

Public Financial Management Performance Measurement Report Serbia Municipalities

Municipality of Osečina

REPIM Ltd for SECO

This document covers the Summary Assessment and Section 3 for the PEFA assessment report for Osecina. 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

Preface¹

The Municipality of Osečina is located in western Serbia, on the area of 319 square kilometers with a total of 12,571 inhabitants. The municipality stretches along the left and right sides of the state class road Valjevo - Loznica and railway (under construction) on the same route, and the left and right banks of the upper and middle course Jadra Osečina from the north it borders with the municipality Koceljeva, to the east with the municipality Valjevo, the southern part of the municipality of Ljubovija, and to the west by the municipalities Krupanj.

Center and seat of the municipality is the town Osečina, located at 32 kilometers northwest of Valjevo on the way to Loznica, or the 130 kilometer southwest of Belgrade towards the north-eastern part of the Republic of Serbian and BiH, at an altitude of 210 meters.

The Municipality of Osečina has approximately 1,781 hectares of building land. The total number of dwellings in the municipality, according to the available data is 6060 while the number of newly built dwellings for the period 2007-2012 is 58 with a total area of 4300 m²

The Municipality Osečina has a quality social infrastructure with multi-decade tradition that includes: health clinic, kindergarten, primary and high schools and cultural and sports centers.

Institutional Responsibilities for Public Financial Management

In accordance with the Law on Local Self-Government (Official Gazette of RS, no. 129/2007) municipal bodies are the Municipal Assembly, the Mayor, the Municipal Council and the Municipal Administration, as set by the Statute of the Municipality of Osečina (Assembly Decision No. 060-36/2008 of 11.10.2008).. Relevant information about the work of the Municipal Administration is published on the official website.

The Municipal Administration has established internal organizational units (departments and services), as follows:

- Department for general administration and affairs of the municipality,
 - Performs verification of compliance of acts prescribing standards issued by the Mayor, the Assembly and the Municipal Council with the law and other regulations
- Department for the budget, the economy and public services,
 - Responsible for budget preparation, accounting and treasury functions
 - Administration of fees and charges for services which are paid directly into the Municipality's bank account

¹ John Short and Stefan Teodosić carried out the field work and drafted this assessment

- Internal control,
- Control of institutions in the field of public service established by the municipality
- Distribution and control of managing the funds used by beneficiaries
- Department for the Inspection,
 - Responsible for performing inspections over the implementation of regulations in the jurisdiction of the municipality, such as: construction, utilities and inspection of environmental protection, transportation, education and budget inspection
- Department for Property Affairs, Urban Development and Housing and Municipal Affairs,
- Department for common tasks,
 - Responsible for municipality procurement
 - Human resources
- Local tax administration service
 - Responsible for assessment and collection of property tax
 - Conduct the administrative procedure on appeals of taxpayers filed against administrative acts issued in tax proceedings

In addition there is the company Direction for Buildings and Infrastructure which is a legal entity created and 100% owned by the Municipality with duties such as:

- preparation of spatial and urban planning;
- production of town planning projects; land development;
- professional and technical jobs in the provision, maintenance, protection and utilization of municipal infrastructure
- procurement related to its operations

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.

The Mayor who

- represents the municipality;
- proposes ways of resolving issues decided by the Assembly;
- orders for the execution of the budget;
- directs and coordinates the work of the Municipal Administration;
- give consent to acts of budget users that determine the number and structure of employees

The Municipal Council consists of 5 members, in addition to the mayor and deputy mayor, who are members of the Municipal Council by function **whose** responsibilities are

- Proposes the statute, the budget, the decision on the organization of municipal administration and other acts passed by the Municipal Assembly,
- Implements and ensure the implementation of decisions and other acts of the Municipal Assembly,
- Decides on temporary financing,
- Supervises the work of Municipal Administration, or annulling acts of the Municipal Administration, which do not comply with the law, Statute and other general act or decision taken by the Municipal Assembly,
- Fixes an administrative procedure of second degree on rights and duties of citizens, companies, institutions and other organizations in administrative matters within the jurisdiction of the Municipality,
- Ensures the implementation of delegated competencies from the rights and duties of the City or the Republic.
- Appoint and dismiss the Chief and Deputy Chief of Municipal Administration,
- Performs other duties provided by law and the Municipal Statute.

The Municipal Assembly which is a representative body dealing with

- municipal statutes, 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.
- appoints and dismisses management and supervisory board, appoint and dismiss directors of public enterprises, institutions, organizations and agencies founded by the municipality and give consent to their statutes, in accordance with the law,
- determines municipal taxes and other local revenue.

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
- Municipal Statute (Assembly Decision No. 060-36/2008 of 11.10.2008)

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Summary Table of Scores							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
HLG-1	Predictability of Transfers from Higher Level of Government	M1	C	NR	A		NR
B. PFM-OUT-TURNS: Credibility of the budget							
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	D	A			D+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A
C. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	A	NA			A
PI-8	Transparency of inter-governmental fiscal relations	M2	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	A				A
D. BUDGET CYCLE							
D (i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	B	D	A		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	NA	C	D	D+
D (ii) Predictability and Control in Public Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	B	C		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	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	A	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	D	D+
PI-19	Competition, value for money and controls in procurement	M2	A	A	A	A	A

Summary Table of Scores							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	A		C+
PI-21	Effectiveness of internal audit	M1	D	D	NA		D
D (iii) Accounting, Recording and Reporting							
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
D (iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	D	NA	NA		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	D	NA	NA		D
E. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	NA	NA			NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	NA	NA			NA
D-3	Proportion of aid that is managed by use of national procedures	M1	NA				NA
NA = Not applicable							

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). The score for own source revenue is D while with respect to transfers from higher level of Government (Indicator HLG-1), the deviation of actual from budgeted has a C score. Earmarked transfers are, whilst a low proportion of all transfers, highly unpredictable. However, in each year of the assessment, the municipality consistently over-budgets both on expenditure and own source revenue which necessitates rebalances during the year to align expenditure with revenue. The stock of payment arrears is low with an A score. 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.

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 is 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 an A score. Monitoring of fiscal risks arising from the municipality owned enterprise takes place but results are not consolidated into an overall report which could be done but thus lowers the score.

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. The time taken to produce the budget score is a B reflecting the municipality's effort to be prepared but the involvement of the political class is weak with D score. Nevertheless the budget is always approved on time. Both fiscal and budgetary policy are generally missing a medium-term perspective which will stifle the introduction of programme budgeting. The budget estimates include expenditure on projects in the two outer years, but nothing on recurrent expenditure or revenue. The lack of forward planning is also reflected in weak scores for the existence of costed sector strategies and linking future recurrent expenditure to investment with a C and a D score for these dimensions

4. Predictability and control in budget execution

Municipality administered taxation is based on a property tax that was previously administered 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 reactive rather than proactive which in part reflects the information in the gazette which is considered sufficient, but also the small administration. The appeals mechanism lacks an arbitration mechanism independent of the authorities themselves such as an appeal tribunal established 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 and there are links to some 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 when 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. Overall 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, but are used to ensure that the final budget is balanced. 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 are working well; however there have been no payroll audits. Osečina does not have an 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 high with an A score but

rules and procedures for other non-procurement activities are relatively underdeveloped. Along with internal audit, internal control is an area that merits attention.

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

Osečina has never been audited either by the SAI or private sector auditors. With respect to the budget approval process, there is a well-established set of procedures, but the time available for their implementation is negligible. The assembly as a whole only assesses the annual budget when it is presented though there is a prior but short time frame committee stage. Virement rules reflect the national procedures in the Budget System Law of up to 5 per cent with considerable number of reallocations.

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

Aggregate fiscal discipline

Process weaknesses, such as the absence of an effective Medium Term Fiscal Framework, 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 large 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. The absence of external oversight mechanisms makes 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 be in a position to maintain overall budget discipline.

Strategic allocation

The strategic allocation of resources is rendered weak by the absence of medium-term fiscal and budget frameworks, inadequate policy-budget linkage through sector strategies, 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, the need to cut expenditures during the year using rebalanced (supplementary) budgets does indicate that the strategic priorities determined through the budget formulation process are threatened on an annual basis. Implementing strategic priorities is also weakened by inconsistent delivery of earmarked grants.

Operational efficiency

There is a single-year budget. Weaknesses in the accountability mechanisms from the absence of internal audit and external audit mean that there are no 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 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 though external audit is yet to be implemented in the municipality. 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 other reform initiatives have yet to be implemented 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 sector strategies can only make programme budgeting premature and ineffective in Osečina.

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
HLG-1 Predictability of transfer from higher level of the government	Score NR	
(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	C	In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 15%.
(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

Budgeted and actual Income Tax transfer ((80% of income tax collected in the municipality) and General and earmarked transfers from the Central Government to the Municipality are as follows

	2011			2012			2013		
	Budget	Actual	Difference	Budget	Actual	Difference	Budget	Actual	Difference
Income tax	48348	45938		85700	76318		81730	69347	
General Transfers	125934	112469		177959	177386		178553	184898	
Earmarked transfers	51999	15632		51147	25560		260283	254245	
Total	174282	158407	76.9	263659	253704	88.7%	260283	254245	97.7%

Score C

(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 transfers from the Central Government. 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 earmarked grants (broken down by capital and current) the general grants and income tax, the following deviation has been calculated.

Year	HLG-1 (ii) Variance
2011	28.0%
2012	14.2%
2013	4.1%

However, breakdown of 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
PI-1 Aggregate expenditure out-turn compared to original approved budget.	Score D	
(i) The variance between aggregate budgeted and actual primary expenditure	D	In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure

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	for PI-1 Total expenditure deviation
2011	-19.3%
2012	-16.9%
2013	-28.1%

See annex for raw data

The municipality budget is heavily financed by transfers from the Centre (HLG-1) and own source revenue (PI-3). Improvements in reducing the difference between actual and planned budget over time has reflected the significant improvements in realizing revenue forecasts in both of the broad sources of revenue.

Score D

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

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
PI-2 Composition of expenditure out-turn compared to original approved budget	Score D+	
(i) Extent of variation in expenditure composition excluding contingency items	D	Variance in expenditure composition exceeded 15 % in at least two of the last 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 was on average less than 3% of the original budget.

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 municipality'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.

Year	PI-2 (i) Extent of variance
2011	-28.5%
2012	-15.6%
2013	-28.0%

See annex for raw data

There is significant variation between the planned budget and actual expenditures across the administrative units.

Score D

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

PI-2 (ii) Share of contingency expenditures
0.0%

Contingency as a proportion of total expenditure is small.

Score A

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

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
PI-3 Aggregate revenue out-turn compared to original approved budget	Score A	
(i) Actual domestic revenue compared to domestic revenue in the original, approved budget	A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three 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

RSD000

	2011			2012			2013		
	Budget	Actual	Dif	Budget	Actual	Dif	Budget	Actual	Dif
Property Tax	16460	9066		17750	11869		16300	10145	
Fees	9784	7357		7100	6222		6370	5156	
Sale of goods	2250	1009		1122	8846		882	9398	
Fines	3900	1976		2100	1834		2550	1957	
Other	9500	5948		4500	3349		4600	3048	
Refunds	730	1802		154	174		1364	2311	
Property Sales	30	9		180	172		11	11	
Total	42654	27167	63.7%	32906	32466	98.7%	32077	32026	99.8%

The municipality own source revenue base is small relative to transfers from Central Government (see HLG-1). Property tax is the main source of tax revenue but fees, charges and fines and sales of goods are a more important source of revenue than it but are more difficult to forecast due to their dependence on people's actions rather than economic conditions. The structure of own source revenue is not dissimilar to local authorities around the world.

Score A

PI-4 Stock and monitoring of expenditure payment arrears

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-4 Stock and Monitoring of expenditure payment arrears	Score	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock	A	The stock of arrears is low (i.e. is below 2% of total expenditure)
(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

The total stock of accumulated arrears to all sources at the end of 2012 was RSD2.7 million (0.87% of expenditures) and RSD3.0 million (0.99% of expenditures) at the end of 2013.

Score A

(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 all arrears can be aged with monitoring and classification as arrears if not paid on time. The payroll system would also stipulate if payment was not made and became an arrear. There is no record of salaries not being met.

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 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 paid². 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 Act between beneficiaries of public funds and companies when public funds beneficiaries are debtors (“Official Gazette RS” 21/2013). There are initiatives to broaden the scope of RINO application to cover liabilities to public sector entities also (mostly Public Utilities). Score A

² RINO web application

C. Budget comprehensiveness and transparency

PI-5 Classification of the Budget

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
PI-5 Classification of the Budget	Score A	
(i) The classification system used for the formulation, execution and reporting of the municipality's budget	A	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 government'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
PI-6 Comprehensiveness of information included in budget documentation	Score C	
(i) Share of the nine elements of listed information in the budget documentation most recently issued by the municipality	C	Recent budget documentation fulfils 3-4 of the 9 information benchmarks

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 fulfills 4 of the nine information benchmarks. Score C

Information contained in budget documentation			
	Item	Included	Source
1	Macroeconomic assumptions, including at least estimates of aggregate growth, inflation, and exchange rate ³	Yes	Budget circular, Gazetted Budget
2	Fiscal deficit, defined according to GFSM, or other internationally recognized standard	Yes	Gazetted Budget
3	Deficit financing, describing anticipated composition	Yes	Gazetted Budget
4	Debt stock, including details at least for start of current year	Yes	Gazetted Budget
5	Financial assets, including details at least for the beginning of the current year	No	Financial assets are reported in an annex to the Financial statements
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	No	
8	Summarized budget data for both revenue and expenditure according to main heads of classifications used, including data for current and previous years	No	
9	Explanation of budget implications of new policy initiatives	No	These are only included in background to a rebalanced budget if such changes are made during the year.

(Source: Budget Circular, Gazetted Budget and Budget decision document)

³ As the municipality only deals in RSD, exchange rate assumptions are not relevant

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
PI-7 Extent of unreported government operations	Score A	
(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	NA	

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

There are no extra budgetary funds – all revenues and expenditure are recorded in the budget and accounts. This follows the Budget System Law⁴.

Score A

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

The municipality has no donor funded projects so there is no information to include in fiscal reports. The procedure would be that such donor projects (if they did exist) would be processed through the budget. Not Applicable

⁴ BSL Article 9, para 12: “Money of the local government budgets, direct and indirect users of budget funds, as well of the other entities included in the consolidated treasury account of the municipality are maintained and deposited on the consolidated treasury account of that municipality“

PI-8 Transparency of intergovernmental fiscal relations

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

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
PI-8 Transparency of intergovernmental fiscal relations	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
PI-9 Oversight of aggregate fiscal risk from other public sector entities	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 government monitoring of AGAs and public enterprises

There is one enterprise wholly owned by the municipality, a General Utilities Company that is responsible for the provision of water and sewerage services.

There is no liability to the municipality from any borrowing. Collateral for borrowing is based on a company's assets but permission has to be received from the Municipality. Guarantees are given by the Ministry of Finance on behalf of the Republic Government. There is an oversight board which is comprised of members nominated by the municipal assembly as well as from the municipality staff (representing over 50 per cent). The annual plan of work is submitted to the Budget Department and is reviewed by the administration and the city council

and must be approved by the Assembly before it can be implemented. All fees and charges for the year has to be approved by the Assembly. This is gazetted and is published on the company's website.

Each month a report is submitted to the budget department on number of employees and salaries and this has to be approved before payment is made. This report is also sent to the Ministry of Finance. Each quarter a financial statement is produced for the quarter and the year to date which is analysed by the budget department and sent to the Ministry of Finance. The annual financial statement and execution of the work plan are also produced and similarly treated. The financial accounts have never been audited.

There is provision for fifty per cent of the annual surplus to be retained by the company and the remaining fifty per cent to be transferred to the Municipality. So far there has not been any transfers. Given that there is only one such company in the municipality, its annual financial statement represents by default a consolidated statement. However the absence of audited accounts the score is C

(ii) Extent of municipality 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
PI-10 Public access to key fiscal information	Score A	
(i) Number of the eight listed elements of public access to information that is fulfilled.	A	The government makes available to the public 7-8 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 government currently makes available six of the seven⁵ listed and available elements of public access to information in the timeframe specified. Score A

Key fiscal information made available to the public		
Item	Available	Source
1	Yes	Gazette and website http://Osečina.com/
2	No	
3	Yes	On website after Assembly approves
4	NA	The municipality has never been audited but audit report would be available on demand if they existed and were not posted on a website
5	Yes	On municipality portal seven days after award
6	Yes	Data are available on each school and clinic and can be requested
7	Yes	Assembly decisions on charges and taxes are gazetted and on website
8	Yes	Annual work plan and its execution as well as financial statements are on website as well as being gazetted after assembly adoption.

⁵ Only seven out of the eight are possible since there is no audit undertaken (See PI-26)

D. Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

	Minimum Requirements (Scoring Method M2)	
	2014	Explanation
PI-11 Orderliness and participation in the annual budget process	Score B	
(i) Existence of and adherence to a fixed budget calendar.	B	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.
(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 legislature has, during the last three years, approved the budget before the start of the fiscal 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 applied 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.

Municipality Budget Calendar

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	07 Oct 2013
Local government finance authority shall issue the instructions for the preparation of the draft local government budget	1 August	31 July 2013. Based on MoF circular a revision was issued 8 Oct
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	First Draft Financial Plan September 1 Revised 11 Oct
Local government finance authority shall submit Draft Budget Decisions to the local government executive authority	1 November	15 October 2013
Local government assembly shall adopt the local government Budget Decision	20 December	25 December 2013
Local government finance authority shall furnish the Minister with the local government Budget Decision.	25 December	25 December

The law provides for budget beneficiaries some four and a half weeks to prepare their budget submission once the instruction have been received. However, the instructions from the Ministry of Finance is consistently late. In order to accommodate the impact of this lateness, the budget department issues its own circular according to the budget calendar based on the previous year's allocation and then issues additional information based on the Ministry of Finance circular once it has been issued. The actual time available to the administrative units in the 2014 budget preparation process was just over four weeks. The remainder of the time before the final draft is completed is spent on consolidation and fine tuning by the city council and the budget department before the budget is submitted to the executive before being submitted to the Assembly.

Score B

(ii) Guidance of the preparation of budget submissions

The budget circular does not include ceilings although it includes indication of salaries for each organization. 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

(iii) Timely approval by the legislature

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.

The budget approval in the past three years has been in line with legal requirements before the start of the financial year as follows.

Budget year	Approval date
2012	20 Dec 2011
2013	26 Dec 2012
2014	25 Dec 2013

Score A

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

	Minimum Requirements (Scoring Method M2)	
	2014	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	Score D+	
(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	
(iii) Existence of costed sector strategies	C	Costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.
(iv) Linkages between investment budgets and forward expenditure estimates	D	Budgeting for investment and recurrent expenditure 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

The Budget is prepared for one year only for the administrative units in the municipality.

Score D

(ii) Scope and frequency of debt sustainability analysis

There is no requirement for a debt sustainability analysis given the infrequent need to borrow. Currently the municipality has two loans⁶ contracted in 2011 with the Serbia Development Fund as part of the Government's economic stimulation programme. There was a one year grace period and repayments commenced in 2013 and are made quarterly over a five year period. The loans are equivalent to 3.87% of 2013 expenditure in the municipality and are not significant.

Not Applicable

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

A development strategy covering the period 2010 to 2020 was produced with assistance from USAID⁷ and the Standing Conference of Towns and Municipalities of Serbia. The document contained a vision for the municipality with its focus centered on Environmental Protection, Economic Development and the development of the Community. The document laid out aims and goals and linked these to programmes listing indicative activities to be carried out and key performance indicators. These activities were costed but there was no overall fiscal framework in which they were anchored although the potential source of funding any potential partners were highlighted as well as an indicative timetable. In discussion with administrative units, the action plan has been used in budget formulation since it was put together for infrastructure planning only.

Score C

(iv) Linkages between investment budgets and forward expenditure estimates

The annual budget includes projects and their financial requirement for the subsequent two years. There is no consideration of the recurrent cost implication once these projects are completed as the budget is only presented for a one year time horizon. If a project is completed in the year and is implemented in the year, the budget would, however, include the associated operating cost.

Score D

⁶ RSD8 million for student houses and RSD3.6 for library

⁷ MEGA project carried out between March and September 2009

E. Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
PI-13 Transparency of Taxpayer Obligations and Liabilities	Score 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	B	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.
(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 SR, 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 so that the person who is renting is liable for payment. Liability to pay property tax is assessed on a number of factors relating to the municipality – location with respect to one of 3 zones, the type of property and its size (usable square metre) and the average market prices for that type of property (which is based on information on sales). These factors determine the tax base and the municipality of Osečina applies the maximum allowable rate of 0.40%. For companies according to the Decision on tax rates (Assembly No. 060-56/2013 of 26.11.2013.), property tax rates are as follows:

- 1) on the immovable property of a taxpayer that keeps books (according to accounting standards which values assets): 0.4%
- 2) on the property by the taxpayer who does not keep books: 0.3%

3) on the immovable property of a taxpayer that does not keep books, except on land:

- Under RSD10 million: 0.4%
- between RSD10 to 25 million 0.4% + 0.60% on the amount that exceeds 10 million,
- between RSD 25 million to 50 million 0.225% + 1% on the amount that exceeds 25 million,
- above RSD 50 million 0.225% + 2% on the amount that exceeds 50 million.

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 through the Serbia Post Office system as official notification.

Score A

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

Information is routinely provided in the annual budget relating to any relevant changes such as zoning, average prices and applicable ad valorem rates. Such information must be included in the official gazette. Tax payer education is reactive rather than proactive. A tax payer who comes and asks for additional information not included in the budget is provided with such information. The Chamber of Commerce was satisfied that the information flows from the Taxation Administration when a request was made was good.⁸

Score B

(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 who 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

⁸ The Chamber was complimentary about the municipality of Osecina but less so with respect to other municipalities in its region.

of the Ministry of Finance in Belgrade 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). Appeals – administrative disputes after this intermediate step - can only be directed to the Administrative Court. There is no intermediate tax appeals mechanism other than to the regional office of the Ministry of Finance so the overall system needs substantial redesign. In 2013 there was three appeals which were resolved at the municipality in favour of the municipality. There have been 4 appeals with respect to land in 2014 which have yet to be settled.

Score C

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

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	Score D+	
(i) Controls in the taxpayer registration system	B	Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.
(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

With the introduction of the New Property Tax system, the municipality sent out a form to all properties and the tax offices maintain a computerized files of all properties and relevant details. The numbers on the database has increased substantially since the municipality assumed the administration of the property tax. In 2008 when the municipality took over responsibility there were 1,100 on the database and this grew to 1,550 by 2013 and this has reached 3,600 in 2014. The significant increase has been in 2014 when the new tax regime has been introduced reflecting the requirement for tax payers to provide new information in the application form as well as the tax base being extended to land. A tax payer may thus have multiple files. The Law requires any changes in circumstances to be notified to the Property Tax Office by the taxpayer within 15 days of the change.

There are various linkages with other government and financial systems. The tax property administration cross checks its records with the information contained by the Ministry of Interior and the Cadastral records as well as court information (on inheritance) so as to try to ensure all properties are covered. Building permits are also used to monitor new buildings. A tax clearance certificate is also required for public procurement purposes as well as access to some state benefits. In 2013 1,128 such certificates were issued. Linkages with opening bank accounts are not used.

Score B

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

The penalty regime is set out in the law. According to the “Decision on the obligation for taxpayers to file tax application form for the assessment of tax on real estate” (Assembly of the Municipality Osečina No. 060-53/2013 of 26.11.2013.), there is a penalty for the taxpayers who fail to submit the tax application form. They have to pay in range 5.000 – 50.000 RSD, according to the Article 180 of the “Tax Procedure and Tax Administration Act” (Official Gazette RS Nos. 80/02, 84/02 but the application and impact is not considered to be effective. Much more effective is Article 75 of that Act which stipulates the imposition of interest of 10 percentage points above bank rate which is automatically added to a taxpayer’s file once payment due has not been received. Under Article 75, a company may have its bank account suspended if payment is not made. Articles 71, 77, 78, 79, 84, 92 and 95 set out the procedures for enforces collections. The effectiveness can be assessed on the significant level of arrears as well as the lack of attempts at applying the law to collect nonpayment (2013: 3 and 2014: 0).

Score D

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

There is no audit plan – there are no field investigations. There are only three staff in the unit. Two office based control reviews on whether companies are filing in the correct zone were carried out in 2014 and one in 2013. There are 28 companies on file.

Score D

PI-15 Effectiveness in collection of tax payments

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-15 Effectiveness in collection of tax payments	Score D+	
(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 total amount of tax arrears is significant (i.e. more than 2% of total annual collections)
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.

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 very significant. In 2011, they amounted to 516 per cent of taxes collected (RSD47 million), in 2012, 453 per cent (RSD54 million) and in 2013 495 per cent (RSD50 million). The collection ratio is zero between 2011 and 2012 as the amount of arrears is increasing and negligible the following year.

Uncollected arrears that remain on the books are written off after 5 years under the law (article 114, various clauses) as being uncollectable (“obsolescence of tax liabilities”), but in effect this is not applied as arrears notices are reissued before the 5 years are completed.

Score D

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

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.

Score A

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

Accounts are maintained electronically and are up-dated as soon as payment is received. If an assessment has been made and payment has not been received by the date specified on the assessment, arrears will be automatically generated in the tax payers electronic file and interest is simultaneously added to the liability. A reminder notice is generated immediately.

Score A

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-16 Predictability in the availability of funds for commitment of expenditures	Score B+	
(i) Extent to which cash flows are forecast and monitored	A	A cash flow forecast is prepared for the fiscal year, and are updated monthly 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	MDAs are provided reliable information on commitment ceilings at least quarterly in advance.
iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way

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

At the beginning of the year, a cash flow forecast is prepared for each month based on historical collections and outflows. Cash inflows are monitored daily and a monthly cash flow report is prepared and is sent to the Treasury. The monthly flows are compared to the forecasts and adjustments are made. Expenditures are monitored and reported. Score A

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

Based on their annual plans broken down by quarter, each Administrative Unit is provided with an allocation covering each quarter in the year so that they can make commitments on a

quarterly basis. These allocation are made before the quarter starts. The quarterly allocation reflects the cash flow forecasts as well as need. Score B

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

The budget can be rebalanced⁹ but this rebalancing has to follow the same approval procedures as the original budget and are thus transparent. The original budget in 2013 was RSD430.3 m and the first rebalance was RSD406.9 m and the second rebalance was RSD317.8 m

	Number and Dates of Rebalance		
2011 Budget	27 September 2011	27 December 2011	
2012 Budget	9 March 2012	13 August 2012	12 November 2012
2013 budget	26 September 2013	25 December 2013	

The adjustments have been twice in two of the recent three years and three times in one year. Score A

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

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
PI-17 Recording and management of cash balances, debt and guarantees	Score A	
(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	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

⁹ Equivalent to a supplementary budget.

are identified and consolidated (including those for extra-budgetary funds and government controlled donor-funded project accounts).

(i) Quality of debt data recording and reporting

Debt payment is recorded as an economic category within the accounting system and is monitored as part of the monthly reporting process. The quality of recording and reporting meets the standards required with a monthly report to the Public Debt Unit (MoF) on interest and principle repaid. Currently, the municipality has two loans¹⁰ contracted in 2011 with the Serbia Development fund as part of the Government's economic stimulation programme. There was a one year grace period and repayments commenced in 2013 and are made quarterly over a five year period. 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

Municipal cash is part of the single treasury account system with its own account and subaccounts. These 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 which reduces the score.

Score B

¹⁰ RSD8 million for student houses and RSD3.6 for library

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
PI-18 Effectiveness of payroll controls	Score D+	
(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 monthly reconciliation.
(ii) Timeliness of changes to personnel records and the payroll	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.
(iii) Internal controls of changes to personnel records and the payroll	B	Authority and basis for changes to personnel records and payroll are clear.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D	No payroll audits have been undertaken within the last 3 years.

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

Payroll and personnel records for municipality employees are maintained as two separate but related systems: one for personnel and one for payroll. Personnel records are not computerized and any changes that impact on the payroll are integrated straightaway into the payroll system which is computerized. The municipality has also a wholly owned company (Direction) which manages construction and maintenance and is funded wholly from the budget. This company operates its own personnel and payroll system which operates similarly to that of the municipality's. The overall number of employees is small and changes are not frequent which makes for immediate reconciliation. Score A

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

Any changes to the personnel records are made immediately once the information become available. There are 46 employees on the municipality payroll and three with the Direction. All the information relating to payroll (permanent and part-time staff) is collected from the Administrative Units and is inputted as soon as it is received. Payment of monthly salaries (for the municipality but not the Direction) is split into two payments (5th and 20th of the following month). If for some reason there was a change to be made could not be made before payroll was computed (5th of month), 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

There is a separate Human Resources division comprising one member of staff. Files are kept in a locked filing cabinet which can only be accessed by the HR person and the Head of administration. Any changes in records have to be signed. The payroll computer system is password controlled with access limited to the payroll person and the budget department staff as needed (to assist as necessary). The system uses only the payroll person log-on irrespective of who uses it which limits the audit trail.

Score B

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

There have been no payroll audits. The District Inspector has inspected payroll on an ad hoc basis and payroll issues were not reported as a concern.

Score D

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
PI-19 Transparency, competition and complaints mechanisms in procurement	Score A	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	A	The legal framework meets all six 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

(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 the municipality of Osečina 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. The municipality of Osečina has a public procurement officer that is responsible for all public procurements conducted by the municipality. There are also complete information about all public procurements and contracts signed before that date. Osečina publishes information about actual (ongoing) procurements with relevant materials included (call for proposals, tender documentation, information about the signed contract... etc.) as well as the Public procurement plan (address: <http://osecina.com/dokumenta/javne-nabavke/>).

Score A

Compliance of the Procurement Act 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 http://Osečina.com/ and on the Public Procurement Portal ¹¹ , 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	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

¹¹ <http://portal.ujn.gov.rs/>

procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints		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

The Municipality of Osečina and Direction for Buildings and Infrastructure both use the competitive procurement methods as the default¹². All municipality procurement is carried out by one officer while there are two procurement officers in the Direction. In addition, according to the Law on Public Procurements, municipalities are also allowed to contract goods, services or works under the value of 400.000 RSD by publishing the call for proposals at their website and the Portal of the Public Procurement Office of Serbia (Article 39. par. 5) and asking at least 3 bidders to send their applications which contributes to the transparency of the entire procedure. Specifically, these shopping purchases typically relate to office supplies and equipment, facility maintenance, hygiene, soft drinks and coffee, as well as technical documentation for minor building and infrastructure projects. The regulations stipulate that there should be no conflict of interest and the price offered is not higher than comparable market price. No contracts were awarded through non competitive awards – Competitive procurement is used in all cases above for threshold for shopping. In addition, municipalities are obliged to send annual and quarterly reports where the total number of such contracts and amounts are clearly stated. Moreover, according to the Law on Free Access to Information of Public Importance, interested parties can also request any information regarding the use of the budget through “shopping” procedures.

¹² Procurement under the value of RSD 400,000 uses shopping.

The size and number of contracts in 2013 and 2014 (to date) are as follows:

	Municipality		Direction	
	2013	2014	2013	2014
In range 400K – 3M	14	9	6	8
Estimated	14.012.314	11.148.000	9.172.000	15.529.000
Contracted	10.380.075	7.062.000	8.124.000	13.667.000
Above 3M	-	3	2	-
Estimated	-	14.291.000	42.005.000	-
Contracted	-	12.269.000	38.377.000	-

There were no non competitive procurement procedures.

Score A

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

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 (“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).

No complaints were made in 2013 and 2014 both for the Municipality and the Direction.

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

Bidders are allowed to file a complaint at any stage of the tender procedure. Fees differ according to the value of a particular tender and are 40.000 RSD for tenders in range 400.000 RSD – 3.000.000 RSD and 80.000 RSD for tenders in range 3.000.000 RSD – 80.000.000 RSD and 0,1% of the tender's value if that value is more than 80.000.000 RSD. If the complaint is accepted, the municipality must reimburse the fee to the bidder.

Discussions with the Chamber of Commerce indicated that its members did not have issues with the Procurement system in the municipality in any respects of the legal basis. However it was felt that the procurement procedures in general were onerous in terms of time and paperwork.

Score A

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-20 Effectiveness of internal controls for non-salary expenditure	Score C+	
(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	A	Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.

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

There is a process of commitment control, but it is at the invoice stage rather than at the purchase decision stage after procurement procedures have been fulfilled. This means that there is a possibility that the quarterly authorization to spend could be exceeded as purchase orders may be made and in the pipeline in excess of invoices already processed relating to the quarterly amount available. 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

A rule book and regulation for the use of municipality mobile phones is currently being prepared but there is no rule book or log book on use of vehicles. There is register of municipality owned assets. Staff using IT have been trained and access to IT specific systems

is password controlled. However, while payroll is password controlled it is not unique to all users (see PI-18 (iii)). The IT administrator can monitor log-on activity.

Score C

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

There are two rule books for processing transactions: one for Treasury (Guidelines for the work of the Treasury of the Municipality Osečina (Decision of the Municipal Council No. 060-6/2014 of 21.02.2014.)) and one for Accounting (Rulebook on Budget Accounting (Decision of the Head of the Municipal Administration No. 40-1/2014 of 28.03.2014.)). The following rule books also exist: rules of per diem allowances for business trips (Decision of the Head of the Municipal Administration No. 110-3/10 of 27.12.2010.), and Rulebook on fees, additions to salary and other earnings of employees in the municipal administration. (Decision of the Head of the Municipal Administration No. 121-1/2014 of 02.04.2014.) Discussions with the Treasury/Accounts indicated that compliance by administrative units is high and effective. The incidence of transaction rejection is rare and where it does take place is not material. Score A

PI-21 Effectiveness of internal audit

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-21 Effectiveness of internal audit	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
PI-22 Timeliness and regularity of accounts reconciliation	Score A	
(i) Regularity of bank reconciliations	A	Bank reconciliation for all municipality bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.
(ii) Regularity of reconciliation and clearance of suspense and advances	A	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from 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

Monitoring of the municipality bank account through the Single Treasury accounts is carried out on a daily basis and a report reconciling the information on the accounts and the bank records is produced by the fifth day of the following month. A Single Treasury account for each municipality is operated by the Ministry of Finance - Treasury Administration acting as a payment agent for all Public Sector entities, providing consolidation of all municipal money in a single account. The Direction (company/AGA) is funded wholly from the budget and does not earn any revenue from commercial operations. It acts as if it is a municipality department - it is included in the STA. All municipality funds and expenditures are transacted through the STA. According to the article 2. of the Budget System Law, consolidated treasury account of the local government means a single account of domestic and foreign currency funds of local government budget beneficiaries and other public funds beneficiaries that are included in the consolidated treasury account of the local government, which shall be opened for the local government and kept with the Treasury. Every budget beneficiary (direct and indirect) has its own sub-account under STA. Within the sub-account separate records are kept for the budgetary funds as well as for the beneficiary's own revenues, as defined by the Regulations on the procedure of payment transactions within the consolidated treasury account ("Official Gazette RS" No. 92/2002, 100/2003 and 10/2004). Score A

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

Advances are only made for overseas travel (a percentage of the estimated likely requirement). Once a report has been made the whole of the expenditure is entered into the accounts system with the advance which was treated as an obligation removed from the system. There are no suspense accounts. Score A

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-23 Availability of information on resources received by service delivery units	Score A	
(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 primary health clinics across the country. 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 the level of schools and clinics. Salaries paid by the Republic in the municipality on these services is also available at the individual units. Spending units then compile this information into an annual report, which is sent to the municipality and the relevant ministry. This includes any in-kind receipts. Score A

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-24 Quality and timeliness of in-year budget reports	Score 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 is produced monthly, quarterly and annually using the same classification as the budget but not for commitments (see PI-20 (i)).

The same format and coverage is used based on the uniform accounting system and budget classification. Annual and 6-months reports must be presented to the Mayor, Council and Assembly and are therefore gazetted. The annual report must be sent to the Ministry of Finance by end March of the following year.

In-year budget reporting is regulated by:

- Decree on budget accounting¹³: All indirect budget beneficiaries (IBB) prepare quarterly reports on budget execution within 10 days after the end of the quarter and submit to their respective direct budget beneficiaries (DBB). They reconcile these reports with the data in Treasury General Ledger, consolidate and submit to the entity in charge for finance within 20 days after the end of the quarter.
- Rulebook on content and procedure of financial reporting on planned and executed revenues and receipts and planned and executed expenses and outflows by local government units: Reporting is performed using: Form 1 – Revenues and receipts,

¹³ Public Gazette No 125/2003 and 12/2006 – the highest legal act regulating the matter of accounting in public sector

Form 2 – Expenses and outflows according to economic and functional classification, Form 2a – transfers for elementary and secondary education, Form 3 – surplus and deficit with deficit covering account, Form 4 – payroll and number of staff in local government, Form 5 – debt level. All forms are submitted to the Treasury Administration within 15. January of the current budget year. Form 1, 2, 2a and 5 are submitted on the monthly and quarterly basis within a 15 days from period expiration.

Score C

(ii) Timeliness of the issue of reports

The reports are produced monthly and quarterly within 10 or 15 days depending on the type of reporting and this requirement is complied with. . Score A

(iii) Quality of information

The monthly 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
PI-25 Quality and timeliness of annual financial statements	Score A	
(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 statements covers all revenues received by the municipality and the expenditures by direct and indirect beneficiaries as well as the expenditure of the Direction Company into a single consolidated profit and loss statement. Financial assets and liabilities are presented in the Balance Sheet.

The details of financial reporting is regulated by the Rulebook on preparation, compilation and submission of financial reports of budget funds users and users of social funds:¹⁴Financial reports are: final account, annual financial report, periodic and consolidated report. Financial reports/statements are: Form 1 – Balance sheet, Form 2 – Profit and loss statement, Form 3 – Capital expenses and revenues statement, Form 4 – Cash flow statements and Form 5 – Budget execution report. Score A

(ii) Timeliness of submission of the financial statements

According to the BSL the financial statements for the municipal level should be presented to Council by the 15th of May. The financial statements have been completed by end May in the past two years. These are sent to the Municipality Council for approval and then sent to the Assembly. Approval by the Municipal Council has been as follows:

2011 accounts	2102 accounts	2013 accounts
18 June 2012	15 May 2013	23 May 2014

In the absence of an audit report, the financial statements are sent to the Assembly.

Although in 2013 the accounts were late by 8 days they are still completed by 6 months of the end of the financial year so this dimension has a 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. Decree on Budget Accounting declares cash base of accounting according to IPSAS for recognition of revenues and expenses. Assets and liabilities are recognized on historical or purchase value. Score A

¹⁴ Public Gazette No 51/2007 – defining content and frequency of financial reports

G. External scrutiny and audit

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-26 Scope, nature and follow-up of external audit	Score D	
(i) Scope and nature of audit (including adherence to audit standards)	D	
(ii) Timeliness of submission of audit reports to legislature	NA	
(iii) Evidence of follow-up on audit recommendations	NA	

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 municipality has never been audited. However the plan is to get the 2014 Financial Statements audited.

Default score D

(ii) Timeliness of submission of audit reports to legislature

Not applicable

(iii) Evidence of follow-up on audit recommendations

Not applicable

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
PI-27 Legislative scrutiny of the annual budget law	Score D+	
(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 organizational arrangements, such as specialized review 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 budget has been reviewed by the executive (Municipality Council,) it is passed to the Assembly which has 33 members for scrutiny. The Assembly's Administration Office sends it to all Assembly members for their review. There is a Committee for the Economy and Finances which comprises seven members appointed by the Assembly (five of which are not Assembly members with the Chair and Deputy chair being Assembly members). This Committee has seven days to review the budget proposals and has the power to suggest amendments. In this instance, the proposed amendments are sent to the members as well as the executive (Municipality Council and this has to be done at least three days before the end of the seven days that are available for committee scrutiny. The amendments and the budget are debated in the Assembly with amendments being voted first. The full budget that is debated includes the elements in PI-6 with one day assigned to the activity.

Score C

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

The procedures outlined in (i) are established and respected. There is a rule book for the Committee Stage and also one for the Assembly debate which allows members time to speak. Officials are also present for questioning. 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)

The budget scrutiny process has some 10 days allocated to it which allows Assembly members' time to read the proposal and the Committee time to review it. The debate on the budget is usually conducted within one day's session. The Assembly received the proposed budget from the Council for 2013 on 10 December 2012 and on 12 December 2013 for the 2014 budget.

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 finance authority 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.

Score B

PI-28 Legislative scrutiny of external audit reports

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-28 Legislative scrutiny of external audit reports	Score D	
(i) Timeliness of examination of audit reports by the legislature	D	
(ii) Extent of hearings on key findings	NA	
(iii) Issuance of recommended actions by the legislature	NA	

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

Default score D

(ii) Extent of hearings on key findings

(iii) Issuance of recommended actions by the legislature

H. Donor practices

D-1 Predictability of direct budgetary support

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
D-1 Predictability of direct budgetary support	Score 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. Not applicable

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

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.

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	Score NA	
(i) Completeness and timeliness of budget estimates by donors for project support	NA	
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	NA	

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

There has been no donor projects in the municipality. Not applicable

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

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
D-3. Proportion of aid that is managed by use of national procedures	Score NA	
(i) Overall proportion of aid funds to municipality that are managed through national procedures	NA	

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

Not applicable

I. Annexes

Information for the year	2011	000
Administrative / functional heading	Plan	Actual
Assembly, Mayor & Council	13310	12029
Municipal Administration	54370	52038
Budget fund for public utilities, land development and roads	119591	69825
Fund for agricultural development	3500	1046
Budget fund for environmental protection	6000	4743
Local Communities	2500	2597
Public Attorney	374	366
Centre for Social Welfare	200	188
Health	3700	3577
Culture	8888	6562
Sports	5741	8303
Children care	15883	25843
Elementary schools	20238	16617
High school education	2080	1672
Tourism	7078	10127
Expenditure	263453	215533
Contingency	3500	
Total	266953	215533

Information for the year	2012	000
Administrative / functional heading	Plan	Actual
Assembly, Mayor & Council	15156	13200
Municipal Administration	73668	65764
Budget fund for public utilities, land development and roads	171252	122889
Fund for agricultural development	8200	3989
Budget fund for environmental protection	3904	3538
Local Communities	9700	9317
Public Attorney	393	337
Centre for Social Welfare	5503	5241
Health	5532	4687
Public security	2000	1676
Culture	14170	13176
Sports	6391	10157
Children care	18273	27953
Elementary schools	27366	23102
High school education	2770	2025
Tourism	9343	11377
Expenditure	367230	308271
Contingency	3600	
Total	370830	308271

Information for the year	2013	000
	Plan	Actual
Administrative / functional heading		
Assembly, Council, Mayor	16409	12853
Municipal administration:	55631	50204
Subsidies for transportation		797
Local economic development:	1000	173
Employment subsidies	640	0
Elections:	535	656
General Services	8300	7518
Social services and protection	8250	9678
Youth office	500	387
Fund for public utilities, land development and roads	85270	68757
Direction for buildings	113353	41864
Rural development	9700	5446
Environmental protection	4820	3334
Local communities	8000	7360
Public Attorney (solicitor)	420	336
Center for social welfare	5560	5732
Health	5333	5017
Public security	2500	1731
Culture	10148	8738
Sports	16098	13555
Children care	31595	28825
Elementary education	24211	19967
High schools	2230	1621
Tourism	11731	12821
Expenditure	422234	307370
Contingency	5500	
Total	427734	307734

HLG-1 (ii) Administrative / functional heading	2011	
	Plan	Actual
Recurrent	25749	13882
Capital	26259	1750
Transfers HLG-1 (i)	174282	158407
	2012	
Administrative / functional heading	Plan	Actual
Recurrent	48547	24260
Capital	2600	1300
Transfers HLG-1 (i)	263659	253704
	2013	
Administrative / functional heading	Plan	Actual
Recurrent	81730	69347
Capital	178553	184898
Transfers HLG-1 (i)	260283	254245

Names and Designation of People consulted

The Mayor

1. Nenad Stevanović

Head of the Municipal Administration

2. Milan Urošević

Assembly Administration

3. Zlatija Miličić, Assembly Chairman
4. Dane Krsmanović, Secretary of the Assembly

Department for the Budget, economy and public institutions

5. Vesna Pavlović, Manager of the Department
6. Marko Matić, Associate for the Treasury and Finances

Department for the administration and human resources

7. Snežana Milošević, Manager (also in charge for public procurements, social services and HR)

Local Tax Administration

8. Marko Manojlović, Associate
9. Biljana Nedeljković, Associate
10. Radmila Radulović, Manager

Direction for buildings and infrastructure “Jadar”

11. Danka Stanimirović, Associate for the Economy, Budget and Payroll
12. Milorad Marković, Public procurement officer

Regional Chamber of Commerce

13. Petar Nikolić, Vice President
14. Mirjana Đorđević, General Secretary