

# Public Financial Management Performance Measurement Report Serbia Municipalities

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**Municipality of Knjaževac**

**REPIM Ltd for SECO**

**This document covers the Summary Assessment and Section 3 for the PEFA assessment report for Knjazevac. It needs to be read in conjunction with the PEFA cover report “*Public Financial Management Performance Measurement Report - Serbia Municipalities*”.**

**May 2015**

## **Currency and indicative exchange rates**

Local currency unit = Serbian Dinar

100 RSD= €0.82 =US\$1.105

### **Fiscal Year**

01 January - 31 December

### **Years covered**

FYs 2011, 2012 and 2013 and  
Information at time of Assessment

### Acronyms

AGA	Autonomous Government Agency
ATU	Administrative Territorial Unit
BC	Budget Circular
BSL	Budget System Law
CG	Central Government
COFOG	Classification of the Functions of Government
DBB	Direct Budget Beneficiaries
EBE	Extra Budgetary Expenditure
EC	European Commission
EU	European Union
FMC	Financial Management Control
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GIZ	Gesellschaft für Internationale Zusammenarbeit
GOS	Government of Serbia
IA	Internal Audit
IBB	Indirect Budget Beneficiaries
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IT	Information Technology
LSG	Local Self Government
LM	Line Ministry
MOE	Municipality Owned Enterprises
MOF	Ministry of Finance
MTBO	Medium Term Budget Outlook
MFBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFO	Medium Term Fiscal Outlook
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PPL	Public Procurement Law
RS	Republic of Serbia

RINO	Register of Reconciliation (Settlement) of Financial Obligations
SAI	State Audit Institution
SCTM	Standing Conference on Towns and Municipalities
SECO	Swiss State Secretariat for Economic Affairs
SEIO	Serbia EU Integration Office SEIO
SN	Sub National
STA	Single Treasury Account
SWG	Sector Working Groups
TA	Technical Assistance
USAID	United States Agency for International Development

## Preface<sup>1</sup>

Knjaževac municipality is located in eastern Serbia, near the border with the Republic of Bulgaria and is part of the Timok region. It is located on the northern latitude of 43 ° 20 'to 43 ° 45' and east longitude of 22 ° 11 'to 22 ° 41'. The municipality covers an area of 1,202 km<sup>2</sup> and it is the fourth largest in the Republic of Serbia. A significant part of Knjaževac is part of the hilly-mountainous region.

There are live 37,172 inhabitants, 19,705 which are in the town of the municipality name (data from the last census in 2002). The average population density is 31 inhabitants per km<sup>2</sup>, which is classified as a sparsely populated municipality.

Knjaževac was settled during prehistoric times, the evidenced of this are settlements of Baranica, Škodrino polje, Dubrava, etc., horseman cave drawing in Gabrovnica and other archaeological findings. The ancient chronicler Pliny (II century AD) records this territory as a part of the Roman province of Moesia in which lived the Mezi people, Thracians, Dardanians, Tribals, Timahs, who had been formed, in symbiosis with the Slavic tribes, the local indigenous population of Timočani, called Putuklije.

Roman fort Timacum Minus, near village of Ravna, with excavated walls, parts of the civil settlement, the rich necropolis, explains the history of the period of Knjaževac area until the Middle Ages. In the town the remains of the other famous, Late Roman town, Timacum maius were found.

Rapid development started in 1960 when the clothing industry started "Branka Dinić" shoe factory "Leda", tractors and machinery industry IMT, Timok furniture industry "Tina", a wine cellar became the "Džervin. The period since 1970 until 1985 was the most important in current development of Knjaževac in all elements of economic and social development. During this period, some buildings which are symbols of Knjaževac were build, namely: the Cultural Center, Health Center, Kindergarten, and kindergarten network, several apartment blocks, and, as for the culture one national festival is best known the Festival of Youth Culture of Serbia, which was established in 1962 and continues until today.

In accordance with the Law on Local Self-Government (Official Gazette of RS, no. 129/2007<sup>2</sup>) municipal bodies are the Municipal Assembly, the Mayor, Municipal Council and Municipal Administration. (Rulebook on internal organization and job classification of the Municipal Administration of Knjaževac (Decision of the Head of Municipal Administration No. 020-397/2013-03 of 21.08.2013.)

The Municipal Administration has the following Departments:

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<sup>1</sup> Paul Harnett and Siniša Jovanović carried out the field work and drafted this assessment

<sup>2</sup> Address for all published Gazettes:

[http://www.knjazevac.rs/index.php?option=com\\_content&view=article&id=76%3A2009-07-21-09-57-48&catid=17%3A2009-07-14-09-25-13&Itemid=62&lang=sr](http://www.knjazevac.rs/index.php?option=com_content&view=article&id=76%3A2009-07-21-09-57-48&catid=17%3A2009-07-14-09-25-13&Itemid=62&lang=sr)

- The Mayor's Office
  - performs professional, advisory, operational, organizational, administrative and technical tasks within the jurisdiction of the Mayor and Deputy Mayor
- Department of City Planning, Housing and Communal Property Affairs
- Department of Budget, Finance, and the assessment and collection of local revenues
  - Budget preparation and execution,
  - Performs the tasks of the STA as well as the financial planning which includes: projections and monitoring of inflow on the STA and requests for execution of expenditures and defining quarterly and monthly quotas of commitments and payments,
  - Preparation of legal and other documents relating to public procurement,
  - Determines revenues, collection and control of local public revenues and ensure the rights and obligations of taxpayers,
  - Payroll.
- Department of Economic and Social Affairs
  - Performs administrative supervision over the work of cultural institutions founded by the municipality as well as public companies, tourism organizations, social protection institutions, preschools and other legal entities established by the municipality.
- Department of General Administration and General Affairs
  - Human Resources management
- Department for Inspection Affairs
- Department of Professional and Legal Affairs of municipal bodies
  - Prepares the normative and other acts to be passed by the Municipal Assembly, the Mayor and the Municipal Council,
  - Provides legal opinions to the Municipal Assembly, the Mayor and the Municipal Council of the legality of all their legal acts.

There are statutory bodies in the municipality which are responsible for oversight and scrutiny of the departments as well as being part of the overall administration. There is the Direction for the Development, Urbanization and Building which main activity is the construction and maintenance of municipal infrastructure and public facilities and other public property, which are financed by public revenues, in accordance with legal regulations.

**The Mayor** of Knjaževac who:

- Represents the municipality;
- Suggests a way of solving the issues to be decided by the aAssembly;
- Orders for the execution of the budget;
- Directs and coordinates the work of the municipal administration;
- Adopts individual acts for which he is authorized by law, statute or decision of the assembly;

- Perform other duties stipulated by the statute and other municipal acts.

**Municipal Council that:**

- Proposes statute, budget and other decisions and acts to the Assembly;
- Directly implements and ensures the implementation of decisions and other acts of the municipal Assembly;
- Decides on interim financing in the case when the Assembly does not adopt the budget before the start of the fiscal year;
- Supervises the work of the municipal administration, or abrogate acts of the municipal administration that are not in compliance with the law, statute and other general act or decision passed by the Assembly;
- Considers the administrative procedure in the second instance on the rights and obligations of citizens, companies, institutions and other organizations in administrative matters within the jurisdiction of the municipality;
- Takes care of the execution of the jurisdiction of the rights and duties of the Republic;
- Appoints and dismisses the Head of the Municipal Administration.

**The Municipal Assembly** which is a representative body dealing with

- municipal statute, council decisions and other municipal regulations,
- confirms the budget, budget revision (if necessary), and the final budget,
- development and other plans and programs,
- supervises the work of the Mayor and administrative services,
- elects assembly leadership (president, vice president and secretary of Assembly),
- stipulates its Rules of Procedure, the decision on symbols of the municipality and perform other tasks stipulated by law and municipal statute.

The Municipal Assembly is composed of councilors that are elected for a term of four years, in accordance with the electoral regulations.

**Legal framework:**

- Constitution of The Republic of Serbia, 2006
- Law on Self-Government ("Official Gazette of RS" No. 129/2007)
- Law on Financing the Self-Government
- Law on Property Taxes
- Statute of the Municipality of Knjaževac ("Official Gazette of Knjaževac" No. 4/2009)

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Summary Table of Scores							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
<b>A.</b>							
<b>HLG-1</b>	Predictability of Transfers from Higher Level of Government	M1	A	NR	A		NR
<b>B. PFM-OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C	A			C+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	C	A			C+
<b>C. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B
PI-7	Extent of unreported government operations	M1	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	N A	NA	NA		NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	NA			C
PI-10	Public access to key fiscal information	M1	B				B
<b>D. BUDGET CYCLE</b>							
<b>D (i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	D	D	A		C
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	NA	B	D	D+
<b>D (ii) Predictability and Control in Public Execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	C		B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	D	D		D+
PI-15	Effectiveness in collection of tax payments	M1	D	A	A		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	B	A		B+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	B		A
PI-18	Effectiveness of payroll controls	M1	A	A	A	C	C+
PI-19	Competition, value for money and controls in procurement	M2	A	A	A	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	B		C+

Summary Table of Scores							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
PI-21	Effectiveness of internal audit	M1	D	D	NA		D
<b>D (iii) Accounting, Recording and Reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	A			A
PI-23	Availability of information on resources received by service delivery units	M1	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	A		C+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		A
<b>D (iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	A	B	D		D+
PI-27	Legislative scrutiny of the annual budget law	M1	C	A	D	B	D+
PI-28	Legislative scrutiny of external audit reports	M1	A	D	D		D+
<b>E. DONOR PRACTICES</b>							
D-1	Predictability of Direct Budget Support	M1	N A	NA			NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D
NA = Not applicable NR = Not Rated							

## **I. SUMMARY ASSESSMENT**

There is a significant inter-relationship between the centre of Government such as the Ministry of Finance and the municipalities in Serbia with respect to Public Financial Management. The overall legal basis is served by the Budget System Law, revenue collection is administered through a set of tax laws, procurement is regulated by one Procurement Law and the State Audit Institution is responsible for the conduct of external audits for the whole of the public sector. Municipalities depend on un-earmarked grants and earmarked grants from Central Government to finance the majority of their expenditures. The Central Government and municipalities operate under a shared Single Treasury Account with their own sub accounts within it and accounting and reporting within the Single Treasury account follow the same standards and timetable.

### **(i) Integrated Assessment of PFM Performance**

#### **1. Budget credibility**

Budget credibility is closely linked to the budget formulation process and to the extent that the budget is forward looking. If the budget is not well prepared and does not take account of future expenditure implication of existing policies, expenditure on investment to project competition and the recurrent cost of implementation once completed, expenditures for executing the budget in any one year will be subject to demands for funding items not in the budget but which actually need supporting. This will require supplementary budgets or the by-passing of controls which then lead to arrears if revenues are not available.

During the period 2011 to 2013, the budget has been a weak predictor of the expenditure outturns with a score of D. The performance on realising budgeted expenditure is closely linked to revenue which come from own sources (property tax and a range of fees and charges which contribute significantly more of own source revenue and are difficult to forecast) and transfers from Central Government (general (including a share of income tax raised in the municipality) and earmarked grants). While the score for own source revenue is B and for transfers from higher level of Government (Indicator HLG-1), the deviation of actual from budgeted has an A mean score but earmarked transfers are, whilst a low proportion of all transfers, highly unpredictable. The stock of payment arrears is quite high (C score) but the database for arrears is good with all invoice dates entered into the accounting software. In order to discourage arrears, the Republic Ministry of Finance penalises municipalities who do not pay invoices to private firms after 45 days by suspending transfers until invoices have been paid. Budget credibility is closely linked to the budget formulation process and to the extent that the budget is forward looking.

#### **2. Comprehensiveness and transparency**

The budget is based on administrative, economic and subfunctional classifications mirroring the structure developed at the Central Government level and is consistent with all relevant

international classification systems. There is also a programme structure being introduced to the classification system to serve as a strategic resource allocation and analytical tool, but this as yet in its infancy. The budget document generally contains significant details and information on revenues and expenditures, and key macroeconomic aggregates, deficit and its financing but not on financial assets. Neither is there a backward looking time series to compare the proposed budget. The budget is comprehensive in its coverage with no extra budgetary expenditures or revenues and any donor projects that exist are included as well.

Public access to financial information is good with a B score. Monitoring of fiscal risks arising from the municipality owned enterprise takes place but results are not consolidated into an overall report.

### **3. Policy-based budgeting**

The Budget Circular is dependent on receiving information from the Ministry of Finance on transfers and this has always been considerably later than specified in the scheduled calendar. Although the budget formulation process is well established, it suffered some setbacks due to the untimely issuance of the budget circular which does not include expenditure ceilings. A weakness in budget formulation process has been the rather late involvement of the political class in the municipalities as there is no formal involvement by the Assembly in the budget process until the budget proposal is submitted to the Assembly for approval. There is a participative process with the stakeholders where the members of Assembly are included but not formally. Their early consideration and endorsement of the strategic priorities, and their reflection in the budget envelopes for the sectors, would provide greater legitimacy to the budget circular and help in ensuring that the submissions to the budget department are in-tune with municipality's chosen strategic direction. This would aid the capacity to maintain aggregate fiscal discipline and strategic allocation. Both the time taken to produce the budget and the formal involvement of the political class are weak with D scores. Nevertheless the budget is always approved on time. There is a relatively strong Development Plan with realistic medium term projections. An execution rate of over 80% in recent years bears witness to its robustness. . The budget estimates include expenditure on projects in the two outer years, but nothing on recurrent expenditure or revenue. However, the municipality performs credibly in producing of costed sector strategies with a B score but does not link future recurrent expenditure to investment which weakens their overall usefulness.

### **4. Predictability and control in budget execution**

Municipality administered taxation is based on a property tax that was previously implemented at the Central Government level and transferred to municipalities in 2009 who then had to establish their own administrative structures. The taxation system is based on comprehensive legislation providing clarity on the tax liabilities of taxpayers with no discretionary powers. The provisions for tax concessions are transparently set out. Taxpayer education is proactive in the municipality due to some technical assistance that it received. The appeals mechanism

lacks an independent arbitration mechanism between a petition to the tax administration (processed either at the municipality or Ministry of Finance district level) and the courts. The database of properties and land is expanding but there are ineffective links to any relevant external databases, Property tax clearance certificates are required for participation in public procurement purposes as well as access to certain state aid. Penalties are well defined and are high enough to be a deterrent in the law, but are rarely enforced, with a D score. Arrears are consequently high scoring D. However, arrears are also high due to the cumulative impact of high interest rates charged and the inherited arrears from when the property tax was administered by the Central government. The Law does permit write-off after 5 years but this is not implemented. Audit investigations are carried out on an ad hoc basis if staff time is available. Payments are made directly into the Single Treasury account via the banking system with cash payments received at the office being transferred the next day. Taxpayer records are maintained electronically and updated when payments are received.

On the expenditure side, overall measures to improve execution and strengthen controls have been implemented throughout the public sector in Serbia as a result of the adoption of the Budget System Law. The predictability of the availability of funds for the commitment of expenditure merits a B+. Supplementary budgets are few and follow the same procedures for the annual budget. The municipality's cash balance is consolidated in its single treasury bank account. The number of loans is low but is accounted for in the accounting system and where a loan is undertaken, the procedures require approval by the Ministry of Finance (Public Debt Law) with limits on borrowing linked to previous budget execution. There are no fiscal targets established reflecting in part the lack of forward budget planning.

Procurement processes and procedures are based on the national system under the Public Procurement Law and score A in all respects. The evidence from the assessment relating to procurement was that the regulations relating to shopping and opening competition were followed in its entirety. All procurement that should use open completion, used open competition. In the instances of complaints, if the complaint is accepted by the Commission, the contractor is obliged to reimburse the fee to the bidder. Procurement was discussed with the Chamber of Commerce to triangulate information from procurement officers in the municipalities. There were no specific concerns expressed.

The payroll controls are well established and one ad hoc payroll audit was conducted by the Head of Administration in 2013. The municipality has not as yet set up the internal audit function – this is a clear weakness in the overall control system. Commitment controls do not exist – control is at the invoice rather than at the purchase decision stage after procurement procedures have been fulfilled. The degree of compliance in processing and recording of transactions is relatively high with an B, but established rules and procedures for other non-procurement activities is relatively rudimentary scoring C. There is a lack of a formal internal control function.

## **5. Accounting, recording, and reporting**

Considerable effort has been directed towards improving the quality and comprehensiveness of the accounts and financial reports in line with the adoption of the single treasury account, accounting and reporting throughout the whole of the public sector in Serbia. Apart from the lack of accounting and reporting on commitments, in-year and annual accounting, recording and reporting score an A that reflects the well-established system and its timeliness. The accounting system is set up so that it is possible to produce reports at the level of service delivery units that provides transparency as to resource allocation at this level.

## **6. External scrutiny and audit**

The external audit is mainly compliance and transaction orientated with some elements of system reviews, occasionally highlighting substantive concerns. The municipality is audited annually. Audit reports are sent to the Assembly in a timely manner but the level of scrutiny there is cursory and recommendations are not issued. With respect to the budget approval process there is a well-established set of procedures, but the time available for their implementation falls short of the one month to score a B. The assembly as a whole only assesses the annual budget when it is presented though there is a prior informal scrutiny as well as a short time frame for the budget and finance committee stage. Virement rules reflect the national procedures in the Budget System Law of up to 5 per cent with considerable number of reallocation.

### **(ii). Assessment of the Impact of the PFM weaknesses on budgetary outcomes**

#### **Aggregate fiscal discipline**

Process weaknesses, such as the absence of an effective MTF, the lack of timely availability of information on annual transfers and inconsistent delivery of earmarked transfers from the Central Government, and late involvement of the political process in the budget formulation process have the potential to threaten aggregate fiscal discipline. Also the relatively recent handover of property tax administration as well as the structure of own sourced revenue has seen fluctuations in revenues which have been hard to estimate. The absence of rolling over expenditure commitments from existing policies into the medium term ensures that potential fiscal problems cannot be anticipated. Weaknesses in the external oversight mechanisms and the ineffectiveness of the assembly scrutiny of the government financial operations make the system further vulnerable. The well-functioning mechanism for avoiding payment arrears offsets the lack of commitments controls at the purchase decision stage after procurement procedures have been fulfilled. Nevertheless, the municipality would be better positioned to control and monitor execution of the budget by addressing commitment control and thus maintain overall budget discipline.

#### **Strategic allocation**

The strategic allocation of resources is rendered weak by the absence of medium-term fiscal and budget frameworks, and the lack of early involvement of the political process in the budget formulation process. These weaknesses constrain the municipality's ability to allocate resources efficiently over the medium term to reflect a realistic timeframe for implementation of policy. However, a robust development plan, sector strategies and the infrequent use of supplementary budgets do indicate that the strategic priorities determined through the budget formulation process are maintained. Implementing strategic priorities is also weakened by inconsistent delivery of earmarked grants.

### **Operational efficiency**

There is a single-year budget horizon and considerable variability in revenue realization in relation to expenditure from both municipalities' own source revenue and transfers from Central Government. Weaknesses in the accountability mechanisms from the absence of internal audit and the scrutiny of external audit as well as the deficiency of external audit recommendations render these ineffective as counter checks on inefficient use of resources. On the revenue side, operational efficiency is compromised by the accumulation of tax arrears. There is a need to introduce measures to target of arrears collection and well as write off clearly uncollectable arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment to taxpayers. The consolidation of cash balances; cash flow forecasting and cash management have enhanced budget execution and improved operational efficiency.

### **(iii) Prospects for reform planning and implementation**

Municipality Public Financial Management has benefited from the implementation of the Budget System Law, the Procurement Law and the creation of the State Audit Institution. The Single Treasury Account and the associated accounting system has meant that by and large accounting, recording and reporting is effective providing timely information for management. The procurement system has a legal and regulatory framework that is transparent, comprehensive and provides for competition. Some reform initiatives have yet to be implemented in the municipality particularly with respect to Internal Audit and Internal Control. While programme budgeting is being rolled out to municipalities the absence of a medium term fiscal framework and linkages with sector strategies can only make programme budgeting premature and ineffective.

A comprehensive PFM reform at the local government level can be achieved only within a wider central level PFM reform, especially having in sight the uniformity of the local government regulatory and functional framework as well as the nature of much of PFM systems across both central and local government. Since there is a parallel PEFA assessment on the central government level and a need for PFM improvement as a part of EU accession process it is expected that the requirements toward acceleration of the local government PFM will be increasingly present.

## II. PFM PERFORMANCE ASSESSMENT

### A. HLG-1 Predictability of Transfer from Higher level of the Government

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>HLG-1 Predictability of transfer from higher level of the government</b>	<b>Score NR</b>	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the municipal entity for inclusion in the latter's budget	A	In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%.
(ii) Annual variance between actual and estimated transfers of earmarked grants	NR	Insufficient evidence.
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the local government's fiscal year)	A	A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years

This indicator assesses how well Central Government integrate their support into the Municipality budget process so that it reflects all available resources in a timely manner.

#### **(i) Annual deviation of actual total transfer of the HLG from estimated amount of the initial budget by HLG to the municipal entity for their involvement in the subsequent budget**

As can be seen from the table below, actual transfers have always exceeded budgeted transfers. This is due to the fact that the municipality does not budget for earmarked transfers, given their irregular nature.



Serbian Dinar	2011			2012			2013		
	Budget	Actual	% Dev	Budget	Actual	% Dev	Budget	Actual	% Dev
Income tax Transfer	243691153	249,126,272		381,189,780	384,137,780		405,234,024	405,234,024	
Earmarked recurrent	0	6,239,902		0	39,916,108		0	28,437,111	
Earmarked Capital	0	16,924,501		0	4,487,888		0	7,212,375	
Total Transfer	243,691,153	272,290,675	11.7	381,189,780	428,541,776	12.4	405,234,024	440,883,510	8.8

Score A

**(ii) Annual variance between actual and estimated transfers of earmarked grants**

Data on earmarked grants at the budget stage are in aggregate for capital and current for transfers from the Central Government, although actual are available at the sector level. Earmarked transfers are never budgeted for. Earmarked transfers are mostly project related, which means that they depend on result of competition with projects proposals from other municipalities and sometimes on the availability of the funds on the CG level or realisation of international donors arrangements. Hence, the earmarked revenues are usually not budgeted which is enabled by the BSL provision (article 61, para 9) that in the case of additional revenue expenditure appropriations can be increased accordingly.

Using the budget information and the general grants and income tax, the following deviation has been calculated.

year	for dim (ii) Variance
2013	16.2%
2012	20.7%
2011	10.5%

However, breakdown of budgeted earmarked grants is not by sectors so the information is insufficient to score the dimension..

Score NR

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the local government's fiscal year)**

A time table of twelve equal tranches is agreed for General Transfers and this has been adhered to.

Score A

## B. Budget credibility

### PI-1 Aggregate expenditure out-turn compared to original approved budget

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-1 Aggregate expenditure out-turn compared to original approved budget.</b>	<b>Score D</b>	
(i) The variance between aggregate budgeted and actual primary expenditure	D	In two of the past three years actual expenditure deviated from budgeted by more than 15%

This indicator assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data. If expenditure consistently varies from the original budget, this points to issues with the quality of budget planning and/or challenges in budget execution. The assessment of this indicator is based on the information available for the fiscal years 2011 to 2013.

#### **(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (excluding debt service charges and externally financed project expenditure)**

Year	Total expenditure deviation
2013	15.9%
2012	19.5%
2011	3.9%

2013 saw actual expenditure fall short of budgeted whilst in 2012 and 2011 it exceeded budgeted, which is partially explained by unbudgeted earmarked transfers being spent.

See Annex for raw data

Score D

### PI-2 Composition of expenditure out-turn compared to original approved budget

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-2 Composition of expenditure out-turn compared to original approved budget</b>	<b>Score C+</b>	
(i) Extent of variation in expenditure composition excluding contingency items	C	Composition Variance exceeded 15% in only one of the past three years
(ii) Average amount of expenditure actually charged to contingency to the contingency vote over the last three years	A	Actual Expenditure charged to the contingency vote has been on average less than 3% of the budget over the past three years

This indicator assesses the credibility of the budget by calculating the degree to which the composition of expenditures differs compared to the original approved budget for the past three years of available data. The assessment of this indicator is based on the information available for the fiscal years 2011 to 2013.

**(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items**

Dimension (i) measures the variance between budgeted and actual expenditure at the disaggregated MDA level, controlling for the variance in the aggregate expenditure. It reflects the government’s ability to pursue its policy objectives, as intended and stated in the budget. Significant variance in disaggregated expenditure renders the budget less credible as a policy intent statement. The indicator requires separate consideration of expenditures met from contingency reserves as they tend to influence the variance in disaggregated expenditure. The scoring of dimension (i) requires calculating the absolute value of the variance between adjusted expenditure (i.e. the original budget for each budget agency multiplied by the aggregate actual expenditure divided by the original aggregate budget) compared to the original budget for each MDA and then summing these as a percentage of the total adjusted budget to determine an overall variance.

The table below indicates the composition variance of the budget over the review period:

Year	Composition Variance
2011	4.6%
2012	22.2%
2013	12.5%

Again a major reason for this variance in composition is the spending of earmarked transfers from the Central Government which were not budgeted for.

Score C

**(ii) Average amount of expenditure actually charged to the contingency vote over the last three years**

The Municipality does not operate a contingency budget. The table below indicates the contingency share of the budget over the review period:

Year	Contingency Vote Share
2013	0%
2012	0%
2011	0%

Score A

### PI-3 Aggregate revenue out-turn compared to original approved budget

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-3 Aggregate revenue out-turn compared to original approved budget</b>	<b>Score B</b>	
(i) Actual domestic revenue compared to domestic revenue in the original, approved budget	B	Actual domestic revenue was between 94% and 112% of budgeted revenue in two of the past 3 years.

The indicator measures the variance between the actual revenues collected and the revenue estimates presented in the annual budget. Variance in revenue collection impacts overall budget credibility. Having sound revenue forecasts in the budget is essential for fiscal planning as significant variances in actual revenue outcomes will require either in-year adjustments to expenditures and/or changes in external funding in order for deficit targets to be reached. Under-realization leads to larger deficits and/or spending cuts, whereas over-realization tends to result in unplanned spending running the risk of sub-optimal resource utilization.

#### (i) Actual domestic revenue compared to domestic revenue in the original, approved budget

Budgeted and actual revenue for the past 3 years is presented in the table below.

Knjaževac Local Revenue RSD '000	Budget	Actual	Deviation	% Deviation
2011	103,231	85,346	17,885	17.33
2012	91,180	87,654	3,526	3.87
2013	118,370	123,528	-5,158	-4.36

Local revenue is difficult to estimate in an environment of new property tax powers and legislation. Sudden decisions by the CG granting an amnesty on interest payments to those taxpayers in arrears late in 2012 also has undermined estimates.

Score B

### PI-4 Stock and monitoring of expenditure payment arrears

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-4 Stock and Monitoring of expenditure payment arrears</b>	<b>Score C+</b>	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the	C	Arrears constitute 2-10% of total expenditure and there is no evidence that it has been significantly reduced in the past 3 years

corresponding fiscal year) and any recent change in stock		
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).

This indicator assesses the credibility of the budget having regard to the existence of expenditure arrears. The quality of information regarding arrears and the size of reported arrears are both assessed by this indicator. The existence of expenditure arrears suggests that there are weaknesses in budget planning and execution.

**(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock**

Recent years has seen arrears at year end reduce from 6.8% of total expenditure to 3.3% (a reduction of 21.6% during the review period, therefore not qualifying for “significant” which is defined as 25% reduction), all of which is to public sector entities with no other arrears. All arrears are at maximum 4-5 months old.

Year	Arrears	Total Expenditure	Arrears as % of Total Exp.
2013	26,402,256	791,872,000	3.3
2012	29,052,469	738,418,000	3.9
2011	33,666,532	495,770,000	6.8

Score C

**(ii) Availability of data for monitoring the stock of expenditure payment arrears**

The accounting systems used by municipalities are private sector like accounting applications, capable of supporting full accrual accounting. As such they provide all the relevant information about liabilities of any kind. The accounting system routinely includes the date of the invoice which means arrears can be age profiled with monitoring and classification as arrears if not paid on time.

There is additional system to foster financial discipline based on centralized application for registering invoices received by private sector companies. According to the Act on Deadlines for the Fulfillment of Financial Obligations in Commercial Transactions (“Official Gazette RS” 119/12), invoices to private firms that have not been paid after 45 days are flagged and the Ministry of Finance suspends the transfers of specific grants and share of income tax until the invoices have been paid . The Ministry of Finance posts a list of such suspended municipalities on its website, according to the Regulations on the procedure for exercising supervision over the implementation of the said Act between beneficiaries of public funds and

companies when public funds beneficiaries are debtors (“Official Gazette RS” 21/2013). Arrears to private firms are now held in separate software to those owed to other public sector entities (usually utilities). There are initiatives to broaden the scope of RINO application to cover liabilities to public sector suppliers.

Data is generated daily but may not be complete for some indirect budget beneficiaries (such as the Works Directorate), which report their arrears quarterly. These figures are assembled at least annually in the Financial Statement.

Score A

### C. Budget comprehensiveness and transparency

#### PI-5 Classification of the Budget

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-5 Classification of the Budget</b>	<b>Score A</b>	
(i) The classification system used for the formulation, execution and reporting of the municipality’s budget	<b>A</b>	The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)

This indicator assesses the quality of the classification system used for formulating, executing and reporting of the municipality’s budget. The assessment is based on the classification system in place for the 2014 budget formulation and execution processes.

#### **(i) The classification system used for the formulation, execution and reporting of the municipality’s budget**

The classification system used for budget formulation, execution and reports used administrative, economic and sub-functional classification as provided in The Rulebook on Standard Classification Framework and the Chart of Accounts for the Budget System (“Official Gazette RS” 103/2011, 10/2012, 18/2012, 95/2012, 99/2012, 22/2013, 48/2013 and 61/201) and The Rulebook on Amendments and Supplements to The Rulebook on Standard Classification Framework and the Chart of Accounts for the Budget System (“Official Gazette RS” 61/2013). It mirrors the classification system used by the Central Government. Score A

## PI-6 Comprehensiveness of information included in budget documentation

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-6 Comprehensiveness of information included in budget documentation</b>	<b>Score B</b>	
(i) Share of the nine elements of listed information in the budget documentation most recently issued by the municipality	B	Budget Documentation fulfils 5-6 of the 8 applicable elements

This indicator assesses whether the coverage of the annual budget documentation as submitted to the legislature for scrutiny and approval, presents a complete picture of municipality fiscal forecasts, budget proposals and out-turn of previous years. The assessment of this indicator is based on the documentation for the 2014 budget, which was presented to the Assembly.

### (i) Share of the nine elements of listed information in the budget documentation most recently issued by the municipality

As noted in the table below, the 2014 budget document fulfils five of the eight information benchmarks. Score B

Information contained in budget documentation			
	Item	Included	Source
1	Macroeconomic assumptions, including at least estimates of aggregate growth, inflation, and exchange rate <sup>3</sup>	Yes	Budget Call Circular of MOF is used to prepare Fiscal Statement sent to Assembly.
2	Fiscal deficit, defined according to GFSM, or other internationally recognized standard	Yes	Fiscal Statement
3	Deficit financing, describing anticipated composition	Yes	There is no deficit as described in the budget proposal
4	Debt stock, including details at least for start of current year	Yes	Only 1 capital loan. Annual Report.
5	Financial assets, including details at least for the beginning of the current year	No	Annual Report
6	Prior year's budget outturn, presented in the same format as the budget proposal	No	
7	Current year's budget (revised budget or estimated outturn), presented in same format as budget proposal	Yes	Budget Proposal
8	Summarized budget data for both revenue and expenditure according to main heads of classifications used,	No	

<sup>3</sup> As the municipality only deals in RSD, exchange rate assumptions are not relevant

	including data for current and previous years		
9	Explanation of budget implications of new policy initiatives	NA	There were no new policy initiatives

(Source: Budget Call Circular, Fiscal Statement, Annual Report, Budget Proposal)

### PI-7 Extent of unreported government operations

This indicator measures whether all budgetary and extra-budgetary activities of municipality are included in budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public. This is needed to provide a complete picture of municipality government revenue, expenditures across all categories, and financing. The assessment of this indicator is based on the information and reports available for 2013.

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-7 Extent of unreported government operations</b>	<b>Score A</b>	
(i) The level of extra-budgetary expenditure (excluding donor-funded projects) which unreported	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
(ii) The income/expenditure information on donor-funded projects included in fiscal reports	A	Complete income/expenditure information for all donor funded projects is included in fiscal reports

#### (i) The level of extra-budgetary expenditure (excluding donor-funded projects) which is unreported

Municipalities are not allowed to hold accounts outside of the STA so there is no extra-budgetary expenditure.

Score A

#### (ii) The income/expenditure information on donor-funded projects included in fiscal reports

Since the new BSL, it is now obligatory that all project expenditures and donations are channeled through the municipal accountant. All donor projects have financial reports sent in the first instance to the recipient budget unit and then to the municipality.

Score A



### PI-8 Transparency of intergovernmental fiscal relations

This indicator is not applicable as there is no sub-national government under the level of municipalities.

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-8 Transparency of intergovernmental fiscal relations</b>	NA	
(i) Transparent and rules based systems in the horizontal allocation among sub national governments of unconditional and conditional transfers from municipality.	NA	
(ii) Timeliness of reliable information to sub national governments on their allocations from municipality for the coming year.	NA	

### PI-9 Oversight of aggregate fiscal risk from other public sector entities

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-9 Oversight of aggregate fiscal risk from other public sector entities</b>	Score C	
(i) Extent of municipality monitoring of AGAs and public enterprises	C	Most major AGAs/PEs submit fiscal reports to municipality government at least annually, but a consolidated overview is missing or significantly incomplete.
(ii) Extent of municipality monitoring of sub national governments' fiscal position	NA	

This indicator measures the ability of municipality to fulfil its oversight role in monitoring and managing the fiscal risks arising from activities of autonomous government agencies (AGA) and public enterprises (PE). The assessment of this indicator is based on the information available for 2013.

#### (i) Extent of municipality monitoring of AGAs and public enterprises

All PEs are regularly monitored by the Municipality with fiscal reports sent quarterly. It is prohibited by law for PEs to take loans without the consent of the Assembly. There are 4 PEs in Knjaževac: Standard Company (water, waste and cemeteries), Heating Company, Works Directorate, Sports Centre. Only the first 2 have a loan.

Annual reports summarise their financial positions (fiscal reports and audits) but fiscal risks are not consolidated into a report. There are no AGAs.

Score C

**(ii) Extent of central government monitoring of sub national governments' fiscal position**

There is no sub national government under the Municipality. Score NA

**PI-10 Public access to key fiscal information**

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
<b>PI-10 Public access to key fiscal information</b>	<b>Score B</b>	
(i) Number of the eight listed elements of public access to information that is fulfilled.	B	Knjaževac makes available to the public 5-6 of the 8 listed types of information

This indicator assesses transparency of fiscal information by ascertaining the accessibility to the public against a number of information benchmarks. The assessment of this indicator is based on the information available for the fiscal years 2013 and 2014 (to date).

**(i) Number of the eight listed elements of public access to information that is fulfilled**

As presented in the table below the municipality currently makes available six of the eight listed elements of public access to information in the timeframe specified.

Score B

	Item	Available	Source
1	Annual budget documentation can be obtained by the public when it is submitted to the legislature.	Yes	Website at the time of presentation to the legislature <a href="http://www.knjazevac.org.rs">http://www.knjazevac.org.rs</a>
2	In-year execution reports within one month of end of period	Yes	Website
3	Year-end financial statements within 6 months after completed audit	No	Only a summary is presented in the annual budget
4	External audit reports within 6 months of completed audit	No	All External audits have been carried out by private firms so are not on the SAI website
5	Contract awards above USD100, 000 posted quarterly	Yes	Both on the Municipality and procurement websites
6	Resources available to primary service units	Yes	In budget execution reports

7	Fees, charges and taxes (if any) that belong legally to the SN entity	Yes	Each November the Assembly has to decide on fees, charges and taxes. These are then gazette together with previous year's collections, and posted on the municipal website.
8	services provided to the community such as potable water, sewage, illumination etc	Yes	Website of the Utility companies

#### D. Policy-based budgeting

##### PI-11 Orderliness and participation in the annual budget process

	Minimum Requirements (Scoring Method M2)	
	2014	Explanation
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>Score</b> C	
(i) Existence of and adherence to a fixed budget calendar.	D	A budget calendar is generally not adhered to and the time allowed for Budget Units to make meaningful submissions is clearly insufficient.
(ii) Guidance of the preparation of budget submissions	D	Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment
(iii) Timely approval by the legislature	A	The budget is always approved before the start of the financial year

This indicator aims to assess whether budget formulation adheres to a fixed and predictable budget calendar each year and is organized in a way that facilitates effective participation by spending and revenue collecting agencies, as well as the cabinet and political leadership in the budget formulation process. It also assesses whether the instructions given to MDAs for the preparation of their budget submissions reflect high level political decisions about the allocation of available funding, and whether the budget circular allocates spending ceilings within which MDAs have to work. The assessment of this indicator is based on the documentation for the 2014 budget.

##### (i) Existence of and adherence to a fixed budget calendar

Article 31 of the Budget System Law stipulates the budget calendar to be adopted by municipalities. The implementation of the municipality budget calendar is dependent on the Ministry of Finance providing the fiscal strategy and instruction from the Ministry of Finance (which includes the amount of the general transfer). The provision of the Law and the actual implementation of the calendar for the preparation of the 2014 budget is detailed below.

There is a clear budget calendar but is not adhered to, mainly as a result of the lateness of the BCC from MOF. It allowed about 1 week for Budget Units to prepare their budget estimates in 2013.

Action	Law requirement Date	Actual date 2014 budget
The Minister (of Finance) shall deliver the instruction for the decision preparation on the budget to the local government as well as the Fiscal strategy to the organizations for mandatory social insurance;	5 July	03 Oct 2013
Local government finance authority shall issue the instructions for the preparation of the draft local government budget	1 August	06 Nov 2013 <sup>4</sup>
Direct beneficiaries of the local government budget shall submit the draft financial plan to the local government finance authority for the budget year and the two following fiscal years	1 September	13 Nov 2013
Local government finance authority shall submit Draft Budget Decisions to the local government executive authority	1 November	10 <sup>th</sup> December 2013
Local government assembly shall adopt the local government Budget Decision	20 December	17 <sup>th</sup> December 2013
Local government finance authority shall furnish the Minister with the local government Budget Decision.	25 December	17 <sup>th</sup> December

Score D

**(ii) Guidance of the preparation of budget submissions**

Ceilings are not provided to budget units when asking for estimates, though salary levels are indicated. The Council is not formally involved in the budget process before submission to the Assembly, although during the budget preparation window, there is some discussion of allocation of non-salary expenditure by the executive (mayor and advisors). However, for the most part the budget is a rollover of the estimated outturn of the current year adjusted for inflation.

Score D

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<sup>4</sup> Delay as Supplementary budget being debated and approved

### **(iii) Timely approval by the legislature**

The following dates for budget approval were found on both the Municipal Website and in the Municipal Gazette:

Budget year	Approval date
2012	22 Dec 2011
2013	21 Dec 2012
2014	17 Dec 2013

Score A

This dimension measures the extent to which the budget is approved before the start of the relevant fiscal year. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities. The assessment of this dimension is based on the last three years' budgets, i.e. 2012, 2013 and 2014.

### **PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting**

	Minimum Requirements (Scoring Method M2)	
	2014	Explanation
	<b>Score D+</b>	
(i) Multi-year fiscal forecasts and functional allocations	D	No forward estimates of fiscal aggregates are undertaken
(ii) Scope and frequency of debt sustainability analysis	NA	Debt is insignificant
(iii) Existence of costed sector strategies	B	Statements of Sector Strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure
(iv) Linkages between investment budgets and forward expenditure estimates	D	Budgeting for Investments and future recurrent expenditures are separate processes with no recurrent cost estimates being shared.

This indicator refers to the extent to which the Government plans their fiscal framework, expenditure policies and budget plans over the medium-term.

#### **(i) Preparation of multi-year fiscal forecasts and functional allocations**

No multi-year fiscal forecasts are made nor are there ceilings for functional allocations

**(ii) Scope and frequency of debt sustainability analysis.** A loan was taken by the municipality to refinance a previous loan taken out by the Works Directorate on more

favourable terms. The loan was about €400,000, less than 10% of municipality GDP and even less than 10% of the budget. No sustainability analysis was made.

Score NA

**(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure**

A Municipal Strategic Development Plan was developed for 2010-20, and is broken down in to sectors covering 100% of primary expenditure. Sectoral Action Plans are developed each year with costings for budgeting purposes. Each year these plans are analysed with respect to the degree of implementation. By 2014 the Strategic Development Plan had achieved 85% of its implementation goals. Recurrent expenditures arising from investments are not fully costed.

Score B

**(iv) Linkages between investment budgets and forward expenditure estimates**

There are no linkages made between investments and future recurrent budgets.

Score D

**E. Predictability and control in budget execution**

**PI-13 Transparency of taxpayer obligations and liabilities**

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
<b>PI-13 Transparency of Taxpayer Obligations and Liabilities</b>	<b>Score B+</b>	
(i) Clarity and comprehensiveness of tax liabilities	A	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all of the major taxes, and the RA supplements this with active taxpayer campaigns.
(iii) Existence and functioning of a tax appeals mechanism	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

This indicator assesses whether the overall control environment that exists in the revenue administration system and the direct involvement and co-operation of the taxpayers from the individual and corporate private sector allow for effective assessment of tax liability. The quality of such control is very much linked to the degree of transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and ability to contest administrative rulings on tax liability.

### **(i) Clarity and comprehensiveness of tax liabilities**

The municipality tax is based on property and land. A new property tax system was introduced in 2013 to commence in 2014 with the Law on Property Taxes („Official Gazette RS“ br. 26/2001, " Official Gazette SRJ", br. 42/2002 - decision SUS and " Official Gazette RS", br. 80/2002, 80/2002, 135/2004, 61/2007, 5/2009, 101/2010, 24/2011, 78/2011, 57/2012 - decision US, 47/2013 and 68/2014). The owner of a property is liable for the tax except when a rental agreement is in place for more than one year, the person who is renting is liable for payment. Liability to pay property tax is assessed on either one of two methods:

1. 0.4% to the fair book value of the property under RSD 10 Million (must be assessed by a reputable accounting agency), or
2. The tax base is determined by multiplying the size of usable area with average price for the zone determined by Local Government. The zones are determined based on communal infrastructure, presence of public objects, road connectivity with central parts, etc. The average prices for zones are determined from average transaction in the relevant zone.

Two factors can reduce the tax payable. The assessment on a property is reduced by 1 per cent for each year of its age up to a total of 40 percent and owners who occupy the property receive a reduction of 50 per cent of the assessment.

All the information to compute the tax (except average relevant prices which is based on a survey) relating to a property is contained in an application form that was sent out to all properties in the municipality in 2013 for the introduction of the new property tax. All the relevant information is fed into the computer software system which then generates the liability automatically. There are no discretionary powers to allow a taxpayer to avoid a liability. The assessment notice is sent to each property as official notification. Few people in Knjaževac use the book value method of assessment.

Score A

### **(ii) Taxpayer access to information on tax liabilities and administrative procedures**

Tax payer education by the local tax office is reactive and proactive. A GIZ funded project is actively engaged in the field during 2014. Its Operative Plan includes the dissemination of leaflets and radio programmes, as well as increasing registration. All relevant information to zoning, average prices and applicable ad valorem rates must be included in the official gazette and are published on the Municipal website. The Chamber of Commerce representative met also attested to the ease of access to information.

Score A

### (iii) Existence and functioning of a tax appeals mechanism

The right to appeal is in the Law. Tax payers can appeal an assessment directly to tax office that will check for errors and omissions and any such errors and omission are rectified. Addressing appeals related to other than errors and omissions are directed to the regional office of the Ministry of Finance based on a file compiled by the Municipality Taxation Department. According to the Law on General Administrative Procedures (“Official Gazette SRJ” 33/97 and 31/2001 and “Official Gazette RS” 30/2010), further appeals, or “administrative disputes” after this intermediate step - can only be directed to the Administrative Court. There is no intermediate independent tax appeals mechanism other than to the regional office of the Ministry of Finance so the overall system needs substantial redesign. In 2014 5 appeals were made and all rejected by the regional tax office

Score C

### PI-14 Effectiveness of measures for taxpayer registration and tax assessment

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>Score D+</b>	
(i) Controls in the taxpayer registration system	C	Taxpayers are registered in database systems for individual taxes, which are not fully and consistently linked. Linkages to other registration licensing functions are weak. There are occasional surveys of potential taxpayers.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	Penalties for non-compliance exist are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.

**Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers.** This indicator assesses these elements of tax administration.

#### (i) Controls in the taxpayer registration system

A New Property Tax system was introduced in 2009 and the municipality sent out a form to all properties to register and the tax offices maintain computerized files of all registered properties and relevant details, resulting in an increase in registration from 5,500 properties in 2012 to 6,000 in 2013. There is no complete database but court decisions and Ministry of Interior records are used to identify property owners. There is no linkage to utility company



databases. Field control under a GIZ project has also resulted in an increase in registration as well increases in liabilities for new houses built next to old houses.

Score C

**(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

Penalties exist for non-payment by registered taxpayers but have little impact. Those paid are transferred to the Treasury, and passed onto Central Government thereby reducing the incentive to issue penalties. In 2009 when penalties went to the local administration there were 101 initiated procedures, mostly resulted in registration or fines. Now there is little issuance of penalties. No penalties have been issued in 2014. The effectiveness can be assessed on the significant level of arrears, although many arrears are still on the books from discontinued taxes.

Score D

**(iii) Planning and monitoring of tax audit and fraud investigation programs**

Staff shortages have not allowed for tax audits and fraud investigations. In any case this is seen as the responsibility of the National Tax Administration. Controls are limited to accessing court decisions regarding inheritance or purchase and issuing liability notices.

Score D

**PI-15 Effectiveness in collection of tax payments**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-15 Effectiveness in collection of tax payments</b>	<b>Score D+</b>	
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	The debt collection ratio for 2013 was below 60% and the amount of tax arrears is significant
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All payments are paid directly into accounts controlled by the treasury.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Reconciliation occurs daily on Treasury-linked software

This indicator assesses the accumulation of tax arrears and the collection of tax debt as they lend credibility to the tax assessment process and reflects equal treatment of all taxpayers.

Prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending.

**(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)**

Arrears are significant. In 2011, they amounted to 38 per cent of taxes collected in 2012, 25 per cent and in 2013 28 per cent. The collection rate is zero as arrears increase year on year.

The inherited property tax database registration system does not support the monitoring of the age structure of arrears, but rather adds arrears to the current year's target and then registers payments made irrespective of whether arrears or current liabilities, thereby preventing the possibility of determining the amount of arrears collected. Arrears (calculated as initial balance at the beginning of the year) have almost doubled between 2011 and 2013 as in the following table:

Property Tax RSD	2011	2012	2013
Arrears	22,570,074	34,920,513	44,077,911
Total Collection	85,346,000	87,654,000	123,528,000

Score D

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration**

Property tax payments are paid either directly to the treasury using Treasury offices (most common method given lack of charges), or to a Treasury bank account through a commercial bank. They all arrive in Treasury accounts on the same day of payment.

Score A

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

Property Tax assessments, collections, arrears and receipts are all captured on Municipal Tax Office software and are up-dated as soon as payment is received as well as entered on Treasury software providing for the daily reconciliation of accounts. If an assessment has been made and payment has not been received by the due date arrears will immediately be generated and interest is automatically added to the liability and a reminder notice is generated.

Score A

## PI-16 Predictability in the availability of funds for commitment of expenditures

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>Score B+</b>	
(i) Extent to which cash flows are forecast and monitored	B	A cash flow forecast is prepared for the fiscal year and updated on a quarterly basis, on the basis of actual cash inflows and outflows
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	Budget Units are provided expenditure commitment ceilings every quarter
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	Adjustments to budget allocations can only be made for sectors under a supplementary budget typically twice a year, which follows similar transparent and predictable procedures as in the original budget.

This indicator assesses whether the spending ministries, departments and agencies (MDAs) receive reliable information from the Ministry of Finance on availability of funds within which they can commit expenditure for recurrent and capital inputs.

### (i) Extent to which cash flows are forecast and monitored

Appropriations are made for the year. A cash flow is then prepared taking into account seasonal needs, on a quarterly basis. This is then updated each quarter on the basis of actual cash inflows and outflows. Score B

### (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Budget units are provided with expenditure commitment ceilings every quarter, enabling expenditure planning. This may be adjusted upwards or downwards suddenly if unbudgeted for earmarked grants are transferred from Central Government or resources transferred by donors, or budgeted transfers do not materialise.

Score B

### (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Adjustments to budget allocations can only take place between sectors under a supplementary budget (rebalance), which follows the same procedures as the original budget in terms of documentation but often has reduced time for budget preparation and scrutiny by the assembly. Recently, there have typically been 2 supplementary budgets per year, with one for 2013, which adjusted total expenditure downwards from SD 941,435,000 million to SD 791,872,000, just over 15%.

Score A

**PI-17 Recording and management of cash balances, debt and guarantees**

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>Score A</b>	
(i) Quality of debt data recording and reporting.	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly
(ii) Extent of consolidation of the government's cash balances	A	All cash balances are calculated daily and consolidated
(iii) Systems for contracting loans and issuance of guarantees	B	Municipalities' contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.

Efficient management of debt and debt guarantees is an essential component of fiscal management. Poor management of debt and debt guarantees can create unnecessarily high debt service costs. With regard to efficient cash management, an important requirement for avoiding unnecessary borrowing and interest costs is that balances in all government-held bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled donor-funded project accounts).

Municipalities are not allowed to contract loans or debt without the agreement of the Ministry of Finance. There is 1 bank loan of under €400,000 which is being serviced, with the agreement of the Ministry of Finance.

**(i) Quality of debt data recording and reporting**

Debt Data and reporting, including reconciliation, occurs on a monthly basis as part of the reporting requirements of the CG Ministry of Finance. The report includes details of the debt service, stock and operations. The details of the reports are consolidated into the Annual account at year end. Documentation relating to the loans (repayments (interest and principle) and outstanding balances) is maintained in separate files.

Score A

**(ii) Extent of consolidation of the government's cash balances**

Within the STA, all the municipality's cash balances are consolidated and monitored on a daily basis.

Score A

### **(iii) Systems for contracting loans and issuance of guarantees**

The municipality requires the authorization of the Minister of Finance in order to borrow and this is subject to the requirement of the Law on Public Debt (“Official Gazette of RS” No. 61/05”) as well as the Budget System Law. The Law on Public Debt stipulates municipality borrowing can only be up to a limit of 50% of the previous year’s executed budget or 25% of the CG non-earmarked transfer. The Municipal Assembly must also approve any borrowing before the Minister of Finance authorizes it. Given PI 12 (i) there are no fiscal targets. Guarantees are prohibited by law.

Score B

### **PI-18 Effectiveness of payroll controls**

This indicator assesses the integrity of personnel records and efficiency of the processes of human resource management and payroll processing in Government.

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-18 Effectiveness of payroll controls</b>	<b>Score C+</b>	
(i) Degree of integration and reconciliation between personnel records and payroll data	A	Personnel database and payroll are directly linked to ensure data consistency and reconciliation within a week at maximum
(ii) Timeliness of changes to personnel records and the payroll	A	Required changes are updated within a day. Pay has never been inaccurate or late
(iii) Internal controls of changes to personnel records and the payroll	A	Authority to change personnel records and payroll is restricted to 2 persons maximum, resulting in a clear audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	Partial payroll audits or staff surveys have been carried out in the past 3 years

The municipality has 101 employees and the Works Directorate (a Municipality Owned Enterprise) has 23 employees, a significant number of local publically funded salaries. As such, both payroll systems were analysed and found to be separate but similar in processes.

#### **(i) Degree of integration and reconciliation between personnel records and payroll data**

Payroll and personnel records are maintained as two separate but related systems: one for personnel and one for payroll. Personnel records are firstly updated in hardcopy files by the Human Resources Department, and any changes are sent immediately to the Accounting Department which then immediately enters changes into the payroll software, resulting in a direct link and immediate reconciliation. Given that the municipality has about 100 employees, these changes are almost always carried out within a day and always within 5 days. A similar situation prevails at the Works Directorate.

Score A

**(ii) Timeliness of changes to personnel records and the payroll**

All changes to the personnel records are made immediately the information becomes available, generally within a day and always within 5 days. All the information relating to payroll (permanent and part-time staff) is collected from the Administrative Units by the 25<sup>th</sup> of the months (for payment 1-5<sup>th</sup> of following month). If for some reason there was a change to be made after the 25<sup>th</sup> and that change could not be made before payroll was computed, the change would be incorporated in the following month's payroll. Deductions are calculated and approved by the Republic Tax Administration electronically via a control number. Payment is made electronically by the Treasury into bank accounts.

Score A

**(iii) Internal controls of changes to personnel records and the payroll**

The Human Resources Division maintains hardcopy personnel records and immediately presents any changes to the Accounting Department, which has 1 member of staff (the Head of Finance acts as an alternate if necessary) authorised to enter such changes to its payroll software (password protected). This provides an audit trail of changes made. The Works Directorate has a similar system. A further control mechanism is the linkage between the electronic “clocking in” system of employees which produces a report to be signed by the administrative head every month, which is used to corroborate salary payments. Workers outside of the building are called by phone regularly to confirm attendance.

Score A

**(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers**

The External audit of the municipality includes a partial payroll audit. The Head of Administration carried out a physical audit of all municipal employees in 2012 during a Training Workshop for firefighting. All employees signed to confirm attendance.

Score C

**PI-19 Transparency, competition and complaints mechanisms in procurement**

A well-functioning procurement system that creates transparency and competition to obtain fair and reasonable prices and overall value for money is assessed in this indicator.

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
<b>PI-19 Transparency, competition and complaints mechanisms in procurement</b>	<b>Score A</b>	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	A	The legal framework meets all 6 of the listed requirements
(ii) Use of competitive procurement methods	A	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements in all cases
(iii) Public access to complete, reliable and timely procurement information	A	Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public through appropriate means. All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.

(iv) Existence of an independent administrative procurement complaints system	A	The Procurement Complaints System meets all seven criteria
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Given that about 40% of municipal expenditure (and about 80% of public procurement in Knjaževac) falls under the management of the Works Directorate (a Municipality Owned Enterprise), both procurement systems were assessed. Essentially, the systems operate in a similar manner although the Works Directorate has greater expertise in large procurements and civil engineering projects. As such, it is sometimes asked to assist with Municipal procurements. At the time of the assessment there was no municipal procurement officer in place, but this gap was being temporarily filled by the Head of Administration (an ex-procurement officer) and the procurement officer from the Works Directorate.

**(i) Transparency, comprehensiveness and competition in the legal and regulatory framework**

Legal framework on public procurements in Serbia is set by the Public Procurement Law ("Official Gazette RS" 124/12). Specific procedures within the Contracting Authority (direct and indirect beneficiaries of the budget in Knjaževac) are determined by the Internal Act, which is a document required by the PPL and the Rulebook on Contents act which shall regulate the procedure for public procurement within the Contracting Authority ("Official Gazette of RS", no. 106/13). Procedures of planning, implementation and contract execution are described in the Internal Act. In June 2014, Knjaževac established the Department for Public Procurements (DPP) that is responsible for all public procurements conducted by all of 10 City Administrations. There is also complete information about all public procurements and contracts signed before that date.

Score A

Compliance of the <i>Act</i> with PEFA requirements		
Is the legal and regulatory framework for procurement:	Compliance	Explanation
(i) organized hierarchically and precedence clearly established	Yes	DPP acts in accordance with the PPL ("Official Gazette RS" 124/12), Rulebook on Contents act which shall regulate the procedure for public procurement within the Contracting Authority ("Official Gazette of RS", no. 106/13) and the Internal Act.
(ii) freely and easily accessible to the public through appropriate means	Yes	Information is published simultaneously on the official website ( <a href="http://www.knjazevac.rs">www.knjazevac.rs</a> ) and on the Public Procurement Portal ( <a href="http://portal.ujn.gov.rs/">http://portal.ujn.gov.rs/</a> ), in accordance with the Article 20 of the PPL, the Law on Free Access to Information of Public Importance ("Official Gazette of RS" No. 120/04, 54/07, 104/09 & 36/10) and the Internal Act.



(iii) applied to all procurement undertaken using government funds	Yes	City acts in accordance with Article 2 related to the Article 7 of the PPL.
(iv) making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes	Open competitive procurement is the default method for procurements valued more than 400.000,00 RSD, according to the Article 39.2 of the Public Procurement Law.
(v) providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	Yes	Information is published simultaneously on the official website and on the Public Procurement Portal, in accordance with the Article 20 of the PPL and the Internal Act. Additional information is provided in accordance with the Law on Free Access to Information of Public Importance. Reports are generated quarterly and sent to the Public Procurement Office of Serbia and the State Audit Institution.
(vi) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	Yes	Complaints are handled in accordance with the Chapter VIII of the Public Procurement Law which provides for an independent complaints system.

## **(ii) Use of competitive procurement methods**

Most procurement over RSD 400,000 is carried out by the Works Directorate. Minutes of meetings detailing the formal justification for the use of non-competitive tenders were studied for the only 2 procurements which were granted this right. The reason was the ineligibility of one or more tenderers in both cases thereby reducing the number of tenderers to two. 100% of cases were justified.

In the case of Procurement in the Municipality, of the 21 procurements (totalling RSD 32.5 million) above the threshold in 2013, none were above the RSD 3 million required for open tender, though all used competitive methods.

Score A

## **(iii) Public access to complete, reliable and timely procurement information**

Information is published simultaneously on the municipal website and on the Public Procurement Portal, in accordance with the Article 20 of the PPL and the Internal Act. Additional information is provided in accordance with the Law on Free Access to Information of Public Importance (“Official Gazette RS” 120/2004, 54/2007, 104/2009 & 36/2010). Reports are generated quarterly and sent to the Public Procurement Office of Serbia and the State Audit Institution.

The information covers

- Procurement plan: Law on Public Procurements, Article 51.
- Bidding opportunities: Article 3. that defines all the terms used, Art. 10. Municipality is obliged to provide the greatest possible competition, Art. 12. Municipality (as a purchaser) is obliged to provide equal status to all bidders in all phases of the public procurement
- Contract awards: Art. 107. defines conditions for awarding a contract, Art. 112. defines all necessary conditions for concluding a contract, Art. 13. is related to the deadlines.
- Complaints: Chapter VIII of the Law.

Score A

**(iv) Existence of an independent administrative procurement complaints system**

Complaints are handled in accordance with the Chapter VIII of the Public Procurement Law and in timely manner. All appeals are decided by the Republican Commission for the Protection of Bidders Rights, which is an independent body. The composition of the Commission is prescribed by PPL (Articles 140 and 141) and it consists of the President and six members which are appointed by the Parliament for a five years period. The President and the members have to fulfil the requirements for judges in the primary level courts, while the President also need five years working experience in the Public Procurement area.

Members are full time employees of the Republican Commission and are drawn from citizens based on their qualifications and suitability of experience. The Commission establishes a list of experts who participate in the work of the Commission on as-needed basis. To be registered on the list, one has to be on the list of the standing court experts and pass the exam for public procurement officer (Article 143 of the PPL).

There have been no complaints in recent years and no issues were raised regarding this by a local businessman who represented the regional Chamber of Commerce.

Complaints Characteristics	
(i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Yes
(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Yes
(iii) does not charge fees that prohibit access by concerned parties;	Yes
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Yes
(v) exercises the authority to suspend the procurement process;	Yes
(vi) issues decisions within the timeframe specified in the rules/regulations;	Yes
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Yes

Score A

## PI-20 Effectiveness of internal controls for non-salary expenditure

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-20 Effectiveness of internal controls for non-salary expenditure</b>	<b>Score C+</b>	
(i) Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance
(iii) Degree of compliance with rules for processing and recording transactions	B	Compliance with rules is fairly high but simplified and emergency procedures are used occasionally without adequate justification.

This indicator assesses the existence, understanding and compliance with internal control systems relating to expenditure commitments and payment of goods and services purchased by public entities.

### (i) Effectiveness of expenditure commitment controls

Expenditure commitment control is generally effective but actual commitments (e.g. purchase orders) are not relayed to The Finance Department, rather invoices once raised (which cannot be rejected). Given the effectiveness of cash flow planning and regular communications with the Finance Department, this situation does not result in the creation of unplanned expenditure arrears, although theoretically this could occur. Nevertheless, there is a system in place that all beneficiaries must have written approval from the municipality Treasury to start the purchase process as well as approval by the Treasury before payment is made. This is the procedure that is implemented in practice. Entering the information at the purchase order stage would ensure that commitment control is fully effective.

Score C

### (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures

The manual “Common Grounds for the Establishment of Financial Management and Control” was produced by the MOF Central Harmonisation Unit in 2007. It is used as a basis for the internal control system in the municipal administration and other direct budget beneficiaries. However, they are not fully implemented in the municipality, as they are not formalized in a rule book/procedures indicated by the above manual.

Score C

**(iii) Degree of compliance with rules for processing and recording transactions**

There is a MOF manual but no municipal rule book for processing transactions. Discussions with the Treasury and the Administrative Units indicated that compliance is fairly high and generally effective.

A rejection rate of less than one transaction per month (together with positive audit reports) indicates the effectiveness of municipal accountants in their interpretation of basic controls in the absence of a rule book.

Score B

**PI-21 Effectiveness of internal audit**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-21 Effectiveness of internal audit</b>	Score D	
(i) Coverage and quality of the internal audit function	D	There is as yet no establishment position assigned to the internal audit function
(ii) Frequency and distribution of reports	D	
(iii) Extent of management response to internal audit findings	NA	

This indicator assesses the effectiveness of the internal audit function based on the scope and quality of the audit function, in the manner and timing of the report of the findings, and in the administration's reaction to the findings and recommendations of the internal audit.

**(i) Coverage and quality of the internal audit function**

Default Score D

**(ii) Frequency and distribution of reports**

Default Score D

**(iii) Extent of management response to internal audit findings**

Default Score NA

## F. Accounting, recording, and reporting

### PI-22 Timeliness and regularity of accounts reconciliation

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>Score A</b>	
(i) Regularity of bank reconciliations	A	Bank Reconciliations for all Municipal bank accounts takes place at least monthly at aggregate and detailed levels , usually within weeks of end of period
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	Reconciliation and clearance of suspense accounts and advances takes place at least quarterly, within a month of end of period and with few balances brought forward

This indicator assesses the extent to which both bank accounts and suspense accounts or advance accounts, are regularly reconciled, adjusted, or settled in order to ensure that government financial statements are accurate.

#### **(i) Regularity of bank reconciliations**

The accounting department software uses Single Treasury Account data so that reconciliation is performed daily, and a report reconciling the information on the accounts and the bank records is produced within the first week of the following month.

Score A

#### **(ii) Regularity of reconciliation and clearance of suspense accounts and advances**

There have been only advances for travel in recent years and no suspense accounts. Submissions of invoices for domestic and foreign travel should be submitted within 3 and 8 days respectively, and paid and reconciled shortly after resulting in reconciliation within 8 days at maximum of suspense accounts. Foreign travel expenses represent less than €10,000/year, much of it not given as advances as a significant proportion is represented by day trips to Bulgaria under cross border co-operation.

Score A

**PI-23 Availability of information on resources received by service delivery units**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-23 Availability of information on resources received by service delivery units</b>	<b>Score A</b>	
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	A	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and cultural budget institutions in the municipality.  The information is compiled into reports at least annually.

The indicator covers primary education and health care service delivery units that are under the responsibility of the Government. This indicator verifies whether information is available and reported on with respect to the planned and actual resources received by primary service delivery units.

**(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units**

Municipality expenditure is accounted for at all sectoral levels under its responsibility including schools and cultural centres (the municipality has no responsibility for health care). Municipalities can daily access resources transferred to Budget Units. Salaries paid by the Republic in the municipality on the education sector are also available at the individual units, as is any other revenue source e.g. donors and also resources in-kind. Spending units then compile this information into an annual report, which is sent to funding institutions including the municipality.

Budget units can only open bank accounts with the consent of the municipality, and then only in the Treasury system. No commercial bank accounts are held. Any in-kind (or financial) contributions should be entered into the accounting system of budget units immediately.

Score A

## PI-24 Quality and timeliness of in-year budget reports

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-24 Quality and timeliness of in-year budget reports</b>	<b>Score</b> C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).
(ii) Timeliness of the issue of reports	A	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.
(iii) Quality of information	A	There are no material concerns regarding data accuracy.

This indicator assesses the extent to which comprehensive, timely and accurate budget execution reports are prepared for management. Timely and regular information on actual budget performance must be available to MoF (and Cabinet), in order to monitor performance.

### (i) Scope of reports in terms of coverage and compatibility with budget estimates

Reports on expenditure at the payment stage only is produced monthly, quarterly and annually using the same classification as the budget. Commitments are not captured (see PI-20 (i))

Score C

### (ii) Timeliness of the issue of reports

Reports are prepared quarterly by the 15<sup>th</sup> of the subsequent month and are gazetted immediately.

Score A

### (iii) Quality of information

The quarterly reports are realistic statements of actual expenditure in the previous month. The accuracy and comprehensiveness of the reported data are assured by reconciliation with STA held within Treasury Administration and automated numeric and logic control within Treasury Administration. Score A

## PI-25 Quality and timeliness of annual financial statements

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-25 Quality and timeliness of annual financial statements</b>	<b>Score A</b>	
(i) Completeness of financial statements	A	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.
(ii) Timeliness of submission of the financial statements	A	The statement is submitted for external audit within 6 months of the end of the fiscal year.
(iii) Accounting standards used	A	IPSAS or corresponding national standards are applied for all statements.

### (i) Completeness of the financial statements

The annual financial statement covers all revenues received by the municipality and expenditures by direct and indirect beneficiaries (including the Works Directorate and utilities) into a single consolidated statement. A statement of financial assets and liabilities is included as an annex to the financial statement.

Score A

### (ii) Timeliness of submission of the financial statements

The Financial Statements are sent to CG Treasury by the 15<sup>th</sup> May each year. Under the new BSL, the annual report (which includes the Financial Statement) should be accompanied by an audit opinion.

Score A

### (iii) Accounting standards used

Cash-based IPSAS is the basis of the accounting standards used throughout the public sector in Serbia and this is used in the municipality for at least the past 3 years.

Score A



## G. External scrutiny and audit

### PI-26 Scope, nature and follow-up of external audit

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>Score D+</b>	
(i) Scope and nature of audit (including adherence to audit standards)	A	All entities of municipality are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.
(ii) Timeliness of submission of audit reports to legislature	B	Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office
(iii) Evidence of follow-up on audit recommendations	D	There is little evidence of response or follow up.

**This indicator assesses quality of the external audit function and the degree to which audits identify and promote changes to address systemic issues.**

#### **(i) Scope and nature of audit (including adherence to audit standards)**

The complete financial statements have been audited in the past 3 years covering 100% of revenue and expenditures funded from revenue. The 2011, 2012 and 2013 audits were tendered and a private audit company approved by the SAI was selected through competitive tendering. The audits were based on INTOSAI standards. According to the audit report for 2013 (<http://www.knjazevac.rs/Dokumenti/misljenjerevizora.pdf>) performed by private audit company HLB DST-revizija the scope of the audit was audit of financial reports and significant accounting policies covering 100% of revenues and expenditures, assets and liabilities, compliance audit (especially related to the benefits of nominated and elected officials) and some elements of performance audit according to international audit standards

Score A

#### **(ii) Timeliness of submission of audit reports to legislature**

The 2013 audit report was received by the Head of the Municipal Assembly by the 15<sup>th</sup> June 2014. A shortened version is prepared for Assembly scrutiny.

Score B

#### **(iii) Evidence of follow-up on audit recommendations**

The audits of the 2011, 2012 and 2013 accounts were given a positive opinion by the auditor and no substantial recommendations were made. There is no recognized procedure for follow-up should substantial recommendations be made.

Score D

**PI-27 Legislative scrutiny of the annual budget law**

This indicator assesses the role of Parliament in setting fiscal policy and having this reflected in the annual budget. The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law and is an important link in the chain of accountability for fiscal policy outcomes. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process.

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>Score D+</b>	
i) Scope of the legislature's scrutiny	C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.
(ii) Extent to which the legislature's procedures are well-established and respected	A	The Legislature's procedures for budget review are firmly established and respected. They include internal organisational arrangements, such as specialised committees and negotiation procedures.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations

**(i) Scope of the legislature's scrutiny**

Once the draft budget has been reviewed by the City Council, it is passed to the Assembly to initiate public debate and review. There is a Committee for Budget and Finance which reviews the budget proposals and issues an opinion on the budget to the Assembly, which in turn passes this on at the beginning of the public debate. A positive opinion triggers a debate in the Assembly which covers the full budget as proposed by the executive. All Assembly decisions are published in the Official Gazette.

Score C

**(ii) Extent to which the legislature's procedures are well-established and respected**

The procedures outlined in (i) are based on the BSL and established in the Municipal rulebook (on the Municipal website) and respected. Interestingly, Knjaževac also holds budget hearings in preparation for the following year's budget before any Budget Instruction is received from CG. Priorities are discussed across party lines, in the Budget and Finance Committee and the Legal Affairs Committee, and in public. This reflects the strength of the Development Plan.

Score A

**(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)**

Although the new BSL indicates that the draft budget should be passed to Assembly by November 1<sup>st</sup>, this has never happened. In recent years it has always been around the middle of December e.g. 2013 it was received on December 10<sup>th</sup> and approved on December 17<sup>th</sup>.

Score D

**(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature**

Clear rules exist concerning changes to the budget by the executive. Article 61 of the BSL allows for a direct budget beneficiary, with the consent of the local government Head of Finance ,to redirect the appropriation approved for certain expenditure up to 5% of the appropriation being reduced. Strict safeguards have been defined with respect to sums and nature of these changes which are being observed, but allow for considerable administrative reallocations. Supplementary budgets must be approved by the Assembly and follow similar shortened procedures as the annual budget, though without public hearings.

Score B

**PI-28 Legislative scrutiny of external audit reports**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>Score D+</b>	
(i) Timeliness of examination of audit reports by the legislature	A	Scrutiny of audit reports by the Assembly is usually completed by the legislature within 3 months from receipt of the reports
(ii) Extent of hearings on key findings	D	No in-depth hearings are conducted by the legislature.
(iii) Issuance of recommended actions by the legislature	D	No recommendations are being issued by the legislature.

This indicator assesses the role of the Parliament, including the Public Accounts Committee, in ensuring accountability and promoting positive change in public financial management in response to external audit findings.

**(i) Timeliness of examination of audit reports by the legislature**

Private auditor reports are typically short and do not require detailed scrutiny. They are always (including the past three years) scrutinized in one session of the Assembly by early July. Reports are received by the middle of May or later.

Score A

**(ii) Extent of hearings on key findings**

No hearings are ever organized, though members of the Assembly can ask questions, though the auditee is not necessarily present.

Score D

**(iii) Issuance of recommended actions by the legislature**

The Assembly does not issue recommendations.

Score D

**H. Donor practices**

**D-1 Predictability of direct budgetary support**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>D-1 Predictability of direct budgetary support</b>	<b>Score</b> NA	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)	NA	
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NA	

This indicator measures the correlation between forecasted direct budget support provided by external donors and actually disbursed budget support during the last three years. The indicator considers annual deviations of actual budget support from the forecast provided by donors; it also assesses the extent to which the disbursements of the budget support are predictable during the year on a quarterly basis.

**(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)**

There is no Direct Budget Support. NA

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

NA

**D-2 Financial information provided by donors for budgeting and reporting on project and program aid**

The indicator measures the extent to which government receives adequate financial information on donor-executed programs and projects. Information received on a regular and timely basis is important to allow the government to properly allocate resources towards priorities, to balance the distribution of aid on a sectoral and geographic basis, and to estimate the recurrent cost implications.

Knjaževac's main donors are: EU (over 50% by value), GIZ, and SECO.

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>D-2. Financial information provided by donors for budgeting and reporting on project and program aid</b>	<b>Score D</b>	
(i) Completeness and timeliness of budget estimates by donors for project support	D	Not all major donors provide budget estimates for disbursement of project aid at least for the government's fiscal year and at least 3 months prior to its start.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

**(i) Completeness and timeliness of budget estimates by donors for project support**

Donors rarely provide estimates for project support which is in time for inclusion in the original budget (though may be included in supplementary budgets). The exception is multi-year projects when the outer year disbursement schedules can be included. Often it is not even known how much the municipality should pay as part of counterpart funding (10%). Score D

**(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.**

Donors do not generally provide quarterly reports. The Municipality has no experience of receiving any reports though it knows they are sent to IPA and the Standing Conference. The new BSL now ensures that all project expenditures and donations are reported to the Municipal accountant. Not all donations are represented in the budget as there is uncertainty when they will be disbursed. 100% of projects have financial reports (including annual reports) which are sent to both donors and the municipality. TA was not traditionally reported on, but new rules ensure that this is accounted for by the EU. All projects are grant projects. Score D

**D-3 Proportion of aid that is managed by use of national procedures**

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
<b>D-3. Proportion of aid that is managed by use of national procedures</b>	<b>Score D</b>	Less than 50% of aid funds to the municipal government are managed through national procedures
(i) Overall proportion of aid funds to municipality that are managed through national procedures	D	50% or more of aid funds to municipality are managed through national procedures

Donor procedures frequently pose an additional burden on the already constrained capacities of national authorities. Furthermore, utilizing national procedures helps to strengthen these procedures. The indicator therefore attempts to assess the degree of alignment with national procedures in the management of official development assistance. National procedures are reviewed with respect to procurement, payment/accounting, audit and reporting.

**(i) Overall proportion of aid funds to municipality that are managed through national procedures**

Local procurement procedures were used for the first time in 2014 for the EU Waste Disposal project. In 2013 the use of procedures was as follows:

Procurement -	10%
Payments / Accounting -	100% according to the municipality's Chart of Accounts
Audit –	50%
Reporting -	0%

This gives a weighted average of 40%.

Score D

## I. Annexes

Table 1 - Fiscal years for assessment

Year 1 =	2013
Year 2 =	2012
Year 3 =	2011

Table 2

Data for year =		2013				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
000 – Social services	42,252	38,309	35,539.5	2,769.5	2,769.5	7.8%
100 – General public services	237,416	210,538	199,698.4	10,839.6	10,839.6	5.4%
300 – Public order and security	256	712	215.3	496.7	496.7	230.7%
400 – Economy	201,667	158,004	169,628.8	-11,624.8	11,624.8	6.9%
500 – Environmental protection	37,700	30,672	31,710.7	-1,038.7	1,038.7	3.3%
600 – Community and housing	186,912	120,378	157,217.8	-36,839.8	36,839.8	23.4%
700 – Health	0	0	0.0	0.0	0.0	#DIV/0!
800 – Sports and culture	92,394	98,847	77,715.6	21,131.4	21,131.4	27.2%
900 – Education	142,838	134,412	120,145.7	14,266.3	14,266.3	11.9%
allocated expenditure	941,435	791,872	791,872.0	0.0	99,006.6	
Contingency						
total expenditure	941,435	791,872				
overall (PI-1) variance						15.9%
composition (PI-2) variance						12.5%
contingency share of budget						0.0%

  

Data for year =		2012				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent



000 – Social services	34,550	37,537	41,304.4	-3,767.4	3,767.4	0.091211
100 – General public services	194,984	184,244	233,102.8	-48,858.8	48,858.8	0.209602
300 – Public order and security	255	140	304.9	-164.9	164.9	0.54076
400 – Economy	86,168	174,808	103,013.6	71,794.4	71,794.4	0.696941
500 – Environmental protection	17,500	20,368	20,921.2	-553.2	553.2	0.026442
600 – Community and housing	90,839	118,939	108,597.8	10,341.2	10,341.2	0.095225
700 – Health	5,200	836	6,216.6	-5,380.6	5,380.6	0.865521
800 – Sports and culture	66,000	77,626	78,902.8	-1,276.8	1,276.8	0.016182
900 – Education	122,170	123,920	146,053.9	-22,133.9	22,133.9	0.151546
allocated expenditure	617,666	738,418	738,418.0	0.0	164,271.2	
Contingency						
total expenditure	617,666	738,418				
overall (PI-1) variance						19.5%
composition (PI-2) variance						22.2%
contingency share of budget						0.0%
Table 4						
Data for year =	2011					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
000 – Social services	25,899	26,308	26,900.8	-592.8	592.8	0.022035
100 – General public services	147,059	151,023	152,747.2	-1,724.2	1,724.2	0.011288
300 – Public order and security	745	94	773.8	-679.8	679.8	0.878524
400 – Economy	11,955	16,560	12,417.4	4,142.6	4,142.6	0.333611
500 – Environmental protection	0	0	0.0	0.0	0.0	#DIV/0!
600 – Community and housing	135,500	132,389	140,741.1	-8,352.1	8,352.1	0.059343
700 – Health	10	300	10.4	289.6	289.6	27.88283
800 – Sports and culture	55,090	58,639	57,220.8	1,418.2	1,418.2	0.024784
900 – Education	101,050	110,457	104,958.6	5,498.4	5,498.4	0.052387
allocated expenditure	477,308	495,770	495,770.0	0.0	22,697.6	
Contingency						
total expenditure	477,308	495,770				
overall (PI-1) variance						3.9%
composition (PI-2) variance						4.6%
contingency share of budget						0.0%

* Table 5 - Results Matrix			
year	for PI-1 total exp. Deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2013	15.9%	12.5%	
2012	19.5%	22.2%	0.0%
2011	3.9%	4.6%	
Score for indicator PI-1:		D	
Score for indicator PI-2 (i)		C	
Score for indicator PI-2 (ii)		A	
Overall Score for indicator PI-2		C+	

Table 2

Data for year =	2013								
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent			
7331 - Recurrent	0	28,437,111	0.0	28,437,111.0	28,437,111.0	#DIV/0!			
7332 - Capitals	0	7,212,375	0.0	7,212,375.0	7,212,375.0	#DIV/0!			
7331 - Transfers HLG-1	405,234,024	405,234,024	440,883,510.0	-35,649,486.0	35,649,486.0	8.1%			
allocated expenditure	405,234,024	440,883,510	440,883,510.0	0.0	71,298,972.0				
contingency									
total expenditure	405,234,024	440,883,510							
overall (PI-1) variance						8.8%			
composition (PI-2) variance						16.2%			
contingency share of budget						0.0%			

Table 3

Data for year =	2012								
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent			

7331 - Recurrent	0	39,916,108	0.0	39,916,108.0	39,916,108.0	#DIV/0!		
7332 - Capitals	0	4,487,888	0.0	4,487,888.0	4,487,888.0	#DIV/0!		
7331 - Transfers HLG-1	381,189,780	384,137,780	428,541,776.0	-44,403,996.0	44,403,996.0	0.103616		
allocated expenditure	381,189,780	428,541,776	428,541,776.0	0.0	88,807,992.0			
contingency								
total expenditure	381,189,780	428,541,776						
overall (PI-1) variance						12.4%		
composition (PI-2) variance						20.7%		
contingency share of budget						0.0%		

Table 4

Data for year =	2011							
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent		
7331 - Recurrent	0	16,924,501	18,910,755.5	-1,986,254.5	1,986,254.5	0.105033		
7332 - Capitals	0	6,239,902	6,972,215.1	-732,313.1	732,313.1	0.105033		
7331 - Transfers HLG-1	243,691,153	249,126,272	278,363,658.0	-29,237,386.0	29,237,386.0	0.105033		
allocated expenditure	243,691,153	272,290,675	304,246,628.5	-31,955,953.5	31,955,953.5			
contingency								
total expenditure	243,691,153	272,290,675						
overall (PI-1) variance						11.7%		
composition (PI-2) variance						10.5%		
contingency share of budget						0.0%		

Table 5 - Results Matrix

		for dim (i)	for dim (ii)	for PI-2 (ii)
	year	total transfer deviation	composition variance	contingency share
	2013	8.8%	16.2%	0.0%
	2012	12.4%	20.7%	
	2011	11.7%	10.5%	

## **Names and Designation of People consulted**

### President of Assembly

1. Mr. Dragan Mančić

### Municipal Administration

2. Ms. Emilija Tasić, Head of Administration

### Department for budget, finance and public revenues

3. Ms. Ankica Marković, head of department
4. Ms. Dragana Marinković, budget preparation
5. Ms. Vesna Živković, head of Local Tax Administration
6. Mr. Ristić Marko, public procurement

### Department for economy and social activities

7. Ms. Marija Jelenković, head of department

### Municipal development agency

8. Mr. Dragan Milutinović, director

### Works Directorate

9. Mr. Milenković Goran, head of accounting, payroll
10. Ms. Lidija Milanović, public procurement
11. Ms. Violeta Kostadinović, legal department, planning

### Regional Chamber of Commerce/Entrepreneur

12. Mr. Dejan Miljković