

Public Financial Management Performance Measurement Report Serbia Municipalities

Municipality of Paraćin

REPIM Ltd for SECO

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

First written recordings on the name of Paraćin as a "square with panadur" and "square on Parakin's boat" originate from XIV century (27/14 September 1375). Today, Paraćin is located in the middle part of Central Serbia of the river Crnica, 156 km south of Belgrade, towards Niš, at the international Highway E-75 (Corridor 10). Paraćin is situated at the crossroads at the beginning of international road E-761 towards Zaječar and Bulgaria; at the connection to the traffic artery E-760 towards Kruševac, Kraljevo and farther towards Montenegro and Bosnia; the distance between Paraćin and Niš is 80 km (crossroads that continue towards Middle East), and from the Adriatic Sea 500 km.

It is a part of the region Šumadija and Pomoravlje - it belongs to Pomoravlje region. The town of Paraćin is situated 3.5 km away from the right bank of the river Morava, on the route of the Crnica river that runs through the centre of the town. The municipality of Paraćin occupies a great part of plentiful and fertile Middle Pomoravlje, the territory of the municipality of Paraćin goes down from Kučaj's Mountains in the east towards the Velika Morava River in the west, stripped with the streams of the rivers Crnica and Grza.

Paraćin lies on 43045' – 43059 northern geographic latitude and 18055' – 19025' eastern geographic longitude, at the average sea-level of 130m. Agricultural land occupies 33,511 hectares (about 64%), while 16,854 hectares (about 36%) are covered with forests.

The Municipality of Paraćin consists of the town and 33 villages on the area of 541.7 km². The municipality has about 58,000 inhabitants, with half of them in the city itself, and the other half in the surrounding villages

Main industries are the following: Chemical and non-metal industry, food and construction industries.

In accordance with the Law on Local Self-Government (Official Gazette of RS, no. 129/2007) municipal bodies are the Municipal Assembly, the Mayor, Municipal Council and Municipal Administration as stipulated in the Statute of the Municipality of Paraćin ("Official Gazette RS" No. 13/08, 12/12 and 13/12, amended with the Assembly Decision No 110-38/2014-01-II of 06.11.2014).

The municipal administration of Paraćin has seven departments as follows:

- Department of Finance and Budget responsible for
 - Accounting
 - Payroll
 - Treasury
 - Preparation and execution of the Budget,
 - Public procurements
- Department for local tax administration, with dedicated web service for taxpayers

¹ Paul Harnett and Siniša Jovanović carried out the field work and drafted this assessment

- Department of Public Service and Local Economic Development, with the following services and responsibilities:
 - Local Economic Development,
 - The section for overseeing the work of public enterprises and institutions
 - The section of Public Services monitors legislation on local government, and provides technical assistance and legal opinions to public enterprises and institutions in developing general acts, supervises the legality of the institutions in the field of social services established by the municipality
 - Division for Youth, Education and Social Childcare,
 - The section for the Informatics do the planning of development, maintenance and security of computer communication infrastructure,
 - Office for receiving documents for registration of entrepreneurs.
- Department of City Planning, Property and Legal Affairs,
- Department of General Administration and General Affairs,
- Service for parliamentary and legislative affairs,
 - Section for the public information that acts on requests for access to information of public importance, publish information of public importance on the website of the Municipality
 - Working group on parliamentary and legislative affairs
- Department for Inspection Affairs
- 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 Municipal Assembly which is a representative body dealing with

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

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

The Mayor of Paraćin who:

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

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

The Municipal Council is the body of the municipality, which coordinates the implementation of the functions of the Mayor and of the Municipal Assembly and has the controlling and the supervisory function over the work of the municipal administration. Mayor presides over the 13-member municipal Council, which duties are as follows:

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

Legal framework:

- Article 189 and 191 of the Constitution of the Republic of Serbia ("Official Gazette of the Republic of Serbia", No. 98/06),
- Article 20 of the Law on Territorial Organization of the Republic of Serbia ("Official Gazette of the Republic of Serbia", No. 129/2007), Article 11 and Article 32, item 1 of the Law on Local Self-Government ("Official Gazette of the Republic of Serbia", No. 129/2007),
- Statute of the Municipality of Paraćin ("Official Gazette RS" No. 13/08, 12/12 and 13/12, amended with the Assembly Decision No 110-38/2014-01-II of 06.11.2014).

Table of Contents

Acronyms	4
Preface	6
I. Summary Assessment	12
II. PFM Performance Assessment	18
A. HLG-1 Predictability of Transfer from Higher level of the Government	18
B. Budget credibility	20
C. Budget comprehensiveness and transparency	25
D. Policy-based budgeting	30
E. Predictability and control in budget execution	34
F. Accounting, recording, and reporting	48
G. External scrutiny and audit	52
H. Donor practices	55
Annexes	58

Summary Assessment							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
A. 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	D				D
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	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	N A	NA	NA		NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	NA			C
PI-10	Public access to key fiscal information	M1	B				B
D. BUDGET CYCLE							
D (i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	A	A		B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	D	D	D	D
D (ii) Predictability and Control in Public Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	C		B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	D	C		C
PI-15	Effectiveness in collection of tax payments	M1	D	A	A		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	A	C		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	B		A
PI-18	Effectiveness of payroll controls	M1	A	A	A	C	C+
PI-19	Competition, value for money and controls in procurement	M2	A	A	A	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	C	B		C+

Summary Assessment							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2014
			i.	ii.	iii.	iv.	
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	NA			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	A	A	A		A
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	A	C	D		D+
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	D	B	D+
PI-28	Legislative scrutiny of external audit reports	M1	A	D	D		D+
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	N A	NA			NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	N A	NA			NA
D-3	Proportion of aid that is managed by use of national procedures	M1	N A				NA

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). In addition, procurement plans for the Works Directorate are invariably not met, as well as the local tradition of multiple supplementary budgets, further undermining budget credibility. The score for own source revenue is D. 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. 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. Paraćin's policy of zero arrears is further helped by the shortfall in the Works Directorate expenditure.

2. Comprehensiveness and transparency

The budget is based on administrative, economic and sub-functional classification 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 (though there are currently none).

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

3. Policy-based budgeting

The Budget Circular is dependent on receiving information from the Ministry of Finance on transfers and this has always been considerably later than specified in the scheduled calendar. Although the budget formulation process is well established, it suffered some setbacks due to the untimely issuance of the budget circular which does not include expenditure ceilings. A strength in the budget formulation process has been the early involvement of the political class in the municipalities in the budget process. 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. Debt sustainability analysis is not undertaken.

4. Predictability and control in budget execution

Municipality administered taxation is based on a property tax that was previously implemented at the Central Government level and transferred to municipalities in 2009 who then had to establish their own administrative structures. The taxation system is based on comprehensive legislation providing clarity on the tax liabilities of taxpayers with no discretionary powers. The provisions for tax concessions are transparently set out. Taxpayer education is proactive which in part reflects the information in the gazette and also some technical assistance. The appeals mechanism lacks an independent arbitration mechanism between a petition to the tax administration (processed either at the municipality or Ministry of Finance district level) and

the courts. The database of properties and land is directly linked to the GPS. As a result, Paraćin has a higher degree of compliance with property tax than other municipalities. It also enables a quick assessment of floor area, thereby avoiding disputes over property size. GIS is linked to the National Cadastre. 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 C 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. A dramatic increase in collections occurred when interest payments were waived in 2013. 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, though the link with GIS does constitute a form of continuous audit. Payments are made directly into the Single Treasury account via the banking system with cash payments received at the office being transferred the next day. Taxpayer records are maintained electronically and updated when payments are received.

On the expenditure side, overall measures to improve execution and strengthen controls have been implemented throughout the public sector in Serbia as a result of the adoption of the Budget System Law. The predictability of the availability of funds for the commitment of expenditure is good, but supplementary budgets are frequent and follow the same procedures for the annual budget and also are testament to weakness in budget formulation. They ensure that the expenditure and revenue sides of the budget are in tandem at the end of the year. 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 a payroll audit has taken place only once recently. The municipality does not have an internal audit function established and this is a clear weakness in the overall control system. Commitment controls do 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 a B score but other internal controls are relatively basic for other non-procurement activities, but these are not within a formal internal control function.

5. Accounting, recording, and reporting

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

6. External scrutiny and audit

The external audit is mainly compliance and transaction orientated with some elements of system reviews, occasionally highlighting substantive concerns. The municipality is audited annually. Audit reports are sent to the Assembly but not in a timely manner but the level of scrutiny is cursory though timely. The overall level of response to any recommendations is poor. With respect to the budget approval process there is a simple set of procedures, but the time available for their implementation falls short of the one month to score a B. The assembly as a whole only assesses the annual budget when it is presented though there is a prior 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 MTF, the lack of timely availability of information on annual transfers and inconsistent delivery of earmarked transfers from the Central Government, 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. Weaknesses in the external oversight mechanisms and the ineffectiveness of the assembly scrutiny of the government financial operations make the system further vulnerable. The well-functioning mechanism for avoiding payment arrears strengthens the well-established commitments controls which have been developed in Paraćin at the purchase decision stage after procurement procedures have been fulfilled.

Strategic allocation

The strategic allocation of resources is rendered weak by the absence of medium-term fiscal and budget frameworks and inadequate policy-budget linkage through sector strategies, but there is early involvement of the political process in the budget formulation process. These weaknesses constrain a municipality's ability to allocate resources efficiently over the medium term to reflect a realistic timeframe for implementation of policy. However, the frequent use of supplementary budgets also indicates that the strategic priorities determined through the budget formulation process are not maintained even on an annual basis. Implementing strategic priorities is also weakened by inconsistent delivery of earmarked grants.

Operational efficiency

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

(iii) Prospects for reform planning and implementation

Municipality Public Financial Management has benefited from the implementation of the Budget System Law, the Procurement Law and the creation of the State Audit Institution. The Single Treasury Account and the associated accounting system has meant that by and large accounting, recording and reporting is effective providing timely information for management. The procurement system has a legal and regulatory framework that is transparent, comprehensive and provides for competition. Even though the Municipality has been audited once by the State Audit Institution (in 2013 and not finalized as yet) (and twice by the private sector) response to recommendations is poor and requires attention. Some reform initiatives have yet to be implemented in the municipality particularly with respect to Internal Audit. 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.

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	Information not available by Sector for earmarked grants
(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 revenue from income tax collected in the municipality) and General Transfers from the Central Government to the Municipality are as follows

Serbian Dinar	2011			2012			2013		
	Budget	Actual	% Dev	Budget	Actual	% Dev	Budget	Actual	% Dev
Income tax Transfer	203,000,000	184,532,499		281,500,000	281,540,472		300,000,000	299,299,152	

Earmarked recurrent	105,000,000	21,109,000		35,500,000	10,655,600		48,000,000	13,666,253	
Earmarked Capital	0	0		0	1,200,000		0	0	
Total Transfer	308,000,000	205,641,499	33.2	317,000,000	293,396,072	7.4	348,000,000	312,965,405	10.1

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 for transfers from the Central Government, although actual are available at the sector level. Earmarked transfers are mostly project related, which means that they depend on result of competition with projects proposals from other municipalities and sometimes on the availability of the funds on the CG level or realisation of international donors arrangements. Hence, the earmarked revenues are usually not budgeted which is enabled by the BSL provision (article 61, para 9) that in the case of additional revenue expenditure appropriations can be increased accordingly.

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

HLG-1 (ii) Variance	
2013	18.9%
2012	15.1%
2011	49.8%

Earmarked grants are broken down by sector rather than capital and recurrent resulting in Not Rated.

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 for all months over the past 3 years except one when the transfer was reduced by an amount equal to a VAT payment. Earmarked grants are unpredictable.

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 past three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of the 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)

As can be seen by the table below, actual expenditure has fallen behind budgeted expenditure by over 15% in 2011 and 2012.

Year	Total expenditure deviation
2013	-10.4%
2012	-19.8%
2011	-15.8%

It should also be noted that there are 4-5 supplementary budgets each year, largely to accommodate virements over the 5% changes allowed under each budget unit. To a large degree, the use of so many supplementary budgets indicates that poor budget credibility is predicted by the municipality. A major reason for under expenditure is the low adherence of the Works Directorate (an AGA relying on the municipality 100% for revenues) to their procurement plans, thereby reverting funds back to the municipality during the year. A further reason in 2011 was the old procurement legislation which encouraged over budgeting in each year in order to commence procurement on multi-year projects, particularly in the case of the education sector in Paraćin.

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	Composition Variance exceeded 15% in at least two of the past three years
(ii) Average amount of expenditure actually charged to the contingency vote over the last three years	A	The contingency vote has been on average less than 3% of the budget over the past three years

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

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

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

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

Year	Composition Variance
2013	15.6%
2012	16.0%
2011	17.7%

See annex for raw data

The above figures reflect a situation where under expenditure by the Works Directorate is expected but not budgeted for to maintain a comprehensive procurement plan. Over the course of the year, expenditures are reallocated to other sectors in various supplementary budgets (rebalances), as the lack of adherence to the procurement plan becomes more and more apparent.

Score D

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

The table below indicates the contingency share of the budget over the review period:

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

The Municipality operates a policy of not operating a contingency budget.

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 D	
(i) Actual domestic revenue compared to domestic revenue in the original, approved budget	D	Actual domestic revenue was below 92% or above 116% of budgeted revenue in two or all of the past 3 years.

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

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

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

Paraćin Local Revenue RSD	Budget	Actual	Deviation	% Deviation
2011	486,500,000	396,660,128	89,839,872	18.47
2012	411,800,000	364,703,561	47,096,439	11.44
2013	359,150,000	443,783,048	-84,633,048	-23.56

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 an additional source of revenue 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. The increase in revenue over budgeted in 2013 reflects the increase in arrears collection resulting from the amnesty provided by CG on punitive interest charges in late 2012.

Score D

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 A	
(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

As noted in PI-1 and 2, a budget surplus is “in-built” into the annual budget cycle, largely as a result of under expenditure by the Works Directorate. A positive side-effect of this lack of budget credibility is the ability to pay all invoices on time resulting in no arrears.

Year	Arrears	Total Expenditure	Arrears as % of Total Exp.
2013	0	1,219,534,651	0
2012	0	1,088,496,708	0
2011	0	1,020,163,208	0

Score A

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

The accounting system routinely includes the date of the invoice for all arrears both to public and private companies, which means complete arrears can be age profiled with monitoring and classification as arrears if not paid on time.

There is additional system to foster financial discipline based on centralized application for registering invoices received by private sector companies. According to the Act on Deadlines for the Fulfillment of Financial Obligations in Commercial Transactions (“Official Gazette RS” 119/12), invoices to private firms that have not been paid after 45 days are flagged and the Ministry of Finance suspends the transfers of specific grants and share of income tax until the invoices have been 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 said 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'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 61/2013) 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	Budget Documentation fulfils 3-4 of the 8 required elements

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

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

Paraćin amalgamates all information in the Budget Call Circular, Financial Statement, etc. into a single document for the Budget Proposal. As noted in the table below, the 2014 budget document fulfills four of the nine applicable 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 Proposal
2	Fiscal deficit, defined according to GFSM, or other internationally recognized standard	Yes	Budget Proposal
3	Deficit financing, describing anticipated composition	Yes	Budget Proposal
4	Debt stock, including details at least for start of current year	No	Report to Assembly 3 times a year on this but not in proposal
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	Yes	Budget Proposal includes final supplementary budget compared to budget proposal.
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	

(Source: Budget Proposal)

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	A	Complete income/expenditure information for all donor funded projects is included in fiscal reports

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

Municipalities are not allowed to hold accounts outside of the STA, There are no extra budgetary funds - all revenues and expenditure are recorded in the budget and accounts. Budget funds managed by Works Directorate are recorded in the municipality accounting and reporting system. . This follows the Budget System Law.

Score A

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

There are no donor-funded projects off budget.

Score A

PI-8 Transparency of intergovernmental fiscal relations

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

	Minimum Requirements (Scoring Method M1)	
	2014	Explanation
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 central government.	NA	
(ii) Timeliness of reliable information to sub national governments on their allocations from central government 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 central government monitoring of sub national governments' fiscal position	NA	

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

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

All PEs are regularly monitored by the Municipality with fiscal reports sent quarterly. It is prohibited by law for PEs to take loans without the consent of the Assembly. There are 4 PEs in Paraćin: Water Company, Waste Management Company, Heating Company, and Works Directorate. Only the first 2 have a loan.

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

Score C

(ii) Extent of 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 B	
(i) Number of the eight listed elements of public access to information that is fulfilled.	B	The Municipality makes available to the public 5-6 of the 8 listed types of information

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

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

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

Score B

Key fiscal information made available to the public			
	Item	Available	Source
1	Annual budget documentation can be obtained by the public when it is submitted to the legislature.	No	Municipal website at the time of acceptance by the legislature
2	In-year execution reports within one month of end of period	No	Municipal website but a few days later than one month
3	Year-end financial statements within 6 months after completed audit	Yes	Municipal Website within 2 months of audit in 2013.
4	External audit reports within 6	No	All completed external audits have been carried out by

	months of completed audit		private firms and are not on the municipal website, only a summary of findings. The 2013 SAI audit has not been finalized as yet.
5	Contract awards above USD100, 000 posted quarterly	Yes	Both on the Municipality and procurement websites
6	Resources available to primary service units	Yes	In Annual Report on the website
7	Fees, charges and taxes (if any) that belong legally to the SN entity	Yes	Each year end the Assembly has to decide on fees, charges and taxes. These are then gazetted and posted on the municipal website.
8	services provided to the community such as potable water, sewage, illumination etc.	Yes	Website of the Utility companies details services provided each year

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.	C	A clear budget calendar is followed which allows Budget Units about 4 weeks to prepare estimates
(ii) Guidance of the preparation of budget submissions	A	A comprehensive and clear budget circular is issued to budget units, which reflects ceilings approved by Cabinet prior to the circular's distribution to budget units.
(iii) Timely approval by the legislature	A	The budget is always approved before the start of the financial year

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

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

Article 31 of the Budget System Law stipulates the budget calendar to be adopted by municipalities. The implementation of the municipality budget calendar is dependent on the Ministry of Finance providing the fiscal strategy and instruction from the Ministry of Finance

(which includes the amount of the general transfer). The provision of the Law and the actual implementation of the calendar for the preparation of the 2014 budget is detailed below.

The budget calendar allows just over 4 weeks for Budget Units to prepare their budget estimates.

Paraćin anticipates the Budget Call Circular and prepares its own BBC and sends this to Budget Units on the understanding that minor changes may need to be made when the MOF Budget Call Circular arrives. However, sometimes these changes are significant. In effect Budget Units have under 4 weeks to prepare estimates.

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	11 October
Local government finance authority shall issue the instructions for the preparation of the draft local government budget	1 August	11 October
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	21 October
Local government finance authority shall submit Draft Budget Decisions to the local government executive authority	1 November	12 December
Local government assembly shall adopt the local government Budget Decision	20 December	18 December
Local government finance authority shall furnish the Minister with the local government Budget Decision.	25 December	10 January

Score C

(ii) Guidance of the preparation of budget submissions

Ceilings at subfunctional and economic levels are provided to budget units. The City Council together with budget unit heads and also parliamentary representatives meets each year to review these ceilings, before they are sent formally to budget units as part of a comprehensive and clear budget circular, based on the CG budget circular.

Score A

(iii) Timely approval by the legislature

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

Budget year	Approval date
2012	30 December
2013	11 December
2014	18 December

Score A

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

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

	Minimum Requirements (Scoring Method M2)	
	2014	Explanation
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	D	No DSA has been undertaken in the last 3 years
(iii) Existence of costed sector strategies	D	A Local Development Plan exists but does not have substantially complete costing of investments and recurrent expenditure
(iv) Linkages between investment budgets and forward expenditure estimates	D	Budgeting for Investments and future recurrent expenditures are separate processes

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

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

No multi-year fiscal forecasts are made nor ceilings for functional allocations. Multi-year figures estimated by Paraćin Municipality are simply an increase of about 5% to reflect inflation, not any robust fiscal forecast. As a result, for the most part, the budget is a rollover of the estimated outturn of the current year adjusted for inflation.

Score D

(ii) Scope and frequency of debt sustainability analysis. Paraćin has debt which amounts to just over 10% of annual expenditure, as per the table below.

Fehler! Keine gültige Verknüpfung.

Reports on this debt are made 3 times a year but no sustainability analysis made.

Score D

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

A Municipal Sustainable Development Plan was developed for 2008-17, and is broken down in to sectors covering 100% of primary expenditure. However it has no detailed costing. To address this strategy gap, Annual Action Plans are developed each year with costings. Recurrent expenditures arising from investments are not fully costed as the action plans only cover 1 year's activities.

Score D

(iv) Linkages between investment budgets and forward expenditure estimates

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

Score D

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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	A	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the tax administration supplements this with active taxpayer education campaigns.
(iii) Existence and functioning of a tax appeals mechanism	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

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

(i) Clarity and comprehensiveness of tax liabilities

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

1. 0.4% to the fair book value of a property under RSD 10 Million (must be assessed by a reputable accounting agency), increasing to 0.6%, 1% and 2% for properties values over RSD 10 Million, 25 Million and 50 Million or
2. RSD 8,000/square metre in Zone 1

RSD 5,800/square metre in Zone 2

RSD 3,800/square metre in Zone 3

RSD 700/square metre in Zone 4

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

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

Score A

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

Tax payer education by the local tax office is reactive and proactive. All relevant information to zoning, average prices and applicable ad valorem rates must be included in the official gazette and are published on the Municipal website, as is a calculator for property owners to assess their liability. The Municipal Tax Office has embarked on information campaigns embracing TV, Radio and meetings of businessmen. The Chamber of Commerce representative met also attested to the ease of access to information.

Score A

(iii) Existence and functioning of a tax appeals mechanism

The right to appeal is in the Law. Tax payers can appeal an assessment directly to tax office that will check for errors and omissions and any such errors and omission are rectified. Addressing appeals related to other than errors and omissions are directed to the regional office of the Ministry of Finance based on a file compiled by the Municipality Taxation Department. According to the Law on General Administrative Procedures (“Official Gazette SRJ” 33/97 and 31/2001 and “Official Gazette RS” 30/2010). Appeals, or “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 and 2014 no appeals were made.

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 C	
(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	C	There is a continuous programme of tax audits and fraud investigations, but audit programmes are not based on clear risk assessment criteria.

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

(i) Controls in the taxpayer registration system

A New Property Tax system was introduced in 2009. The municipality sent out a form to all properties to register and the tax offices maintain computerized files of all registered properties and relevant details, resulting in an increase in registration from 7,000 properties in 2009 to 22,500 (of which 4,000 were for agricultural/forest land) in 2014. Paramount in this increase in registration has been the municipality's use of GIS in identifying properties and comparing them to the tax database. Furthermore GIS has significantly improved calculations of property size. This GIS is linked to the National Cadastre and, in addition, court decisions and Ministry of Interior records are used to identify property owners. There is no linkage to utility company databases, as this would not enhance targeting particularly over and above the GIS, despite the municipality being responsible for some utilities.

Score B

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

Penalties exist for non-payment by registered taxpayers and non-registration but have little impact. 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). Those paid are transferred to the Treasury, and passed onto Central Government thereby reducing the incentive to issue penalties. No penalties have been issued in 2013 or 2014.

Score D

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

Staff shortages have not allowed for tax audits and fraud investigations. However, the linkage between the tax database and the national cadaster as well as GIS enables a continuous programme of verifying compliance. Business units which self-assess are routinely checked against GIS.

Score C

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 debt collection ratio for 2013 was below 60% and the amount of tax arrears is significant
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All payments are paid directly into accounts controlled by the treasury.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Reconciliation occurs daily on Treasury-linked software

This indicator assesses the accumulation of tax arrears and the collection of tax debt as they lend credibility to the tax assessment process and reflects equal treatment of all taxpayers. Prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending.

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

The inherited property tax database registration system does not support the monitoring of the age structure of arrears, but rather adds arrears to the current year's target and then registers payments made irrespective of whether arrears or current liabilities, thereby preventing the possibility of determining the amount of arrears collected. Arrears were very high in 2012 and addressed in the first instance with the acquisition of 3 extra staff for 4 months dedicated to

collecting arrears. In December 2012 this was further addressed as CG announced a policy of temporarily writing off interest payments on arrears if paid promptly.

Arrears figures at year end are presented in the following table. The stock of arrears is in excess of 100% of total municipality revenue collected. The collection ratio is zero between 2011 and 2012 as the amount of arrears is increasing. Between 2012 and 2013, the stock of arrears declined by a third.

Property Tax RSD	2011	2012	2013
Total Arrears	546,901,510	697,481,000	467,586,000

Score D

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

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

Score A

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

Property Tax assessments, collections, arrears and receipts are all captured on Municipal Tax Office software which is linked to Treasury software providing for the daily reconciliation of accounts. Tax Office staff also visit the Treasury on a monthly basis to confirm these daily reconciliations.

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 C+	
(i) Extent to which cash flows are forecast and monitored	B	A cash flow forecast is prepared for the fiscal year and updated on a quarterly basis, on the basis of actual cash inflows and outflows
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	MDAs' are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.
iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency.

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

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

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

Score B

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

Budget units are provided with expenditure commitment ceilings or “quotas” every quarter, enabling expenditure planning. These allocations are made before the quarter starts. The quarterly allocation reflects the cash flow forecasts as well as need. However, a planning horizon for Budget Units is extended using notification on intended commitment⁴ which can be issued for six months. The notified amount will be taken into account for the determination of relevant quota by the Treasury. The ceiling for expenditure commitment can be increased in the case that unbudgeted funds are received from Central Government or donors. Similarly, it can be reduced if revenue falls short of expected.

Score A

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

Significant adjustments to budget allocations can only take place between sectors under a supplementary budget, which follows the same procedures as the original budget in terms of documentation but often has reduced time for budget preparation and scrutiny by the assembly. Recently, there have typically been 4-5 supplementary budgets per year.

Score C

⁴ Budget System Law, article 56, para 3, point 1

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	Municipalities' contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.

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

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

(i) Quality of debt data recording and reporting

Debt Data and reporting occurs on a monthly basis as part of the reporting requirements of the CG Ministry of Finance. The report includes details of the debt service, stock and operations. The details of the reports are consolidated into the Annual account at year end. Score A

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

Within the STA, all the municipality's cash balances, including the Works Directorate which is a wholly owned company funded through the budget, are consolidated on a daily basis.

Score A

(iii) Systems for contracting loans and issuance of guarantees

Paraćin currently has loans amounting to under 10% of the executed budget. 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 authorize any borrowing. Given PI 12 (i) there are no fiscal targets. Guarantees are prohibited by law.

Score B

PI-18 Effectiveness of payroll controls

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
PI-18 Effectiveness of payroll controls	Score C+	
(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	A	Authority to change records and payroll is restricted and results in an audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	Partial payroll audits or staff surveys have been undertaken within the last 3 years.

The municipality has almost 200 employees and the Works Directorate (a Municipality Owned Enterprise) has 52 employees, a significant number of local publically funded salaries. As such, both payroll systems were analysed and found to be separate but similar in processes. There is a centralized payroll system for the organizational units of the Municipality (Direct Budget Beneficiaries – DBB). Organizations established and financed by the Municipality (Indirect Budget Beneficiaries) have their own payroll system which is controlled by the Municipality prior to the release of funds. Public Utilities established by the Municipality are controlled through the limitation of the total payroll funds on the yearly basis.

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

Payroll and personnel records are maintained as two separate but related systems: one for personnel and one for payroll. Personnel records are firstly updated in hardcopy files by the Human Resources Department, and any changes are sent immediately they are made to the Accounting Department which then immediately enters changes into the payroll software, resulting in a direct link.

There is an electronic “clocking in” system which generates attendance data. In addition, the head of each organizational unit maintains their own daily record, which is reconciled at the end of the month with the report generated by electronic registration system.

Score A

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

All changes to the personnel records are made immediately the information becomes available, generally within a day and always within 5 days. Retroactive adjustments are extremely rare, with none in 2013.

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. HR immediately presents any changes to the Accounting Department, which has 2 members of staff authorised to enter such changes to its payroll software (password protected). This provides an audit trail of changes made. The Works Directorate has a similar system but only one person authorised to make changes in the software.

Score A

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

The External audit of the municipality includes a partial payroll audit. The Head of Municipal Administration occasionally checks attendance by requiring signatures on a one-off registration form. Score C

PI-19 Transparency, competition and complaints mechanisms in procurement

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

	Minimum Requirements (scoring Method M2)	
	2014	Explanation
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 6 of the listed requirements
(ii) Use of competitive procurement methods	A	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements in all cases
(iii) Public access to complete, reliable and timely procurement information	A	All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available in a timely manner to the public through appropriate means.
(iv) Existence of an independent administrative procurement complaints system	A	The Procurement Complaints System meets all seven criteria

Given that a significant amount of municipal expenditure and public procurement in Paraćin falls under the management of the Works Directorate (a Municipality Owned Enterprise), both procurement systems were assessed. Essentially, the systems operate in a similar manner although the Works Directorate has greater expertise in large procurements and civil engineering projects.

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

Table: Compliance of the 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 (www.paracin.rs) and on the Public Procurement Portal (http://portal.ujn.gov.rs/), in

		accordance with the Article 20 of the PPL, the Law on Free Access to Information of Public Importance ("Official Gazette of RS" No. 120/04, 54/07, 104/09 & 36/10) and the Internal Act.
(iii) applied to all procurement undertaken using government funds	Yes	City acts in accordance with Article 2 related to the Article 7 of the PPL.
(iv) making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes	Open competitive procurement is the default method for procurements valued more than 400.000,00 RSD, according to the Article 39.2 of the Public Procurement Law.
(v) providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	Yes	Information is published simultaneously on the official website and on the Public Procurement Portal, in accordance with the Article 20 of the PPL and the Internal Act. Additional information is provided in accordance with the Law on Free Access to Information of Public Importance. Reports are generated quarterly and sent to the Public Procurement Office of Serbia and the State Audit Institution.
(vi) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	Yes	Complaints are handled in accordance with the Chapter VIII of the Public Procurement Law which provides for an independent complaints system.

(ii) Use of competitive procurement methods

Most procurement over RSD 400,000 is carried out by the Works Directorate. Minutes of meetings detailing the formal justification for the use of a non-competitive tender were studied for the only procurement which was granted this right. 100% of cases were justified.

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).

There were no complaints in 2013. 2014 has one unresolved complaint.

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	A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised).
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.
(iii) Degree of compliance with rules for processing and recording transactions	B	Compliance with rules is fairly high but simplified and emergency procedures are used occasionally without adequate justification.

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

Internal controls for non-salary expenditure are part of the System of internal controls, which is regulated by the “Rulebook on common criteria and standards for establishment, functioning and reporting on system of financial management and control in the Public Sector” (Official Gazette of RS No 99/2011), which is harmonized with European PIFC regulations.

(i) Effectiveness of expenditure commitment controls

Expenditure commitment controls are set according to the request of the Budget System Law, Article 56, stipulating that Budget Beneficiaries are obliged to notify the Treasury and/or local government treasury:

- On the intention of creating commitment,
- Upon signing the contract or other legal act by which the commitment is created on creating the commitment and envisaged conditions and payment deadlines,
- On each change regarding the amount, deadlines and conditions of payment with respect to controls thereby ensuring that the government’s payment obligations remain within

the limits of projected cash availability, and avoiding the creation of expenditure arrears (ref. indicator PI-4)

The procedures are strictly followed, ensuring that the payment obligations remain within the limits of projected cash availability and reducing the probability of payment arrears creation.

Score A

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

The internal control system is partially established, mainly due to the absence of some formal documents requested by the CG rulebook (e.g. risk management strategy). Although the workflow and control procedures are documented to a great extent the system cannot be considered as comprehensive.

Score C

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

Recording and processing of transaction is regulated in relevant rulebooks and guidelines. Discussions with the Treasury/Accounts indicated that compliance by administrative units is high and effective. A rejection rate of less than one transaction per month indicates efficiency in implementation and wide understanding of internal rules/procedures, despite the previously stated deficiencies. Emergency / Simplified procedures are rarely used, although 2013 saw more than most year with 2 cases after extreme flood in Paraćin.

Score B

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	Default
(ii) Frequency and distribution of reports	D	Default
(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

While there is provision for Internal Audit in the Municipality manpower plan, the function is not in place.

Score Default D

(ii) Frequency and distribution of reports

Score Default D

(iii) Extent of management response to internal audit findings

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 Reconciliations for all Municipal bank accounts takes place at least monthly at aggregate and detailed levels , usually within weeks of end of period
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	NA	

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

(i) Regularity of bank reconciliations

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

Score A

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

There have been no advances in recent years. The accounting system does not cater for suspense accounts.

Score NA

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 all budget beneficiaries including schools and cultural centres (the municipality has no responsibility for health care). Salaries paid by the Republic in the municipality on the education sector are also available at the individual units, as is any other revenue source e.g. donors and also resources in-kind. Spending units then compile this information into an annual report, which is sent to all sources of funding e.g. CG, Municipality, donors.

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 A	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.
(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 commitment and payment stages are produced monthly, quarterly and annually using the same classification as the budget. (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 accounting⁵: 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, 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

⁵ Public Gazette No 125/2003 and 12/2006 – the highest legal act regulating the matter of accounting in public sector

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 A

(ii) Timeliness of the issue of reports

The reports are produced monthly and quarterly within 10 or 15 days of month end and are gazetted immediately.

Score A

(iii) Quality of information

The quarterly reports are realistic statements of actual expenditure in the previous months. 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 statement covers all revenues received by the municipality and expenditures by direct and indirect beneficiaries (including the Works Directorate and utilities) into a single consolidated statement. It also includes assets and liabilities.

The details of financial reporting are regulated by the Rulebook on preparation, compilation and submission of financial reports of budget funds users and users of social funds: Financial 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

Audited Financial Statements are sent to CG Treasury by the 15th May each year (when privately audited – 2014 saw a delay. Under the new BSL, the annual report (which includes the Financial Statement) is accompanied by an audit opinion.

Score A

(iii) Accounting standards used

Cash-based IPSAS is the basis of the accounting standards used throughout the public sector in Serbia and this is used in the municipality. The 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

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)	A	All entities of municipality are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.
(ii) Timeliness of submission of audit reports to legislature	C	Audit reports are submitted to the legislature within 12 months of the end of the period covered and in the case of financial statements from their receipt by the audit office
(iii) Evidence of follow-up on audit recommendations	D	There is little evidence of response or follow up.

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

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

The complete financial statements have been audited in the past 3 years covering 100% of revenue and expenditures funded from revenue, as well as assets and liabilities. The 2013 audit was carried out by the SAI (but is still not finalized) and the 2011 and 2012 audits were tendered and a private audit company approved by the SAI was selected through competitive tendering. The audits were based on INTOSAI standards.

Score A

(ii) Timeliness of submission of audit reports to legislature

The 2013 audit report (the first carried out by the SAI) still had not been received by the Head of the Municipal Assembly by the end of November 2014. Previous reports had all been submitted within 4 months of year end.

Score C

(iii) Evidence of follow-up on audit recommendations

Neither the executive nor the Assembly has issued any response to any formal audit recommendations as yet, and has no procedures for doing so.

Score D

PI-27 Legislative scrutiny of the annual budget law

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

	Minimum Requirements (scoring Method M1)	
	2014	Explanation
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	B	Simple procedures exist for the legislature's budget review and are respected. .
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations

(i) Scope of the legislature's scrutiny

Once the draft budget has been reviewed by the executive (Municipality Council), it is passed to the Assembly to initiate public debate and review, always within the Budget Calendar. This occurs after the Budget Preparation process within the executive when detailed proposals have been prepared. There is a Committee for Budget and Finance which reviews the budget proposals and issues an opinion on the budget to the Assembly, which in turn passes this on at the beginning of the public debate. 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. A positive opinion triggers a debate in the Assembly which negotiates the full budget as proposed by the executive with one day assigned to the activity. All Assembly decisions are published in the Official Gazette. The Assembly is involved in budget preparation before this stage but not in a formal way.

Score C

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

The procedures outlined in (i) are established by way of Municipal statute (on the Municipal website) 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 B

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

Although the new BSL indicates that the draft budget should be passed to Assembly by November 1st, this has never happened. In recent years it has always been around the middle of December e.g. 2013 it was received on December 12th and approved on December 19th.

Score D

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

Clear rules exist concerning changes to the budget by the executive. Article 61 of the BSL allows for a direct budget beneficiary, with the consent of the local government Head of Finance ,to redirect the appropriation approved for certain expenditure up to 5% of the appropriation being reduced. Strict safeguards have been defined with respect to sums and nature of these changes which are being observed, but allow for considerable administrative

reallocations. Supplementary budgets must be approved by the Assembly and follow similar shortened procedures as the annual budget.

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	A	Examination of audit reports by the Assembly does not take place
(ii) Extent of hearings on key findings	D	No in-depth hearings are conducted by the legislature.
(iii) Issuance of recommended actions by the legislature	D	No recommendations are being issued by the legislature.

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

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

Audit reports are routinely distributed to the whole Assembly and scrutinised in one sitting within a couple of weeks of receipt.

Score A

(ii) Extent of hearings on key findings

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

Score D

(iii) Issuance of recommended actions by the legislature

The Assembly has not issued recommendations so far and no procedures are in place for this to happen.

Score D

H. Donor practices

D-1 Predictability of direct budgetary support

	Minimum Requirements (scoring Method M1)
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	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. NA

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

NA

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

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

	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 support through the municipality in 2013 or 2014

Score NA

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

Score NA

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 central government that are managed through national procedures

Score NA

Annexes

PI-2

Data for year =		2013					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
000 – Social services	91500000	82382899	81,995,312.3	387,586.7	387,586.7	0.5%	
100 – General public services	430550000	445922408	385,826,029.8	60,096,378.2	60,096,378.2	15.6%	
300 – Public order and security	10500000	98280	9,409,298.1	-9,311,018.1	9,311,018.1	99.0%	
400 – Economy	235380000	181838007	210,929,580.5	-29,091,573.5	29,091,573.5	13.8%	
500 – Environmental protection	101000000	72899462	90,508,486.8	-17,609,024.8	17,609,024.8	19.5%	
600 – Community and housing	188920000	133028553	169,295,676.6	-36,267,123.6	36,267,123.6	21.4%	
700 - Health	6100000	30018686	5,466,354.2	24,552,331.8	24,552,331.8	449.2%	
800 – Sports and culture	92650000	80193850	83,025,854.5	-2,832,004.5	2,832,004.5	3.4%	
900 - Education	204300000	193152506	183,078,058.0	10,074,448.0	10,074,448.0	5.5%	
allocated expenditure	1360900000	1219534651	1,219,534,651.0	0.0	190,221,489.3		
contingency							
total expenditure	<u>1360900000</u>	<u>1219534651</u>					
overall (PI-1) variance						10.4%	
composition (PI-2) variance						15.6%	
contingency share of budget						0.0%	

Data for year =		2012					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
000 – Social services	80300000	79693964	64,385,315.9	15,308,648.1	15,308,648.1	0.237766	
100 – General public services	402687000	359526385	322,878,327.8	36,648,057.2	36,648,057.2	0.113504	
300 – Public order and security	5000000	1399	4,009,048.3	-4,007,649.3	4,007,649.3	0.999651	
400 - Economy	283192000	183174608	227,066,082.1	-43,891,474.1	43,891,474.1	0.193298	
500 – Environmental protection	102300000	58681770	82,025,128.5	-23,343,358.5	23,343,358.5	0.284588	
600 – Community and housing	169771000	124419177	136,124,028.3	-11,704,851.3	11,704,851.3	0.085987	
700 - Health	5500000	301200	4,409,953.1	-4,108,753.1	4,108,753.1	0.9317	
800 – Sports and culture	104426000	94011686	83,729,775.9	10,281,910.1	10,281,910.1	0.122799	

900 - Education	204374000	188686519	163,869,048.1	24,817,470.9	24,817,470.9	0.151447
allocated expenditure	1357550000	1088496708	1,088,496,708.0	0.0	174,112,172.7	
contingency						
total expenditure	1357550000	1088496708				
overall (PI-1) variance						19.8%
composition (PI-2) variance						16.0%
contingency share of budget						0.0%

Data for year =		2011					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
000 – Social services	54600000	57410688.04	45,995,797.8	11,414,890.2	11,414,890.2	0.248172	
100 – General public services	355300000	320555956.3	299,309,651.4	21,246,304.9	21,246,304.9	0.070984	
300 – Public order and security	0	0	0.0	0.0	0.0	#DIV/0!	
400 - Economy	25000000	35304434.67	21,060,347.0	14,244,087.7	14,244,087.7	0.676346	
500 – Environmental protection	60000000	78511491.29	50,544,832.8	27,966,658.5	27,966,658.5	0.553304	
600 – Community and housing	359170000	275928368.4	302,569,793.1	-26,641,424.8	26,641,424.8	0.088051	
700 - Health	7000000	0	5,896,897.2	-5,896,897.2	5,896,897.2	1	
800 – Sports and culture	80330000	82854288.19	67,671,106.9	15,183,181.2	15,183,181.2	0.224367	
900 - Education	269600000	169597981.3	227,114,781.9	-57,516,800.6	57,516,800.6	0.25325	
allocated expenditure	1211000000	1,020,163,208.1	1,020,163,208.1	0.0	180,110,245.0		
contingency							
total expenditure	1211000000	1020163208					
overall (PI-1) variance						15.8%	
composition (PI-2) variance						17.7%	
contingency share of budget						0.0%	

Results Matrix

Year	for PI-1 total exp. Deviation	for PI-2 (i) composition variance
2013	10.4%	15.6%
2012	19.8%	16.0%
2011	15.8%	17.7%

HLG-1 Calculation Sheet

Data for year =		2013					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
7331 - Recurrent	48,000,000	13,666,253	43,167,642.1	29,501,389.1	29,501,389.1	68.3%	
7332 - Capitals			0.0	0.0	0.0	#DIV/0!	
7331 - Transfers HLG-1	300,000,000	299,299,152	269,797,762.9	29,501,389.1	29,501,389.1	10.9%	
allocated expenditure	348,000,000	312,965,405	312,965,405.0	0.0	59,002,778.1		
contingency							
total expenditure	<u>348,000,000</u>	<u>312,965,405</u>					
overall (PI-1) variance						10.1%	
composition (PI-2) variance						18.9%	
contingency share of budget						0.0%	

Data for year =		2012					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
7331 - Recurrent	35,500,000	10,655,600	32,856,657.9	22,201,057.9	22,201,057.9	0.675694	
7332 - Capitals	0	1,200,000	0.0	1,200,000.0	1,200,000.0	#DIV/0!	
7331 - Transfers HLG-1	281,500,000	281,540,472	260,539,414.1	21,001,057.9	21,001,057.9	0.080606	
allocated expenditure	317,000,000	293,396,072	293,396,072.0	0.0	44,402,115.8		
contingency							
total expenditure	<u>317,000,000</u>	<u>293,396,072</u>					
overall (PI-1) variance						7.4%	
composition (PI-2) variance						15.1%	
contingency share of budget						0.0%	

Data for year =		2011				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
7331 - Recurrent	105,000,000	21,109,000	14,093,787.0	7,015,213.0	7,015,213.0	0.497752
7332 - Capitals	0	0	0.0	0.0	0.0	#DIV/0!
7331 - Transfers HLG-1	203000000	184,532,499	123,206,297.8	61,326,201.2	61,326,201.2	0.497752
allocated expenditure	308,000,000	205,641,499	137,300,084.8	68,341,414.2	68,341,414.2	
contingency						
total expenditure	308,000,000	205,641,499				
overall (PI-1) variance						33.2%
composition (PI-2) variance						49.8%
contingency share of budget						0.0%

Results Matrix

year	for dim (i) total transfer deviation	for dim (ii) composition variance
2013	10.1%	18.9%
2012	7.4%	15.1%
2011	33.2%	49.8%

Names and Designation of People consulted

President of Assembly

1. Mr.Dragan Mitić

Municipality Council for budget and finances

2. Mr.Milan Milojević

Municipal Administration

Department for budget and finance

3. Mr. Slobodan Janković, head of department,
4. Ms. Ivana Jovanovic, head of accounting
5. Ms. Jasna Žikić, head of Treasury
6. Ms..Vesna Petrović, public procurement

Local Tax Administration

7. Ms. Mirjana Milutinović

Department public services and local economy development

8. Ms. Jasmina Vidovič, head of department

Works Directorate

9. Mr. Nebojša Milojković,
10. Mr. Saša Vlajić, public procurement

Regional Chamber of Commerce/Entrepreneur

11. Mr. Dejan Mihajlović