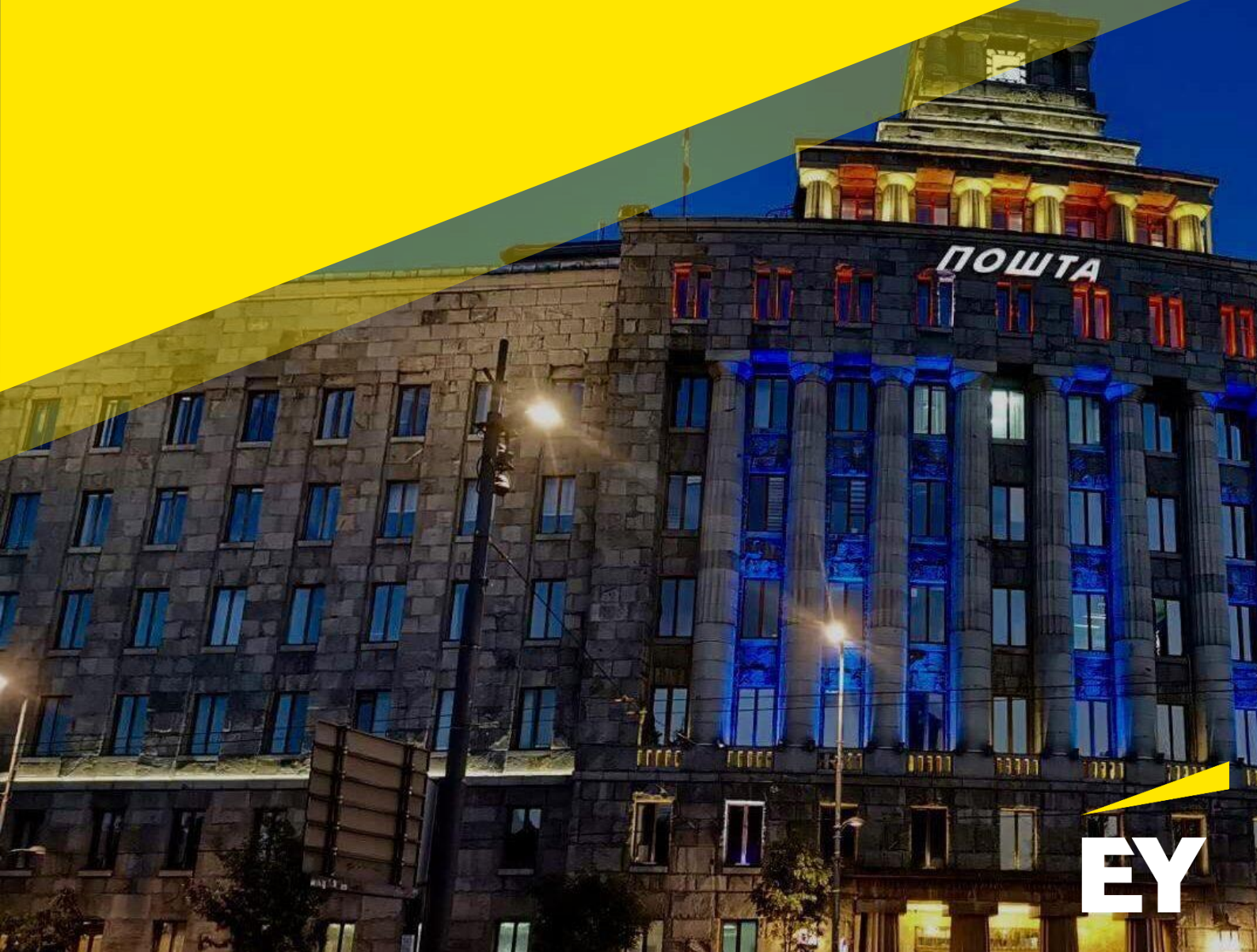


# Verification of reliability of regulatory reports of the Public Postal Operator for 2023

## *Report on the established facts*

*December 2024.*





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## Abbreviations and terms

<b>RATEL / Regulator</b>	Regulatory Authority for Electronic Communications and Postal Service
<b>PPO/ Post</b>	Public Postal Operator/PE Post of Serbia
<b>EY</b>	„Ernst & Young Consulting“ 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 & no. 48/2024 from 31 May 2024, in effect from 8 June 2024)
<b>Methodology</b>	Methodology on the manner of accounting separation application and reliability review of public postal operator's regulatory Reports, 2020
<b>Description of the Implementation</b>	Description of the Implementation as defined in Article 34 of the Rulebook



## 1. Purpose and framework of Report preparation

The aim of this report is verification of the reliability of regulatory Reports of the PPO and compliance with the Rulebook by an external consultant, so that the Authority would be able to publish the Report prescribed by the Law (article 36, paragraph 12).

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

This Report is prepared exclusively for the needs of the RATEL. The Report processes facts that are specific to the needs of the RATEL and PPO, and when preparing the Report, EY did not take into account the specific requirements that third parties may have regarding the content of the Report. EY assumes no obligations or liability to any third party regarding the content of the Report, nor can any third party rely on the content of the Report. The Report is confidential, and the information contained in the Report is protected by a contractual obligation of confidentiality. EY retains copyright in the Report and all other intellectual property rights.

This Report is based solely on the documentation prepared and submitted for inspection by the Post of Serbia (the list of submitted and analyzed 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 RATEL and is based on certain facts and conditions, in accordance with the terms of the Service Procurement Contract no. 1-06-4042-43/24-11, concluded on June 17, 2024, as well as the Contract Annex no. 1-06-4042-43/24-17, between the RATEL and EY. This document refers to the part of the project assignment that concerns the preparation of a Report for the RATEL on the established factual situation and possibly observed deficiencies and irregularities, in order to ensure the conditions for fulfilling the Authority's legal obligations.

No third party may refer to this Report. Third parties who refer to the same do so solely at their own risk. To the fullest extent permitted by law, EY accepts no liability or liability to such third parties in connection with the preparation of this Report.

The content and presentation of the data in this Report cannot be changed without the prior written permission of EY.

This Report is based on the legal provisions applicable on the date of issue. EY is not responsible for updating Reports in accordance with changes in legal provisions, regulations, or post-issue decisions. Over time, the laws, decisions, and opinions of the competent authorities change. Such changes may require a revised evaluation of the facts.



## 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 RATEL, 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 Description of the Implementation and model submitted by the PPO with the Rulebook was carried out. The full analysis, with findings and recommendations, can be found in Chapter 2 of this Report.

Our approach to analyzing 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 Description of the Implementation 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 1.2, 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 & no. 48/2024).
- Relevant EU directives.



In our analysis, we considered the documentation (Annex) submitted to the RATEL 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 current Law on Postal Services of the Republic of Serbia (Official Gazette no. 77/2019), 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 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 service;
- 4) Delivery of packages of up to 20 kg in international postal service
- 5) Secograms which weigh up to seven kilograms without charging postage in internal postal service.

**Universal postal service** from paragraph 3 of this Article, in internal and international postal service 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 letter post mailings of up to 50 grams;
- 2) receipt and/or processing and/or delivery of documents in court, administrative and misdemeanour 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 service.

#### 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 service;
- 2) reception, processing and transportation of packages over ten kilograms in international postal service, in departure;
- 3) processing, transportation and delivery of packages over 20 kg in international postal service, 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

In accordance with Article 2 of the Law, 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 Authority. 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 PPO 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 PPO 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 Authority may further regulate the manner of keeping separate accounting and verification of authenticity. Also, the Authority 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 of the Law.

The introduction of the new Law on Postal Services in the Republic of Serbia is underway, which aims to improve regulations in this area and adjust to the modern needs of users. The Ministry of Information and Telecommunications conducted a public hearing on the Draft Law, within which the proposals and opinions of the professional public, business entities and service users were considered.

In the context of the changes that will potentially follow the amendments to the Law, regulatory and methodological practices will be recognized and applied in terms of regulation and monitoring of reporting, which will improve and adjust activities in this part of the business.

### **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 Authority 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 PPO groups;
- bases for determining the price level of the universal postal service;
- prevention of the dominant position of PPO 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 Authority and its availability to the Authority.

The internal accounting system of the PPO 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 PPO, 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 Authority by the PPO 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 Authority 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. PPO cost account segmentation
  - Table 2. Segmentation of PPO cost centres by related costs
  - Table 3a. Internal transfer of PPO income
  - Table 3b. Internal transfer of PPO income
  - Table 4. Production MT: Allocation of actual direct costs and MT costs to PPO phases
  - Table 5. Non-productive MT: Allocation of actual direct costs and MT costs to PPO phases
  - Table 6. Allocation of phase costs to PPO 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 PPO services, with clearly indicated dates of their application.



9) Other Reports at the request of the Authority



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

### **2.1. Analysis of the Description of the Implementation 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 Description of the Implementation, 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 center structure.
  - identified direct and indirect costs.
  - detailed information about the stages of cost allocation, cost center 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 the above, we performed an analysis of the consistency of the Description of the Implementation and the model described in it with the Rulebook, as well as with the activities that take place in practice. By analyzing the submitted documentation, we determined that PPO made progress in terms of compliance with the recommendations from the previous report and the Rulebook. Certain efforts have been made in adjusting and updating the recommendation related to corrective factors, which are described in more detail in the Description of the Implementation, in such a way that the parameters used for the corrective factors are listed, as well as the causes of potential changes that may condition changes in the value of the calculation of corrective factors or the inclusion of parameters. However, despite the mentioned improvements, we believe that



there is room for improvement of the model itself, in the context of adjusting the model, which would relate to the implementation of the quantitative impact of parameters on corrective factors.

Additionally, recommendations that have been adopted are related to updating the Description of The Implementation, in terms of using the relevant data, or more precisely, the data from the year the reporting is done for.

Progress has also been made in adjusting the model in terms of the calculation of discounts by services, in which the services from the domain of universal postal service are separated by the quantity criteria. A comparative overview of the cost of the services with the calculated discount and the average cost per mass is presented. Although this part is added to the model, there is room for improvement in the calculation and clarity of the model, as well as updating regulatory reports for this part of the calculation.

However, despite the above-mentioned shifts that have been adopted and refined in the model and descriptively, we believe that there is still room for improvement of the model itself, and also, the model and the Description of the Implementation should be completely aligned. This primarily refers to the transparency of the model in Excel and the method of calculating correction factors. Accordingly, below are presented the findings we have reached, as well as other recommendations for improvements.

### **2.1.1. Findings and recommendations**

#### **F1. Transparency of the cost calculation model**

**Regulatory framework:** Rulebook on the manner of conducting separate accounting and verifying the reliability of regulatory reports of PPO - Article 4.

**Comment:**

In 2023, the PPO decided to develop a new cost calculation model. This model was developed in Excel, adding flexibility in terms of using various allocation methods needed for proper cost allocation. However, the model is complex, with numerous tables organized in a manner that can complicate the verification and understanding of the calculation process. Additionally, given the number of subsequent adjustments, any future changes to the model, such as adding or removing products, activities, or other parameters, may require significant time. Such complexity can increase the risk of errors in the cost calculation.

**Recommendation:**

Until the conditions for automation of the calculation are met, it is necessary to adjust and organize the Excel model in a way that will facilitate easy tracking of the model's flow, with implemented controls to ensure that all costs are allocated to all products.

#### **F2. Costs that are/are not subject to allocation**

**Regulatory framework:** The Rulebook on the Method of Conducting Separate Accounting and Verification of the Reliability of Regulatory Reports for PPO - Article 19.

**Comment:**



By reviewing the Description of the Implementation within the Cost Center Structure section, it was observed that other cost centers are listed as subject to allocation, even though Article 19 of the Rulebook defines that these other cost centers are not subject to allocation or are only partially subject to allocation if they support postal activities.

**Recommendation:**

We believe that this section of the Description of the Implementation needs to be adjusted to clearly and unambiguously indicate which costs are subject to allocation, which are partially subject to allocation, and which are not subject to allocation, in accordance with Article 19 of the Rulebook.

**F3. Alignment of the Description of the Implementation with the Rulebook, in the part related to Cost of Capital**

**Regulatory framework:** The Rulebook on the Method of Conducting Separate Accounting and Verification of the Reliability of Regulatory Reports for PPO - Article 30

**Comment:**

It has been noted that the Description of the Implementation in the part related to the Cost of Capital is not fully in line with the amendments from the Rulebook (amendment of 31.05.2024). The amendment refers to the formation of the selling price of postal services, in the event of a significant increase in operating costs caused by inflation.

**Recommendation:**

It is necessary to add in the Description of the Implementation the part that has been updated in the Rulebook and which refers to the formation of the selling price of postal services, in the event of a significant increase in operating costs caused by inflation.

**2.1.2. Other recommendations for improvement**

Below is an overview of other recommendations for improvement, which are not the result of significant deviations from regulations, but their implementation will contribute to better understanding of the Description of the Implementation by users, and thereby better alignment with the Law, Rulebook, and Methodology.

**OR1. Market trend information**

**Regulatory framework:** /

**Comment:**

During the review of the description of the implementation, it was noted that an analysis of trends in the postal services market was conducted, describing how they affect the operations of the postal service, and that the estimates of service volumes and revenues for the upcoming period





are aligned with the identified trends. During the analysis, it was identified that the source of historical data for the market trend estimates of revenue and service volumes, which are found in the tables on page 7, is not clearly indicated.

**Recommendation:**

It is necessary to specify the source of historical data for the trend estimates of revenue and postal service volumes found in the tables, in order to facilitate the verification of their accuracy.

**OR2 Data on the formation of a special product and the expansion of the product list**

**Regulatory framework:**

/

**Comment:**

By reviewing the description of the implementation, in the part related to the allocation of costs to activities and products/services, it was noted that there is data on the formation of a special product (supplements) and the expansion of the product list with new products from IPS. Namely, this observation was also present in the previous description of the implementation, and in addition, based on the submitted Appendix, it was determined that the product list has not been changed compared to the previous year, and therefore cannot be considered expanded.

**Recommendation:**

It is necessary to adjust the part of the description of the implementation related to the expansion of the product list and the formation of a new product (supplements) in accordance with the current list, considering that this product can no longer be considered new, as it was introduced last year according to the documentation.

**OR3. Consistency between SAP and the service list from the price list**

**Regulatory framework:**

/

**Comment:**

To avoid the need for subsequent adjustments and to ensure that the model encompasses all services comprehensively, it is necessary to separate all services directly within SAP. This would also reduce the need for manual separations that were conducted this year.

**Recommendation:**

Fully align the service records in SAP with the official price list of services.

**OR4. Overview of services on which discounts are applied**

**Regulatory framework:** /

**Comment:**

**Comment:**

In order to align the overview of the costs of services to which discounts are applied with the overview of costs in regulatory reports, it is necessary to adjust the model in this part.

**Recommendation:**

There is room for improvement in the calculation within the model itself, in terms of clarifying the logic of how the weights which used to adjust the values of standard minutes, were obtained, and the clarity of the model for services to which discounts are applied, as well as updating the regulatory reports where a higher level of detail is expected based on the conducted calculations (tables 12 and 12a).

## OR5. Coordination of PPO Organizational Units in the Preparation of Regulatory Reports

**Regulatory framework:** /

**Comment:**

Within the description of the implementation for the year 2023, it has been observed that there is no information about the organizational units of PPO that were responsible for the preparation of regulatory reports. Adding the dynamic plan for the preparation of regulatory reports would enable improved coordination of the work of organizational units, which could significantly contribute to more efficient preparation of regulatory reports and a clear allocation of duties and responsibilities.

**Recommendation:**

In the upcoming calculations, it is necessary to clearly define the responsibilities of relevant functions within PPO, taking into account their expertise and availability of data required for the calculation.

## 2.2. Analysis of the reliability of regulatory reports

Below are the results of the analysis of the reliability of regulatory reports, accompanied by comments and recommendations where there is room for improvement.

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

In line with the recommendations from the previous year, the postal operator presented a dynamic plan of activities conducted in the process of preparing regulatory reports within the Description of



the Implementation. According to this plan, the process of preparing regulatory reports includes 3 steps: preparatory activities, development of Excel model, and preparation of regulatory reports.

The development of the model includes consideration of the activities that are carried out during the performance of an individual service in accordance with the Rulebook governing statistics and norms in technological phases, determining the physical scope of services, linking/mapping activities with the relevant service/product and defining allocation keys. After that, the definition of the carrier/driver of revenues by types of postal services and by technological phases, the inclusion of capital costs and consideration of internal transfers, as well as the preparation of regulatory reports, were carried out.

#### **F4. Deadline for submitting the Description of the Implementation and other documentation prescribed by the Rulebook to RATEL**

**Regulatory framework:**

Rulebook on the manner of maintaining separate accounting and checking the credibility of regulatory reports of the PPO - Article 38

**Comment:**

Considering that the regulatory reports and accompanying documentation were submitted during August 2024, a review of the Rulebook revealed that the deadline for submitting the Description of the Implementation and other documentation prescribed by the Rulebook was not met. According to the provisions of the Rulebook, the obligation of the Public Postal Operator is to submit the Description of the Implementation, regulatory reports, and other documentation to RATEL no later than June 30 of the current year for the previous year. For the year 2023, this should have been done no later than June 30, 2024.

**Recommendation:**

In future periods, special attention needs to be paid to the deadline for submitting the documentation prescribed by the Rulebook.

#### **F5. Unclearly defined controls in the process of preparing regulatory reports.**

**Regulatory framework:**

Rulebook on the manner of maintaining separate accounting and checking the credibility of regulatory reports of the PPO - Article 3.

**Comment:**

By examining the process of cost processing and allocation, it has been observed that the control steps are ambiguously defined in certain parts of the process. Consequently, this has increased the risk of errors in further allocation, understanding the process, and the ability to control and identify inconsistencies and potential mistakes.

**Recommendation:**

We believe that it is necessary to clearly define controls in the process of preparing reports, i.e., to define the method of implementing each control, the part of the process in which the control is carried out, its frequency, the type of control (automatic or manual), and responsibility for its implementation. Where controls already exist in practice, it is essential to document their execution and define the "trace" of the control. All controls that are implemented need to be described within the Description of the Implementation, where this has not already been done.



Controls that need to be defined, documented, and subsequently described within the Description of the Implementation, where it has not already been done, are as follows:

- Controls during the setup of the cost allocation model – verifying the adequacy of the links between activities and products/services, checking the consistency of the list of products/services to which costs are allocated with existing products/services, and other controls for steps executed manually.
- Controls for the consistency of input and output data at each step of the allocation.
- Controls for the accuracy and completeness of filled-out forms.
- Control for the consistency of output data with audited financial reports.
- Controls for the cost calculation model in the Microsoft Excel

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

In line with 2022 year's recommendations, PPO has developed a new model of the Methodology using Microsoft Excel. Considering the fact that no IT systems were used for the calculation itself, i.e., the MOT system was not utilized, there was no review of the IT system's control environment this year. According to PPO's announcement, we should expect further application development of the Cost Calculation Methodology model in the upcoming period.

### ***2.2.3. Overview of the allocation process and analysis of the methods and allocation keys used***

Upon reviewing the Description of the Implementation, we have determined that the first step in cost allocation is calculating the value of a standard activity time expressed in minutes. Specifically, to carry out the cost allocation, cost groups were formed in accordance with the types of expenses: employee costs, facility costs, equipment costs, vehicle costs, depreciation costs of facilities, equipment, and vehicles, other production costs, internal transfers of employee costs, internal transfers of vehicle costs, and internal transfers of other production costs.

Additionally, the list of activities aligns with the activity list from the application Statistics. Then, employee costs were separated based on technological workstations from employee costs in administration. They were divided by the total number of standard activity time expressed in minutes generated within the Company for all activities performed in the service delivery across all technological phases, resulting in the cost per standard activity time expressed in minutes.

Based on the calculated cost per standard activity time expressed in minutes, the employee costs on technological workstations in all technological phases in service provision were determined. The number of standard activity time expressed in minutes with which a specific product participates in a particular activity is obtained by dividing the total quantity of the product for 2023 by the sum of all products participating in that activity and multiplying it by the total quantity of standard activity time expressed in minutes. The standard activity time expressed in minutes for a specific product are divided by the assigned correction factor, which is influenced by factors such as shipment mass, dimensions, urgency in service provision, and similar criteria.

The obtained result is divided by the sum of such results for each product participating in the observed phase. The resulting coefficient is then multiplied by the total quantity of standard activity time expressed in minutes for all activities in that phase, yielding the overall quantity of standard activity time expressed in minutes for the product in that specific phase. The cost per product in a particular phase is calculated as the product of the cost of one standard activity time expressed in minutes and the total quantity of standard activity time expressed in minutes allocated to that product in that phase.



All other costs that are not employee costs at technological workstations are allocated to products by establishing a mathematical relationship between realized costs and the quantity of the product, introducing appropriate correction factors. These correction factors are determined using an empirical principle.

## F6. Calculation of corrective factors

### Regulatory framework:

Rulebook on the method of maintaining separate accounting and verifying the credibility of regulatory reports for public enterprises - Articles 4, 13, 22.

### Comment:

To improve the allocation of costs from service activities, corrective factors were applied in the calculation, reflecting the specificities of individual services.

By reviewing the Description of the Implementation, it has been noted that additional effort has been made to provide a clearer explanation in the process of determining the corrective factors compared to the previous year. An overview of the parameters that influence the determination of corrective factors for the mapped products (parameters such as the volume and type of postal services, the number of standard minutes, etc.) is given, as well as the criteria used for selecting parameters and the causes of potential changes in corrective factors, or the parameters included in them. However, despite the noticeable progress compared to the previous year, the corrective factors are determined based on empirical principles, taking into account the characteristics of a particular service, such as weight, volume, urgency in providing the service, and the like, which cannot be mathematically verified.

### Recommendation:

Although an improvement has been made compared to the previous year, in future calculations, it is recommended to develop a method for calculating corrective factors based on quantitative data and calculations that can be mathematically verified and which could confirm adherence to the principle of causality. The model needs to be adjusted based on the updated Description of the Implementation, in the context of adding or redistributing the mentioned parameters of corrective factors for each product. Specifically, the percentage participation of each parameter can be quantitatively presented. Accordingly, it is necessary to add an explanation of the calculation of corrective factors in the Description of the Implementation, which would describe the distribution and method of calculating the corresponding parameters for each product.

### 2.2.4. Overview of cost segmentation and cost centers

By reviewing the Description of the Implementation and the Annex to the Description of the Implementation, 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 Description of the Implementation and The Annex to the Description of the Implementation, we found that the Post, starting from the organizational structure of the Company, formed a hierarchy of cost centers in the internal accounting system, i.e., that it performed segmentation of the cost centers. Segmentation of cost centers implies grouping of cost centers on two levels, whereby the following groups of cost centers 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 centers of postal activity and other cost centers. The structure of the cost center is listed in the Annex to the Description of the Implementation, with



additional explanations about the type and purpose of the cost center, 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 Description of the Implementation, 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 center of the Republic of Kosovo and Metohija, as well as non-production costs recorded on accounts 5600000-5999999. A specific list of costs that are not included in the allocation is given in the Annex to the Description of the Implementation. 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 center (phase of allocation to cost center), 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 Description of the Implementation.

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 Authority 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 centers, 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 centers, 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 3a – internal revenue transfer and 3b – 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.

## **F7. Incompleteness of regulatory reports**

**Regulatory framework:** Rulebook on the manner of keeping separate accounting and verifying the credibility of regulatory reports of the PPO - Article 33

**Comment:**

Although additional effort has been made to explain the factors influencing the pricing of products and services in international postal service in the Description of the Implementation, the model itself does not clearly show the method of cost formation for international postal services (IPS). Specifically, the model does not show the method of forming the coefficients used in cost calculations by zones in IPS. Additionally, the submitted regulatory report does not show the



calculation of categories at the level of detail required by tables 11 and 12 (for cost price categories per unit, target revenue per unit, and capital cost per unit).

Furthermore, in the submitted regulatory report, table 12a has been added, showing the calculation of discounts, costs, and capital per unit for subsequently calculated products. Although some progress has been observed in the model compared to the previous year, the given calculations are still not presented at the level of detail required by tables 11 and 12 in the regulatory reports for all products (for cost price per unit and capital cost per unit, while the target revenue has not been calculated). Additionally, table 12a needs to be incorporated into the table 12 to ensure the list of tables complies with the Rulebook.

#### **Recommendation:**

It is necessary to elaborate in more detail the method of cost and price formation in international postal services (IPS). To be more exact, it is essential to provide a presentation of the formation of coefficients used in calculating costs by zones in IPS.

In the next calculation, it is necessary to initially include all services that are included in the price list (as well as in the Rulebook on establishing uniform tariff rates for the universal postal service (Official Gazette of the RS, number 111/20)), where the calculation will include all the details required by the prescribed forms of regulatory reports.

Additionally, it is necessary to align the cost calculation model and regulatory reports, i.e., to enter all calculated data from the model into the regulatory report.





### 3. Conclusion

Based on the analysis of the documentation provided by the PPO, the consultant was obliged to confirm the consistency of the Description of the Implementation and the model provided by PPO with the Rulebook on the method of maintaining separate accounting and verifying the credibility of regulatory reports of PPO, i.e., to confirm that the defined cost accounting principles are indeed applied. For this purpose, a review was conducted to ensure the alignment of the accounting separation obligation and the allocation of costs for all services in accordance with the Rulebook and Article 36 of the Law. As noted, the results of the analysis consist of comments and conclusions based on the provisions of the Law, the Rulebook, the Methodology, and recommendations from EU Directives and best practices in the domain of regulatory reporting.

Through the analysis of the Description of the Implementation of the Rulebook, which aims to detail the methodological approach to cost allocation and the model, it has been established that the public enterprise PPO has made clear progress compared to previous regulatory reports. Efforts have been made by the Public Postal Operator (PPO) to ensure a clearer cause-and-effect relationship in resource consumption through the refinement of the model, i.e., a more adequate allocation of costs from cost centers to products, in the part of the presentation of services by quantities on which discounts are calculated. Additionally, certain progress has been made by adding the description of the creation of corrective factors, as well as by adding the description related to the pricing of services in international postal services (IPS).

However, we have identified that there is room for improvement both in the Implementation Description and the model, which is also reflected in the findings and recommendations within this report. The most significant area for improvement is still related to the calculation of corrective factors, which are currently determined based on management experience and assessment as a transitional solution. Additionally, improvements are recommended in the regulatory reports in the part of the presentation of the calculation of services to which discounts are applied, as well as in terms of the calculation of services in international postal services (IPS) by zones and the alignment of the overview with regulatory reports, so that they include all services for which the unit cost and target revenue are calculated and which are given in the price list.

Finally, there is room for progress in terms of the transparency of the cost calculation model and defining controls in the process of preparing regulatory reports.

Below is a summarized overview of observations by sections and chapters, which are detailed in this report. Observations are divided into two groups: findings (marked as "F"), which result from deviations from individual elements of the regulatory framework, and other recommendations (marked as "OR"), which are not a result of significant deviations from the regulation but whose implementation will contribute to a better understanding of the Description of the Implementation and reports by users, thereby ensuring better alignment with the Law, Rulebook, and Methodology.

Analysis of the Description of the Implementation and Model			
Section Title	Label	Brief Description	Page Number
<i>Findings and Recommendations</i>	F1	Transparency of the Cost Calculation Model	15
	F2	Costs that are/are not subject to allocation	15
	F3	Alignment of the Description of the Implementation with the Rulebook, in the part related to Cost of Capital	16

<i>Other Recommendations for Improvement</i>	OR1	Market Trend Information	16
	OR2	Data on the formation of a special product and the expansion of the product list	17
	OR3	Consistency between SAP and the service list from the price list	17
	OR4	Overview of services on which discounts are applied	17
	OR5	Coordination of organizational units within the public enterprise PPO in the preparation of regulatory reports	18
<b>Analysis of the credibility of regulatory reports - templates</b>			
<b>Section Title</b>	<b>Label</b>	<b>Brief Description</b>	<b>Page Number</b>
<i>Process of preparing regulatory reports and review of the control environment</i>	F4	Deadline for submitting the Description of the Implementation and other documentation prescribed by the Rulebook to RATEL	19
	F5	Unclearly defined controls in the process of preparing regulatory reports	19
<i>Overview of the allocation process and analysis of the methods and allocation keys used</i>	F6	Calculation of corrective factors	21
<i>Compliance of input data with output data and audited financial statements</i>	F7	Incompleteness of regulatory reports	23

Through the conducted analyses, it was determined that the JPO adopted most of the recommendations from previous years, and significantly improved the model of unit cost calculation. As can be seen from the table above, there is some room for improvement, through further adjustment both within the Implementation Description, which is the methodological basis, and within the model itself, which represents the calculation of cost allocation in accordance with the Rulebook and best practice, and mostly in the part related to the basic prices of letter services in international postal service. However, it should be emphasized that, apart from the services in the IPS, the findings and deviations do not significantly affect the results of the model, and it can be concluded that the regulatory reports and the prices determined through them are mostly in accordance with the Rulebook.



## **Appendix – List of Submitted Documentation**

- Description of the Implementation Methodology for Separate Accounting of PP „Post of Serbia” Belgrade for the year 2023.
- Appendix to the Description of the Implementation.
- Regulatory Reports - Tables 1-13.
- New model of the Cost-based Calculation Methodology.
- Gross Balance Sheet for the year 2023.
- Independent Auditor's Report for the year 2023.
- Consolidated Auditor's Report for the year 2023.
- Business Program of PP "Post of Serbia" for the year 2024.
- Report on the degree of implementation of the business program.
- Price lists.
- Study on the calculation of the WACC rate for the year 2023.
- Revenue, product volume, cost, and capital analytics for the year 2023.
- Other documentation requested subsequently.