's regulatory Reports – Article 4

##### Comment:

By reviewing the Implementation description and the calculation of costs in the second round of allocation, it was observed that it was not clearly defined how vehicle costs are allocated from phases to products. In the Implementation description, it is stated that when allocating from phases to products, the "cost by cost" postulate is used, that is, that the costs are allocated based on the share of the cost of the specific product/service in the total distributed costs in the first round. Additionally, the Implementation description does not specify whether and which products/groups of products are excluded from the calculation when observing the first round of allocation. During the meeting with the representatives of the Post, it was verbally explained to us that when observing the first round of allocation, those products are excluded from the calculation for which the costs of vehicles in the second round of allocation are not related, which was confirmed through recalculation and insight into the analytics of the MOT2021 application.



#### Recommendation:

Within the Implementation description, it is necessary to define and describe in detail the method of allocating vehicle costs in the second round of allocation, which is applied in practice. It is necessary to clearly indicate whether and which products/services are excluded from the calculation within the first round of allocation and to explain the reasons for their exclusion.

### F3. Incompleteness of information on the allocation of costs in the third round of allocation

#### Regulatory framework:

Rulebook on the manner of accounting separation application and review of reliability of public postal operator's regulatory Reports – Article 4

#### Comment:

Reviewing the Implementation description, it was observed that it is not clearly defined how the allocation of costs is carried out within the third round of allocation. By recreating the calculation, we established that the total allocated costs in the third round are first allocated to the group of products (ex. the group of Letters) and then to the product itself. By omitting a detailed description of the method of allocation of costs, it is much more difficult to verify the adequacy of the allocation.

#### Recommendation:

It is necessary to add to the Implementation description the detailed method and steps of the allocation within the third round. It is necessary to describe in detail how the total costs are allocated, first to the group, and then to the specific product, specifying the data source for each of the steps.

### 2.1.2. Other recommendations

Below is an overview of other recommendations for improvement, which are not the result of a significant deviation from the regulation, but their implementation will contribute to a better understanding of the Implementation description by users, and thus to better compliance with the Law, Rulebook and Methodology.

### OR1. Inconsistency of data on the total number of branches

#### Comment:

By reviewing the Implementation description, a discrepancy was observed between the number of branches in the description of the text and the listed number of branches in the rest of the text.

#### Recommendation:

It is necessary to harmonize the number of branches, with the specified number of units belonging to the given branch, in the description of the Organizational Structure.

### OR2. Non-updated data in the section related to trends and significant changes

#### Comment:

During the review of the Implementation description, it was observed that an analysis of the trends in the postal services market was performed, it was described how they affect the business, and that the assessment of the volume of services and revenue for the next period is aligned with the

identified trends. However, the data on market trends has not been updated according to the last year of the Report review.

**Recommendation:**

It is necessary to update the section *Trends related to the volume and revenues for each service, expected significant changes and how these changes may affect the business environment*, of the Implementation description, according to the data for 2021.

**OR3. Lack of information on the time frame of the process steps for the preparation of regulatory accounting Reports**

**Comment:**

By reviewing the Implementation description, it was determined that there is a lack of information on the time duration of the process steps for the preparation of regulatory accounting Reports, in *the Description of the process of application of accounting separation and preparation of regulatory Reports*.

**Recommendation:**

The Implementation description should be completed with the time frame of the process steps so that in case of certain changes in the following period, transparent information is available for adequate preparation and implementation of the given changes.

**OR4. Inconsistency between the content of the Implementation description and the Rulebook**

**Comment:**

Based on the review of the Implementation description, it was observed that part of the content prescribed by Article 34, point 1, subpoint 5 of the Rulebook, i.e. the section *Changes in accounting policies for the Reporting year and their impact on the result and comparability with the previous year*, is missing.

**Recommendation:**

It is necessary to harmonize the content prescribed by the Rulebook for the Implementation description - expand the Implementation description in detail with a subsection, regardless of whether there was a change in accounting policies in the observed period.

**OR5. Incompleteness of information on adjustments of regulatory Reports**

**Comment:**

By reviewing the Implementation description, it was found that there is information about the adjustments made in the new regulatory Report. However, it is not indicated exactly which adjustments were made, in what part and how.

**Recommendation:**

It is necessary to complete the Implementation description with all adjustments made during 2021, the reasons for the introduction of changes, as well as a description of the impact of the made adjustments on future Reporting, in the section *Significant adjustments of regulatory Reports*.

**OR6. Inconsistency of data on the rate of capital employed in the Implementation description****Comment:**

By reviewing the Implementation description, it was found that there are different data related to the rate of return on capital employed.

**Recommendation:**

It is necessary to harmonize the data related to the rate of return on capital employed in the Implementation description, which was submitted and adopted by the Agency and which was applied in the calculation.

**OR7. Inconsistency of labels and data in the Implementation description and the Annex of the Implementation description****Comment:**

By reviewing the Implementation description, non-existent labels were observed in relation to the Annex of the Implementation description. Specifically, the Implementation description states that there is Table 2.8a, which is not in the Implementation description Annex. In the Annex of the Implementation description, it is necessary to update the data related to the dates, as well as align the names in the tables with the names defined in the price list and the Implementation description.

**Recommendation:**

It is necessary to harmonize the labels, data, information found in the Implementation description and the Annex to the Implementation description.

**OR8. Description of the calculation of target revenue of postal services****Comment:**

Based on the review of the Implementation description, it is not possible to gain a clear understanding of the process steps in the calculation of the target revenue, as well as the connection with the allocation phases, that is, which departments or positions are responsible for the execution of the steps.

**Recommendation:**

We are of the opinion that it is necessary to specify the process steps and the method of calculating the target revenue of services that follows based on the phases of allocations, as well as the responsible position or department for the implementation of the profitability analysis in order to fulfill the provision of the Rulebook.

## 2.2. Analysis of the reliability of public postal operator's regulatory Reports

Below are the results of the review of reliability of public postal operator's regulatory Reports, comments and recommendations are given in places where there is room for improvement.

### 2.2.1. The process of preparing regulatory Reports and overview of the control environment

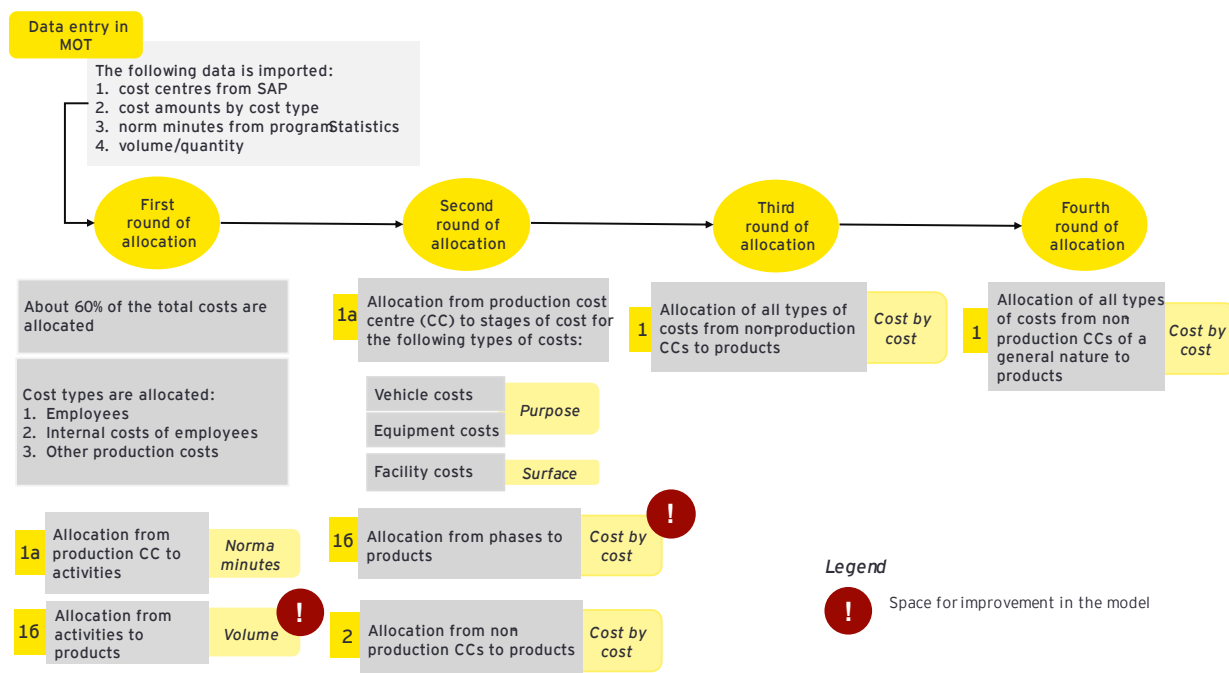


Figure 1. Process map: Representation of allocation circles in the process of preparing regulatory Reports

The process map shows the flow of data through the process of preparing regulatory Reports. The process includes activities from entering data into the MOT application, through the allocation of costs in each of the four rounds of allocation. Exclamation marks are used to mark the steps where the places for improvement/improvement of the process are recognized, i.e., critical points where illogicality's were observed, which are later transmitted through the entire process. These areas for improvement are elaborated in more detail below.

#### F4. Inadequately defined links between activities and products

**Regulatory framework:** Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports - Article 10

#### Comment:

During the analysis of the model, it was found that certain links between activities and products/services were inadequately defined. It has been established that not all the activities are assigned to certain products/services that objectively exist when providing them. In this way, the product/service is not subject to all the costs incurred during its provision.

#### Recommendation:

It is necessary to review the adequacy of links between activities and products, and to redefine those links where necessary, in order to ensure that all activities that participate in the technological process of providing services/products are linked to those services/products, and that activities that do not participate in that process are not linked. It is necessary to clearly define and carry out controls that will validate any changes in the link between activities and products. In this process, as well as in the process of defining activities related to new products, a multidisciplinary approach is required, i.e., joint work of functions that have knowledge about the process of providing products and functions that deal with data preparation for the needs of regulatory Reports.

## F5. Joint posting of international settlement costs

**Regulatory framework:** Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports – Article 10

### **Comment:**

International settlement costs related to arrivals and departures in international postal traffic (MPS) are currently posted to one account, which leads to the impossibility of distributing this cost according to products/services in international traffic. Currently, the entire cost from the account 5390004 and 5390006, in the amount of 395,790,645 RSD, is distributed to artificially created products "International Arrival – Package", "International Arrival – EMS" and "International Arrival – Letter". Thus, the cost of international settlement, in the existing model, is excluded from the calculation of the cost of existing products / services in international traffic.

### **Recommendation:**

It is necessary to separate the costs related to the arrival or departure of international postal traffic, in order to clearly separate the amounts that can be further attributed to specific products.

## F6. Unclearly defined controls in the process of preparing regulatory Reports

**Regulatory framework:** Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports - Article 3

### **Comment:**

By inspecting the flow of processing and allocation of costs through the allocation rounds, it was concluded that the control steps in certain parts of the process were vaguely defined and consequently increased the risk of error during further allocation, understanding the process and the possibility of control and identifying illogicalities and possible errors.

### **Recommendation:**

We believe that it is necessary to clearly define the controls in the process of Report preparing, that is, to define the manner of carrying out each control, the part of the process in which the control is carried out, the frequency, type of control (automatic or manual) and responsibility for the implementation of the same. Where controls already exist in practice, it is necessary to document their exercise, that is, to define a "trace" of control. All controls that are carried out should be described within the Implementation Description, where this has not already been done.

The controls that need to be defined, documented, and then described in the Implementation Description, where this has not already been done, are as follows:

- Controls when setting up the cost allocation model - checking the adequacy of the links between activities and products/services, checking the compliance of the list of products/services to which costs are allocated with existing products/services and other control steps that are performed manually within the MOT application;
- Input and output data conformity controls at each step of the allocation;
- Controls of the accuracy and completeness of automatically and manually filled forms;
- Control of compliance of output data with audited financial statements

### ***2.2.2. Overview of the control environment of the IT system***

By examining the documentation, as well as through interviews with employees in the ITEKR function, we have gained an understanding of the functioning of general IT controls during 2021, which were established over the MOT 2021 application. It was found that there is an adequate IT control environment with respect to this application. The following areas were reviewed:

- User access management
- Application modification management
- IT operations management

#### **User access management**

User access management is performed according to the system of requests for granting user rights for the MOT2021 application. The request for granting rights is submitted by the head of the organizational unit in which the employee who needs to be granted user rights is employed, and the order is created by the ITEKR function. All user rights on the system were assigned when the application was created at the beginning of 2021. There are 9 active accounts on the application, of which 5 are administrator accounts.

Logs of user activity exist and are recorded inside the database. If necessary, it is possible to monitor these logs in order to determine which user executed which command on the application itself.

For access, the principle of single sign-on (SSO) from the active directory, using the LDAP protocol, has been established.

#### **Application modification management**

Application changes are executed according to the user's request. In 2021, there were no change requests, except for the initial script changes, which were made when copying the MOT2020 application to the newer version, MOT2021.

#### **IT operations management**

Backup data management is executed at the database level for the MOT 2021 application. A complete backup, which is executed once a week and incremental "backups", which are executed once a day, are defined. In addition, a backup of transaction logs is carried out every 5 minutes. Backup is scheduled through CRONTAB, which is a built-in software package. Backups are also made to tapes for longer storage using the TSM (Tivoli Storage Management) tool.

The control of the backup process is carried out by means of warnings, which warn the members of the Database Platform Management Service, via e-mail, about the unsuccessful execution of the backup. Only members of this team have access to backup settings.



### ***2.2.3. An overview of the allocation flow and an overview and analysis of the allocation methods and keys used***

By examining the Implementation Description, we found that the allocation of costs is carried out through four phases, i.e., **four rounds of allocation**. In order to achieve a better understanding of the PPO approach, it was requested to submit examples of product calculations where certain illogicalities were observed in the results of cost allocation. Considering that the examples, i.e., the calculation models for the selected products/services were not submitted by the PPO, an alternative approach was applied, where the check was performed through an insight into the analytics of the MOT2021 application and recalculation based on input data, which prolonged the check process, whereby it affected the completeness of the model's assessment and the correctness of the application of the methodology prescribed by the Rulebook.

Below is an overview of the current understanding of the process by individual allocation rounds.

#### **First round of allocation**

In the **first round**, the allocation of costs **from the production cost centres of the postal activity of PNU and PC to activities** is carried out. The allocation key is the percentage share of standard activity time expressed in minutes of a specific activity in the sum of the minutes of all activities within the cost centre group. The participation of a particular activity is conditioned by the statistical norm and the time required for a particular activity to be performed. A higher share of an activity in the total entails a higher cost that is distributed. Then, further allocation of costs **from the activity to services/ products** related to that activity is carried out, and the allocation is carried out according to the **realized volume**.

The types of costs of production cost centres of postal activity PNU and PC that are allocated in this way in the first round are:

- employees costs;
- costs of internal transfers of employees;
- other production costs.

In addition, in the first round, the following costs of production cost centres of non-postal activity are allocated (WU Hybrid Post, WU Maintenance of facilities, fixed assets and vehicles and WU for electronic communications Post Net):

- employees costs;
- facilities costs;
- equipment costs;
- vehicle costs;
- depreciation costs of facilities, equipment and vehicles;
- other production costs;
- costs of internal transfers of employees;
- costs of internal transfers of vehicles.

In this case, the allocation is made directly to the products, using the generated revenue per product as the allocation key. This is also the case with the ATM production cost centre, whose equipment costs are allocated to the product according to the realized volume.

In the case of non-production cost centres as well as production cost centres of postal activities PNU and PC and allocation from cost centres to individual activities, we did not see room for improvement in the selection of allocation keys. Additionally, in the next step, that is, the allocation from activities to products, there is room for improvement, as stated below.

## F7. Inadequately defined allocation keys when allocating costs from activities to products in the first round of allocation

### Regulatory framework:

Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports – Articles 4, 13, 22

### Comment:

During the analysis of the Implementation Description and model, it was found that within the first round of allocation, when allocating costs from activities to products, the volume of products / services provided was used as the key to allocation. Article 4 of the Rulebook stipulates that when applying the cost principle and separate accounts per group of services of the PPO, the principle of causality should be respected, which refers to the precise allocation of costs to the ultimate bearer of the cost, i.e., postal services of the PPO that caused them. The same Article also stipulate respect for the principle of objectivity, by which the allocation of PPO costs to postal services is carried out on the basis of an objective analysis of the causes of costs, i.e. the engagement of resources, which initiates the occurrence of costs. Article 13 of the Rulebook stipulates that the allocation key should be defined in such a way as to describe the cause-and-effect relationships of resource consumption through the technological process of performing postal services. Using only volume as an allocation key, it is not possible to comprehensively display the before mentioned cause-and-effect relationships. In addition, in this way, all products are assigned the same unit cost of activity, which ignores the characteristics of the products that may affect the amount of resources necessary for their performance, and therefore the amount of cost that will be allocated to the products.

### Recommendation:

When allocating costs from activities to products within the first round of allocation, it is necessary to use the key or keys of allocation that will adequately indicate the causal relationships of resource expenditure. This means that in addition to the volume, other keys of allocation should be included (e.g., mass, emergency coefficient, volumetric, etc.), in accordance with a detailed analysis of the entire technological process of providing services and specific activities. When defining allocation keys, it is necessary to confirm and document the cause-and-effect relationship between the selected allocation key and the activity.

In addition to the above, in the first round, following groups of costs are allocated: employee costs, costs of facilities, costs of equipment, vehicle costs, depreciation costs of facilities, equipment and vehicles, other production costs, costs of internal transfers of employee and costs of internal transfers of vehicle, from production costs centre of non-postal activity (WU Hybrid Post, WU Maintenance of facilities, fixed assets and vehicles and WU for electronic communications Post Net) individually and to the product WU Hybrid Post, WU Maintenance of facilities, fixed assets and vehicles and WU for electronic communications Post Net. Allocation key is generated revenue. The production cost centres of non-postal activities are not allocated to the phases of the technological process, as well as the production cost centre of the ATM whose equipment costs are allocated to the product according to the achieved volume. In these two cases, we believe that the allocation keys allow an adequate cost allocation.

### **Second round of allocation**

In the **second round** of allocation, equipment costs, facility costs, vehicle costs, depreciation costs of equipment, facilities and vehicles and costs of internal transfers of vehicles from groups of production cost centres of postal activity PNU and PC are allocated to technological process phases and products, based on combined keys.

The allocation of the same costs from the phases to the products is carried out by applying the "cost by cost" postulate, which means that the costs are allocated to the bearers in the same way as the costs or groups of costs were allocated from the level of the corresponding production cost centres in the first phase. Given that in this case, when allocating costs from phases to products, there is a possibility of defining allocation keys in accordance with the nature of the cost, the application of the postulate "cost by cost" is not adequate, as stated in Finding 9.

The groups of costs that are allocated are: employee costs, facility costs, equipment costs, vehicle costs, depreciation costs of facilities, equipment and vehicles, other production costs, costs of internal transfers of employees, vehicles, and other production costs.

In the second round of allocation, when allocating costs of equipment, facilities, vehicles, depreciation of equipment, facilities and vehicles and costs of internal transfers of vehicles from the groups of production cost centres of postal activity PNU and PC to the phases of the technological process, the following allocation keys were used:

- for facilities – **surface of the facility** PNU and PC,
- for equipment – **purpose of the equipment** in PNU and PC and
- for vehicles – **purpose of the vehicles** in PNU and PC.

#### **F8. Sample used in the calculation of allocation keys in the second round of allocation is not clearly defined**

**Regulatory framework:** Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports – Article 4

#### **Comment:**

We are of the opinion that the Post, in this step of the second round of allocation, that is, the allocation of costs of equipment, facilities, vehicles, depreciation of equipment, facilities and vehicles and the costs of internal transfers of vehicles from the groups of production cost centres of the postal activity PNU and PC to the phases of the technological process, defined adequate allocation keys that are in accordance with the nature of the cost. However, when calculating the keys (surface of facilities and purpose of vehicles and equipment) according to which the allocation was made, a sample was used, for which it was not clearly defined how it was determined, nor was the calculation of those keys documented, so it is not possible to confirm the representativeness of that sample.

#### **Recommendation:**

Article 4 of the Rulebook stipulates that, when applying the cost principle and separate accounts by PPO service groups, it is necessary to respect, among others, the principles of completeness and objectivity. The principle of objectivity indicates that, in the case of assumptions within the framework of regulatory Reports, these assumptions must be justified and supported by relevant empirical data. In accordance with that, the surface of facilities should be measured according to use in different phases of the technological process, and the purpose of vehicles and equipment should be defined to the greatest extent possible. If it is not possible to perform measurements on the entire population, it is necessary to clearly define a representative sample, and document the process of selecting the sample, as well as calculating the allocation keys. All the above should be clearly described in the Implementation Description.

In the next step, the allocation of these costs from the phases of the technological process to specific products/ services is allocated, whereby the **"cost by cost" postulate** is used as the key of allocation. By applying this postulate, the costs are allocated to the bearers in the same way as the costs or groups of costs were allocated from the corresponding cost production centres in the first phase. In other words, the allocation key is the percentage share of the cost of a specific service/product in the total allocated costs in the first round. By applying the same key, the allocation of costs from non-production cost centres of postal activities of a specific character (Headquarters RWU/WU/PU) is also made to all products for which costs have already been allocated.

#### **F9. Inadequately defined allocation key (cost by cost) used for cost allocation from stages to products in the second allocation round**

##### **Regulatory framework:**

Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports – Article 14, 23

##### **Comment:**

During the analysis of the Implementation Description and model, it was found that the postulate cost by to cost was used as the key to the allocation, when allocating costs within the second round of allocation from phases to products. Article 23 of the Rulebook stipulates that the allocation from phases to cost bearers is carried out in compliance with the principles of causality, objectivity, correlation, and feasibility. The causality principle refers to the precise allocation of costs to the ultimate bearer of the cost, i.e., postal services of the PPO that caused them. The principle of objectivity indicates that the allocation of PPO costs to postal services is carried out based on an objective analysis of the causes of cost incursion, i.e., the engagement of resources, which initiates the occurrence of costs. Article 14 of the Rulebook stipulates that the principle of cost by cost can be used in situations where there is no possibility of allocation based on the nature of the cost. However, it was noted that when allocating costs from phases to products, there is a possibility of defining the keys of allocation in accordance with the nature of the cost, and accordingly, in this round of allocation and for this type of cost and cost centres, the postulate "cost by cost" cannot be used. In addition, the use of this postulate cancels the effect that was obtained during the allocation from the cost centres to the phases, where the facility surface or purpose was used as the keys of the allocation, depending on whether it is the cost of facilities or equipment and vehicles.

##### **Recommendation:**

When allocating costs from phases to products within the second round of allocation, it is necessary to use the key or keys of allocation that will more adequately indicate the causal relationships of resource expenditure (volume, mass, emergency coefficient, volumetry, etc.), in accordance with a detailed analysis of the entire technological process of providing services and specific activities. When defining the allocation keys, it is necessary to confirm and document the cause-and-effect relationship between the selected allocation key and the activity.

#### **Third round of allocation**

In the **third round**, costs are allocated from non-production cost centres of postal activity of a specific character (Service Function and Postal Network Function) to certain services/products through previously allocated costs in the first and second rounds ("cost by cost").



Cost groups that are allocated are: employee costs, facility costs, equipment costs, general purpose vehicle costs, depreciation costs of facilities, equipment and vehicles, other production costs, costs of internal transfers of employee, costs of internal transfers of vehicles.

In the third round, the following groups are also allocated: employee costs, facility costs, equipment costs, general purpose vehicle and transport vehicle costs, building, equipment and vehicle depreciation costs, other production costs, costs of internal transfers of employee, costs of internal transfers of vehicles from cost centre WU Srbijamarka, on certain products.

In the **third round** of allocation, when allocating costs from non-production cost centres of postal activity of a specific character (Service Function and Postal Network Function) to certain services/products, the postulate "cost by cost" is used as the key of allocation.

Considering that these are non-productive cost centres, in this case the use of the postulate "cost by cost" is justified.

#### **Fourth round of allocation**

In the **fourth round**, the allocation of costs of non-production cost centres of a general character is conducted to all products through previously allocated costs in the first, second and third rounds is allocated.

The groups of costs that are allocated are: employee costs, facility costs, equipment costs, vehicle costs, depreciation costs of facilities, equipment and vehicles, other production costs, costs of internal transfers of employee, costs of internal transfers of vehicle.

The cost centres from which the costs are allocated are the Finance and Economic Affairs Function, the Legal Affairs and Real Estate Management Function, the Personnel Management Function, the ITEKR Function, the Procurement, Investments and Maintenance Function, the Business Management of the Company, the Security and Protection Function, the Internal Audit Function, Strategy and Business Risk Assessment Function, as well as trade unions.

In the **fourth round** of allocation, when allocating costs from non-production cost centres of a general character to all products, the postulate "cost by cost" is used as the key to allocation.

Considering that these are non-productive cost centres, in this case the use of the postulate "cost by cost" is justified.

#### **2.2.4. Overview of cost segmentation and cost centres**

By reviewing the Implementation Description and the Annex to the Implementation Description, we have established that the Post has segmented costs in an adequate manner, and that it has separated direct and indirect costs. For both groups of costs, an explanation of how they are allocated is given. In addition, a specific list of direct costs is given.

Through review of the Implementation Description and The Annex to the Implementation Description, we found that the Post, starting from the organizational structure of the Company, formed a hierarchy of cost centres in the internal accounting system, i.e., that it performed segmentation of the cost centres. Segmentation of cost centres implies grouping of cost centres on two levels, whereby the following groups of cost centres are obtained (Regional work unit/Work unit/Regional unit - Headquarters, Regional work unit/Work unit/Regional unit - PNU, Regional work unit/Work unit /Regional Unit - PC and Regional Working Unit/Working Unit/Regional Unit - ATM). Other organizational units are segmented as individual units.

In addition, the Post has also segmented the cost centres of postal activity and other cost centres. The structure of the cost centre is listed in the Annex to the Implementation Description, with additional explanations about the type and purpose of the cost centre, during the analysis we did not see room for improvement.

#### **2.2.5. Overview of costs that are not included in the allocation**

By examining the Implementation Description, we noticed that the Post Office grouped costs according to whether they are the subject of allocation or not. The Description indicates that the costs that are not the subject of the allocation refer to the costs incurred during the business year that cannot be linked to the basic business of pe "Post of Serbia", Belgrade, and that: part of the costs recorded on the accounts of group 51, part of the costs recorded on the accounts of group 54 from the cost centre of the Republic of Kosovo and Metohija, as well as non-production costs recorded on accounts 56000000-59999999. A specific list of costs that are not included in the allocation is given in the Annex to the Implementation Description. During our analysis, we did not see any room for improvement.

#### **2.2.6. Overview of working capital treatment and calculation**

As part of the capital cost allocation process, the basis for calculation is first calculated, based on data on the net present value of fixed assets and the value of net working capital (the difference between current assets and short-term liabilities) by cost centre (phase of allocation to cost centre), which are obtained from the financial accounting system of PPO. The allocation of capital employed to the place of cost is done directly by posting in financial accounting and is given in Table 2.8 of the Annex to the Implementation Description.

For the purpose of verifying the reliability of regulatory Reports, we performed a check through recalculation of the value of working capital, on the basis of which the cost of employed capital is further calculated, during the analysis we did not see room for improvement.

#### **2.2.7. Adequacy of the calculation of the cost of capital and the application of the WACC rate to the employed capital**

Based on the methodology applied by PE "Post of Serbia", the corresponding capital costs for each individual product are calculated on the basis of the application of the average weighted price (cost rate) of capital to the engaged total fixed assets (capital).

*Cost of capital = K (capital) \* WACC (Weighted Average Cost of Capital)*

Weighted Average Cost of Capital i.e., WACC is determined by the Agency and may hire an external consultant for calculation.

The methodology of calculation and allocation of capital costs includes the process of allocation:

- total identified fixed assets from the appropriate group of cost centres, through the appropriate group of fixed assets, and then through the work process activities for each product and
- current assets and short-term liabilities from the corresponding group of cost centres, through the corresponding group of current assets and short-term liabilities for each product.

For the purpose of verifying the reliability of regulatory Reports, we recalculated the calculation of the cost of capital based on the capital employed and the defined WACC, during the analysis we did not see any room for improvement.



### ***2.2.8. Calculation of internal transfers within the model***

The methodology developed by the Post treats two groups of internal transfers of PPO, applying the principle of causality of engaged resources between organizational units where transfers are made: internal transfers that represent cost and internal transfers that represent income.

Internal transfers that represent the cost are generated by providing services between different organizational units of the PPO that directly or indirectly participate in the realization of the postal service. Internal cost transfers refer to the costs of employees, vehicles and other production costs and relate to services outside the postal activity.

Internal transfers representing income arise from the provision of postal services between different organizational units of the PPO. These are the costs of shipments sent by: WU headquarters, specialized WUs, trade unions and company functions, without postage charge, and for which services were performed by certain PNU.

Data on internal transfers can be found in Table 3 a – internal revenue transfer and 3 b – internal transfer of costs of regulatory Reports.

For the purpose of verifying the reliability of regulatory Reports, we compared data on internal transfers (income and expenses) from the internal accounting system (SAP) with data on internal transfers (income and expenses) from regulatory Reports. There is no room for improvement in this part.

### ***2.2.9. Compliance of input data with output data and audited financial statements***

The basic sources from which the input data necessary for the calculation and allocation of costs and the identification of income are collected are:

- Application "Statistics" (for data on minutes norms and volume of services);
- Operational records from other applications (for data on the volume of individual services for which information is not provided in "Statistics");
- SAP business information system, CO module and FI module (for financial data on income and expenses);
- SAP business information system, FI module (for financial data on fixed assets, current assets and short-term liabilities)

For the purpose of verifying the reliability of regulatory Reports, we compared the input financial data (revenues, expenses, assets and liabilities) from the model with the audited financial reports, and after the analysis, we did not find any room for improvement.

In addition, the input data was compared with the output data, that is, the results of the application, and after the analysis, we did not find any room for improvement.

### 3. Conclusion

Based on the analysis of the documentation submitted by the PPO, the Consultant was obliged to confirm consistency between the Implementation description and model provided by PPO, on one side, with the Rulebook on the manner of accounting separation application and reliability review of public postal operator's regulatory reports, on the other side, that is, to confirm that defined principles of separate accounting are actually applied. In that regard, a check was made of compliance with the obligation of accounting separation and allocation of costs of all services in accordance with the Rulebook and Article 36 of the Law. As noted, the result of the analysis are comments and conclusions based on the provisions of the Law, Rulebook, Methodology and recommendations from EU Directives and best practices in the field of regulatory reporting.

Through the analysis of the Implementation description of the Rulebook whose purpose is to describe a detailed methodological approach to the allocation of costs and model, it was found that the PPO made some progress compared to previous, trial regulatory Reports. First of all, it is a clear effort by the PPO to make a more adequate allocation of costs of facilities, vehicles, and equipment to products through the introduction of new allocation keys within the second round. However, we have identified that there is considerable room for improvement when it comes to both the Implementation Description and the model, which is shown through the findings and recommendations within this Report.

The most significant room for improvement refers to the need of introduction a new allocation keys within the first and second rounds of allocation, which will more adequately indicate the cause-and-effect relationship of resource consumption. In addition, there is a clear room for improvement in terms of more adequate definition of the links between activities and products, both within the Implementation description and the Model. The following table presents the summary of our observations through sections in which they are described in detail. Observations are grouped in two parts: findings (labelled as „F“), which are results of deviations from certain regulatory framework elements, and other recommendations (labelled as „OR“), which are not the result of significant deviations, but rather ways in which the PPO could further improve the understanding of the Implementation Description by its users, and subsequently, contribute to increased compliance with the Law, the Rulebook, and the Methodology.

Analysis of the Implementation description and Model			
Section name	Label	Description	Page number
<i>Findings and recommendations</i>	F1	Undefined methodology for determining the allocation key in the second round of allocation	14
	F2	Incompleteness of information on the allocation of vehicle costs in the second round of allocation	14
	F3	Incompleteness of information on the allocation of costs in the third round of allocation	15
<i>Other recommendations for improvement</i>	OR1	Inconsistency of data on the total number of branches	15
	OR2	Non-updated data in the section related to trends and significant changes	15
	OR3	Lack of information on the time frame of the process steps for the preparation of regulatory accounting Reports	16
	OR4	Inconsistency between the content of the Implementation Description and the Rulebook	16
	OR5	Incompleteness of information on adjustments of regulatory Reports	16

	OR6	Inconsistency of data on the rate of capital employed in the Implementation Description	17
	OR7	Inconsistency of labels and data in the Implementation Description and the Annex of the Implementation Description	17
	OR8	Description of the calculation of target revenue of postal services	17
<b>Analysis of reliability of regulatory Reports – forms</b>			
Section name	Label	Description	Page number
<i>Regulatory Reporting process and control environment review</i>	F4	Inadequately defined links between activities and products	18
	F5	Joint posting of international settlement costs	19
	F6	Unclearly defined controls in the process of preparing regulatory Reports	19
<i>Allocation flow overview and analysis of used allocation methods and keys</i>	F7	Inadequately defined allocation keys when allocating costs from activities to products in the first round of allocation	22
	F8	Sample used in the calculation of allocation keys in the second round of allocation is not clearly defined	23
	F9	Inadequately defined allocation key (cost by cost) used for cost allocation from stages to products in the second allocation round	24

Through the analysis carried out, due to the unclear effect of the allocation keys that are currently used and the impossibility of providing data by PPO that would enable the definition of allocation keys that would more adequately reflect the cause-and-effect relationships between costs, activities and products, it is not clear how and to what extent the determined deviations could have impacted the price of individual services, nor whether revenues from reserved postal services are used to subsidize other postal services or other business activities. As the deviations from the Rulebook and best practices were identified, both within the Implementation description, which represents the methodological basis, as well as within the model, which represents the calculation of cost allocation, regulatory reports and the prices determined in this way are not fully in accordance with the Rulebook and best practice in the field of regulatory reporting.



## **Annex – list of submitted documentation**

- Implementation description as defined within the Article 34 of the Rulebook, for the year 2021
- Annex of the Implementation description
- Regulatory Reports - Tables 1-13.
- Rulebook on statistics and norms in technological stages in work processes
- Trial balance for 2021
- Report of the independent auditor for 2021
- Consolidated audit Report for 2021
- Business program of PE Post of Serbia for the year 2021
- Price lists
- Study on the calculation of the WACC rate for the year 2021
- Documents with input parameters for MOT application
- Analytics from the Statistics program
- Revenue, product volume, cost, and equity analytics for 2021
- Documentation necessary for checking the IT control environment
- Other subsequently requested documentation