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OSEČINA



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

February, 2020





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Performance Assessment Report

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The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,

February 20, 2020

Currency and indicative exchange rate

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Exchange rates, March 2019:

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Fiscal Year

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Abbreviations and acronyms

COE – City Owned Entity
EU – European Union
FMC – Financial Management and Control
GGE – General Government Expenditure
HR – Human Resources
IMF – International Monetary Fund
IPSAS – International Public Sector Accounting Standards
MoF – Ministry of Finance
MPALSG – Ministry of Public Administration and Local Self-Government
NA – Not Applicable
NU – Not Used
OECD – Organisation for Economic Cooperation and Development
PAR – Public Administration Reform
PEFA – Public Expenditure and Financial Accountability
PIFC – Public Internal Financial Control
PFM – Public Financial Management
PPP – Public Private Partnership
PUC – Public Utility Company
RELOF – Implementation of the SECO Local Government Finance Reform Programme in Serbia
SAI – State Audit Institution
SECO – State Secretariat for Economic Affairs
SCTM – Standing Conference of Towns and Municipalities
SIGMA – Support for Improvement in Governance and Management
SNG – Sub-national Government
TSA – Treasury Single Account
UNDP – United Nation Development Programme
USAID – United States Agency for International Development
VAT – Value add Tax

Executive summary

Background

1. Osečina is a small rural municipality in Western Serbia, with a population of about 12,500. Its main industries are agriculture (including fruit growing) and food processing. It is very heavily dependent on funding from central government: more than 60 per cent of municipal revenues take the form of budget transfers from central government, with a further 25 per cent coming from the municipality's share of nationally collected taxes. This repeat PEFA assessment reflects the situation as in 2018; it is based as appropriate on fiscal data for the period 2015-17. The assessment is based on the revised PEFA criteria issued in 2016, and thus provides a baseline against which future changes in public financial management performance can be measured. It also provides an indication of changes since the previous 2014 assessment which was based on fiscal statistics for the period 2011-13: comparisons are based on the previous 2011 PEFA criteria in force at the time of the previous assessment.

The assessment has been commissioned by the State Secretariat for Economic Affairs (SECO) which has supported efforts to improve public financial management (PFM) in sub-national governments (SNGs) through the "Implementation of the SECO Local Government Finance Reform Programme in Serbia" (RELOF). The management of the assessment has been undertaken by RELOF. The assessment has been coordinated by RELOF and was overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team were representatives of the Ministry of Finance, the State Audit Institution, the six Subnational Governments, the Standing Conference of Towns and Municipalities and UNDP. The assessment is conducted in six Serbian sub-national governments – Knjaževac, Osečina, Paraćin, Sremska Mitrovica, Vranje and Užice. All Performance Indicators as set out in the 2016 PEFA criteria have been evaluated apart from PI-7, which is Not Applicable because there are no government units subordinate to the Osečina municipality.

A. Integrated analysis of PFM performance

2. The findings from the assessment of each Indicator are summarised in terms of each of the seven Pillars of the PFM performance measurement framework.

1. Reliability of the Budget

3. About a quarter of central government funding for Osečina comes through the municipality's share of income and other CG taxes, with the remainder accruing mainly through general transfers (targeted transfers were less than 7 per cent of total transfers from CG). Total receipts from CG transfers were close to budget in 2015 and 2016 (-1.2 per cent and -1.5 per cent respectively), and 11 per cent above budget in 2017 when general transfers increased significantly. But own revenue fell short of budget, leading to actual expenditure falling 6.6 per cent below budget in 2015, 13.9 per cent below in 2016, and 6.3 per cent below in 2017 (Score B for PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in all three years 2015-17 (8.5 per cent, 7.0 per cent and 4.0 per cent respectively), indicating that expenditure on most functions fell below budget by similar percentages (Score B for PI-2.1). The somewhat larger measured variance by economic classification (8.4 per cent, 16.1 per cent and 9.7 per cent for the three years 2015-17 respectively) results mainly from the differences between budget and out-turn for capital investment, while actual staff costs were close to budget despite the overall expenditure shortfalls (Score B for PI-2.2). No expenditure was charged to contingency during 2015-17.

2. Transparency of public finances

4. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such

comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals needs supplementing in order to meet PEFA standards (Score D for PI-5). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public needs improvement (Score D for PI-9).

3. Management of assets and liabilities

5. Full financial reports are received for the municipality's utility company, but neither these reports nor any analyses of the fiscal risks faced by the municipality have been published (PI-10). Investment is planned within the framework of the municipal strategic plan, and progress is regularly monitored (PI-11). MOEs are effectively monitored, as are the municipality's holdings of financial assets, but the asset register is incomplete, and valuations are lacking (PI-12). Osečina has only very small outstanding borrowing (PI-13).

4. Policy-based fiscal strategy and budgeting

6. Osečina has been unable to allocate the staff resources necessary to undertake medium-term fiscal and expenditure planning (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

5. Predictability and control in budget execution

7. Osečina has lacked the resources needed to expand its property tax base and improve the enforcement of collection. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the municipality's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The operation of procurement was criticised by the SAI on the ground that a large part of expenditure on goods and services was not subject to any form of competition, and it is doubtful whether information on procurement is complete (PI-24). Internal control arrangements are satisfactory despite the fall in staff numbers, while the internal audit is not yet operational (PI-26).

6. Accounting and reporting

8. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory, but annual financial statements do not contain all the information required to comply with cash-based International Public Sector Accounting Standards (IPSAS) (PIs 28 and 29).

7. External scrutiny and audit

9. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years, a limited financial audit is undertaken by a

commercial audit firm, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Osečina has been audited by the SAI for 2017, with a strong focus on the performance of systems. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

B. Effectiveness of the internal control framework

10. The internal control system should contribute towards four objectives: (1) the execution of operations in an orderly, ethical, economical, efficient and effective manner; (2) fulfilment of accountability obligations; (3) compliance with applicable Laws and regulations; and (4) safeguarding of resources against loss, misuse and damage. The analysis of the performance of the internal control system looks at the five control components: (1) the control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

11. The control environment depends on the legal and regulatory framework and the way it is applied in practice. The Budget Systems Law (2009) sets out how internal audit and internal financial control (including inspection) should operate (Articles 80-89). Other relevant legislation is the Law on local self-government (2007), the Public Debt Law (2005), the Public Procurement Law (2013) the Law on Determining the Maximum Number of Employees in the Public Sector (2015), and the State Audit Institution Law (2005). In the local government context, the performance of the municipality will depend on the integrity of management and staff, the management styles of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the municipal organisation, and to adopt a strategy to minimise the risks of damage to the provision of good services.

12. Osečina depends on central government for 85 per cent of its annual revenue, over which it has no control. The main risks over which it has some control are that revenue from its own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure best value. A continued focus on maximising local revenues will be important in sustaining the services which are the responsibility of the municipality.

13. Internal controls in the municipal administration appear to work satisfactorily, but internal audit is not yet operational. There has been a full audit by the SAI for 2017. Monitoring the performance of service delivery is still in process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018.

C. PFM strengths and weaknesses

Aggregate financial discipline

14. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. But budget estimates have been poor predictors of own revenue during 2015-17, with capital investment falling well below amounts originally envisaged.

Strategic allocation of resources

15. Osečina has yet to introduce medium-term fiscal and expenditure planning, while public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised, but will have little impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

Efficient use of resources for service delivery

16. The presentation of all SNG (and central government) expenditure in terms of 17 programmes represents the first step towards results-oriented budgeting. However, it appears that the definition of the programmes may need to be reconsidered, so that they fit more readily into the responsibilities and circumstances of SNGs. It should be recognised, moreover, that the services for which SNGs are responsible – local infrastructure, urban planning, recreational and cultural facilities - do not very readily lend themselves to measurement of the standard of services delivered. Analysis of the costs of standard operations (e.g. road maintenance, public lighting) may over time provide indications where greater efficiency could be achieved, although differences in local circumstances are likely to mean that comparisons of cost need to be treated cautiously.

Performance changes since 2015

17. Osečina is a small municipality with a relatively simple administrative structure. It does not have the capacity to undertake radical reform of PFM, but such changes are not needed given the limited responsibilities of small Serbian SNGs. It appears that MoF has improved the stability and predictability of its general transfers to SNGs, on which Osečina is particularly heavily reliant, while the municipality's performance in expenditure planning and management has improved as evidenced by the reduced divergence between the original budget and out-turn and the lower variance in the functional allocation of expenditure (PIs 1 and 2). Commitment control has improved through the provision of new software by central government (PI-25.2), and Osečina's budget users have greater flexibility in the timing of their commitments (PI-21.2). Collection of property taxes has encountered recent problems which should be addressed by the country-wide adoption of common software from the beginning of 2019.

Approach to PFM reform

18. Serbia is engaged in an ambitious and wide-ranging Public Administration Reform (PAR) programme with the objective of meeting the standards required for admission to the European Union. Different elements cover the functioning of the economy and the working of the judicial system, as well as government operations and the provision of public services. Within this framework, the Government is implementing a PFM Reform programme, with technical assistance from OECD/SIGMA, IMF, SECO and others. The specific objectives are (1) to improve the quality of economic and fiscal projections; (2) to improve medium-term fiscal planning and budgeting; (3) improvements in public procurement legislation and practice; (4) the embedding of Public Internal Financial Control (PIFC) arrangements on the EU model (through a development strategy and action plan for the period 2017-20); the further development of TSA business practices and reporting; and (5) enhancement of the work of the SAI. The SECO-supported RELOF initiative is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Government.

5.2 Institutional considerations

19. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution and reporting, including the medium-term dimension and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Osečina did not qualify for RELOF assistance to the functioning of its tax administration, while staff limitations have prevented progress in some areas targeted by RELOF. There remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers)

instead of demanding fresh bids every year from all SNGs. At the same time, SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Table 1: Summary of scores

PFM Performance Indicator		Scoring method	Dimension score				Overall score
			1	2	3	4	
Pillar 1	Budget reliability						
HLG-1	Transfers from Central Government	M1	A	NA	A		A
PI-1	Aggregate expenditure out-turn	M1	B				B
PI-2	Expenditure composition out-turn	M1	B	B	A		B+
PI-3	Revenue out-turn	M2	D	D			D
Pillar 2	Transparency of public finances						
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	D				D
PI-6	Municipal operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subordinate governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	B	D	A	D	C+
PI-9	Public access to fiscal information	M1	D				D
Pillar 3	Management of assets and liabilities						
PI-10	Fiscal risk reporting	M2	C	NA	D		D+
PI-11	Public investment management	M2	C	C	D	C	D+
PI-12	Public asset management	M2	C	D	NA		D+
PI-13	Debt management	M2	A	A	NA		A
Pillar 4	Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	NU	D	NA		D
PI-15	Fiscal strategy	M2	C	D	NA		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	NA	NA	NA	D
PI-17	Budget preparation process	M2	B	C	D		C
PI-18	Legislative scrutiny of budgets	M1	C	A	A	A	C+
Pillar 5	Predictability and control in budget execution						
PI-19	Revenue administration	M2	D	D	D	D	D
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	C	B+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	B	A	A	A	B+
PI-24	Procurement	M2	D	D	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	A	A	B		A
PI-26	Internal audit	M1	D	NA	NA	NA	D
Pillar 6	Accounting and reporting						
PI-27	Financial data integrity	M2	A	NA	C	B	B
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	B	B	A		B+
Pillar 7	External scrutiny and audit						
PI-30	External audit	M1	D	D	A	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	D

Chapter 1: Introduction

1.1 Rationale and purpose

1. In recent years Serbia has been pursuing improvements to its administrative, economic and judicial systems which will enable it to qualify for membership of the European Union (EU). Alongside this Serbia has implemented a programme of fiscal consolidation with the assistance of the IMF which has enabled the country to restore economic stability and put public debt on a downward path as a proportion of GDP. The country is in the process of implementing its Public Financial Management Reform Programme 2016-20, with assistance from the EU, the World Bank and the State Secretariat for Economic Affairs (SECO).

2. As part of its effort to make government more efficient and responsive to the needs of citizens, the country is looking in the longer run for deconcentration and decentralisation of government activity, with increasing responsibilities being undertaken by local governments. Public Expenditure and Financial Accountability Assessments (PEFA) were undertaken in 2014-15 at both central and local government levels to identify the problems to be addressed in improving public financial management (PFM). These assessments pointed to the need at both central and local government level to make budgeting more realistic, to establish effective medium-term fiscal planning, to ensure control over expenditure commitments, to improve tax administration, to bring in effective internal audit and strengthen external audit, and to ensure effective oversight of public enterprises of all kinds.

3. In addition to contributing to improvements in PFM at central government level, SECO has funded the Local Government Finance Reform Programme (RELOF) which has sought to improve the functioning of the six municipalities which were previously the subject of PEFA assessments. These six sub-national governments (SNGs) – three cities and three municipalities – are in different parts of the country, of different sizes and at different levels of economic development, and thus form a representative sample of Serbian SNGs as a whole. The purpose of the repeat assessments now undertaken is to review progress since 2015 in these SNGs, and to facilitate the design of future steps to improve local PFM throughout Serbia.

1.2 Assessment management and quality assurance

4. These assessments are coordinated by RELOF and are overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team are representatives of the Ministry of Finance (MoF), the State Audit Institution (SAI), the six SNGs, the Standing Conference of Towns and Municipalities (SCTM), and UNDP. The Oversight Team oversaw approving the concept note for the PEFA assessment, sharing relevant reports and other PFM related data with the assessor and providing inputs and comments on the draft PEFA reports. The Oversight Team steer the assessment, monitor progress and support communication with other stakeholders or enable access to data or institutions that may arise throughout the assessment process.

The list of reviewing institutions includes a government (MoF) and SNG institutions (six LGs), the PEFA Secretariat, as well as independent institutions within (SCTM, UNDP, SAI) and outside the country (SECO). Based on a joint agreement between the stakeholders, the PEFA Secretariat, SECO, MoF and RELOF reviews all six draft PEFA assessment reports (one per each LG). Due to the limited capacities available, the SAI, UNDP and SCTM will review two draft reports each, providing that all six reports will be reviewed in total by a non-government group of peers. The LGs will review only their draft report.

In the case of Osečina Report, the peer review is done by the Osečina Municipality and SCTM. Ms Vesna Pavlović, Head of Finance and Budget Department, was a member of the Oversight Team and LG Liaison Officer.

Moreover, SECO has recruited an experienced PFM expert, Mr Tony Bennett, to serve as backstopper to the assessments to ensure that the PEFA criteria are correctly applied, that comparisons of performance as between 2015 and 2018 are correctly made, and that sufficient evidence is collected to support the scores and conclusions recorded.

5. The assessment team consists of John Wiggins (UK), an international PFM expert who has undertaken PEFA assessments at central and local government level in some 20 different countries; Dr Anto Bajo (Croatia), an expert on local government finance with PEFA experience in the region at both central and local government level, and Ms Gordana Tisma (Serbia), consultant with extensive PFM experience including as member of the Council of the Serbian SAI.

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organisation

- Oversight Team — Co-Chairs: Irene Frei and Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF); Members: Ljubiša Stojanović (City of Vranje), Mirjana Drndarević (City of Užice), Duško Šarošković (City of Sremska Mitrovica), Slobodan Janković (Paraćin Municipality), Vesna Pavlović (Osečina Municipality), Ankica Marković (Knjaževac Municipality), Mileša Marjanović (Ministry of Finance), Iva Vasilić (State Audit Institution), Milovan Filimonović (UNDP), Dunja Naić (Standing Conference of Towns and Municipalities)
- Assessment Managers: Ana Jolović and Georgios Chatzigiagkou (RELOF)
- Assessment Team Leader and Team Members: John Wiggins (free-lance expert, UK), Anto Bajo (University of Zagreb, Croatia), Gordana Tisma (free-lance expert, Serbia)

Review of the concept note and/or terms of reference

- Date of reviewed draft concept note and/or terms of reference: October 22, 2018
- Invited reviewers: Oversight Team
- Reviewers who provided comments: Julia Dhimitri, PEFA Secretariat [November 6, 2018], Milovan Filimonović, UNPD [November 8, 2018], all representatives of LGs [November 6-8, 2018]; Dunja Naić, Standing Conference of Towns and Municipalities [November 7, 2018], Iva Vasilić, State Audit Institution [November 20, 2018], Mileša Marjanović, Ministry of Finance [January 31, 2019]
- Date(s) of final concept note and/or terms of reference: March 11, 2019

Review of the assessment report

- Date(s) of reviewed draft report(s): March 20, 2019;
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF), Mileša Marjanović (Ministry of Finance), Dunja Naić (Standing Conference of Towns and Municipalities), Vesna Pavlović (Osečina Municipality),
- Reviewers who provided comments: Vesna Pavlović, Osečina Municipality [March 22, 2019], Ana Jolović and Georgios Chatzigiagkou, RELOF [March 25, 2019], Thomas Stauffer, SECO [April 5, 2019], Dunja Naić, Standing Conference of Towns and Municipalities [April 19, 2019], the PEFA Secretariat [April 19, 2019]. Because of other RELOF priorities, the draft was not further revised until December when the PEFA Secretariat were not fully satisfied with the responses to their comments. This final version was prepared on 31 January 2020.

1.3 Assessment methodology

6. The assessment covers the cities Sremska Mitrovica, Uzice and Vranje, and the municipalities Paracin, Knjazevac and Osečina, and includes all their subordinate institutions. It also covers, to the extent required by the PEFA criteria, the utility and other companies owned by the six SNGs through which a substantial proportion of public services are provided. It uses the revised methodology and criteria issued by the PEFA Secretariat in 2016, and in order to provide a measure of changes since the previous assessments in 2014-15 also applies the 2011 PEFA criteria to the evidence collected. The assessments were preceded by a capacity building workshop for the SNGs concerned held in May 2018.

7. Evidence for the assessment was collected during the second half of 2018; thus, the last completed financial year considered is 2017, with actual practice reviewed as during 2018. Where the three most recent years are considered, these are 2015-17. Visits to the SNGs to collect evidence were made in two stages in August/September (Uzice, Paracin, Knjazevac) and October/November (Sremska Mitrovica, Osečina, Vranje). Interviews were held with Mayors, Council members, Heads of Finance Departments and officials responsible for different aspects of SNG activities, and people engaged in economic development of the different SNGs. Where assessments are undertaken at central government level it is important to look to representatives of civil society for an alternative view of the performance of the government. In the Serbian municipal context, the municipal assemblies and their networks of local community councils are in effect civil society, although in larger municipalities consultation may be possible with semi-independent Chambers of Commerce. Prior to the visits a schedule of the evidence required to assess each Performance Indicator and Dimension was sent to the six SNGs, but it did not prove possible to collect this in advance of the visits. The necessary statistical and other information gradually became available during the period up to early December 2018. Following some consultation on different points with the backstopper, who joined in the visit to Uzice, complete drafts of all six reports were prepared by the team leader towards the end of January 2019.

Chapter 2: Country background information

2.1 Economic performance

1. The structural reform and fiscal consolidation programme agreed with the IMF for the period 2015-18 helped Serbia reverse the fiscal deficit recorded in 2014 (at 6.6 per cent of GDP, or nearly EUR 2.2bn) and achieve a fiscal surplus of 1.2 per cent of GDP in 2017. This positive trend continued into 2018, with an overall fiscal surplus of EUR 78mn recorded at the general government level in the first five months, and a primary fiscal surplus of EUR 555mn. The aggregate surplus of LGs (municipalities and towns/cities) stood at EUR 68mn for the same period.¹

2. These fiscal improvements are the result of measures designed to both cut expenditures and increase revenues, coupled with favourable external factors, such as declining oil and gas prices, falling interest rates across Europe, and an economic recovery in the EU, which Serbia maintains close ties with through exports and foreign direct investments (FDIs). An increase (of some EUR 700mn) in public revenues between 2015 and 2017 can be ascribed to higher economic growth than had been envisaged under the consolidation programme. The structural increase in public revenues was also promoted by efficient tax collection (which accounted for some EUR 500mn) and measures that targeted the informal economy. The remaining unforeseen increase in public revenues in 2017 (of some EUR 600mn) was the result of a number of special factors. Nearly half of this figure came from

¹ Source: www.mfin.gov.rs.

unusually high amounts collected in corporation tax, due to greater profitability in the manufacturing sector in 2016. In the same year, indirect taxes made up 40.6 per cent of consolidated public revenues, whilst salaries and pensions accounted for more than half of all public expenditures (51.2 per cent). At 63.2 per cent, the tertiary (services) sector accounted for most of the GDP, followed by industry with 23.5 per cent and agriculture at 12.7 per cent.

Table 2.1: Economic Developments 2015-18

Year	2015	2016	2017	2018*
GDP (Euro millions)	35,716	36,723	39,183	
Change in real GDP (%)	0.8	3,3	2,0	4,2
Inflation (average % change in CPI)	1,5	1,6	3,0	2,2
Trade Balance (Euro million)	-4.048	-3.636	-4.345	-3.818
Current Balance (Euro million)	-1.234	-1.075	-2.051	-1.502
Foreign direct investment (% of GDP)	5,1	5,2	6,2	
Unemployment (% labour force)	17,7	15,3	13,5	13,4
Fiscal balance	-3.7	-1.3	1.2	0.6
Public debt (as % of GDP)	70	67,8	57,9	56,2

*Data for January-august 2018

Sources: Ministry of Finance, State Statistics Office and National Bank of Serbia

3. Serbia's improved investment climate and better credit ratings (BB, assigned by both Standard and Poor's and Fitch Ratings) have allowed the country to attract FDIs amounting to nearly EUR 2bn annually (6% of GDP IN 2017), exceeding the current account deficit. General government debt as a percentage of GDP is still high compared to some EU Member States. Nevertheless, there have been positive developments in this regard as well. Public debt stood at 70 per cent of GDP at year-end 2015, only to decline to some 57,9 per cent in 2017 and 56.2 per cent of GDP at the end of November 2018.

2.2 Fiscal and budgetary trends

4. General Government revenue and expenditure in Serbia comprises the central government, sub-national governments, social insurance funds, and the body responsible for road construction and maintenance. As Table 2.2 below shows, the central government budget accounts for rather more than 40 per cent of total General Government expenditure (GGE), pensions for approaching 30 per cent of GGE, and local government expenditure for about 16 per cent, with the remainder attributable to other insurance funds and roads. This reflects the relatively limited responsibilities assigned to local government in Serbia, which cover the local infrastructure, the provision of pre-primary education, and some involvement in the provision of facilities for primary education, housing, district heating and environmental protection.

Table 2.2: General government expenditure (GGE) 2015-17 (RSD bn. and % of GDP)

	2015	2016	2017
Central government budget	784 (19.4)	759 (17.8)	784 (17.6)
Pension fund	537 (13.3)	536 (12.6)	537 (12.0)
Other insurance funds	245	242	245
PE Roads	38	60	38
Local government	281 (7.0)	302 (7.1)	317 (7.1)
General government expenditure	1,844 (45.6)	1,900 (44.6)	1,921 (43.0)

% of GDP (% of GGE)			
Central government budget	19.4(42.5)	17.8(40.0)	17.6(40.9)
Pension fund	13.3(29,2)	12.6(28.3)	12.0(27.9)
Other insurance funds	6.1	5.7	5.5
PE Roads	0.9	1.4	0.9
Local government	7.0(15.4)	7.1(16.0)	7.1(16.5)
General government expenditure	45.6	44.5	43.0

Source: Ministry of Finance RS, 2018

5. The structure of general government revenue and expenditure is shown in Table 2.3 below. The largest elements in total revenue are social insurance contributions, VAT and excise duties. Taxes on income and profits account for less than 10 per cent of total revenue.

Table 2.3: General government balance 2015-17 (bill RSD and % of GDP)

	2015		2016		2017	
	bill RSD	% of GDP	bill RSD	% of GDP	bill RSD	% of GDP
I Total revenue	1,695	41.9	1,843	43.2	1,973	44.2
tax on income	147	3.6	155	3.6	168	3.8
tax on profit	63	1.5	80	1.8	112	2.4
VAT	416	10.3	454	10.6	479	10.7
Excise duties	236	5.8	266	6.2	280	6.3
Custom duties and other tax revenue	56	0.8	61	0.8	66	0.8
tax on property	41	0.9	42	0.9	46	1.0
Social contributions	506	12.5	527	12.4	567	12.7
Non tax revenue	224	5.5	247	5.6	247	5.4
Grants	7	0.2	9	0.2	9	0.2
II Total expenditure	1,844	45.6	1,900	44.5	1,921	43.0
Wages and salaries, etc.	419	10.4	418	9.8	426	9.5
Goods and services	258	7.5	284	8.0	302	8.2
Interest	130	3.2	132	3.1	121	2.7
Subsidies	135	3.3	113	2.7	113	2.5
Social welfare and transfers	710	17.6	717	16.8	720	16.1
Other current expenditures	45	1.1	56	1.3	63	1.4
2. Capital expenditures and net lending	118	2.9	142	3.4	147	3.3
3. Guarantees called	30	0.7	39	0.9	29	0.6
III Deficit/surplus (I-II)	-149	-3.7	-57	-1.3	52	1.2

Source: Ministry of Finance RS, 2018

2.3 Local Government Finance

6. Local government in Serbia is based on Part 7 of the 2006 Constitution, which provides for autonomous provinces, cities and municipalities to have their own self-governing institutions. Detailed provisions are contained in the 2007 Law on Territorial Organisation and Local Self-Government, as subsequently amended. Table 2.4 below gives an overview of the subnational government structure in Serbia, as required by the standard model PEFA Report at sub-national level. According to the Constitution Kosovo and Metohija remain part of Serbia as an autonomous province. In practice, all

the statistics and other information in this report exclude Kosovo and Metohija. Serbia, as described here, contains just one autonomous province (Vojvodina), the capital city Belgrade which has a special status, 28 cities and 117 municipalities. Vojvodina directly receives part of the revenue accruing to central government, and is guaranteed an amount at least equal to 7 per cent of the central government budget; it is responsible in its territory in Northern Serbia for delivery of the main public services - education, health, communications, strategic planning – which are the responsibility of central government elsewhere in Serbia. Cities and municipalities have essentially the same responsibilities for local infrastructure, urban and land use planning, housing and local amenities, nursery education, and sport, recreation and culture. Cities generally have a population of around 100,000 and are able to establish subordinate municipalities on parts of their territory which take over some functions which are the responsibility of the city, with financing determined by the city concerned. Municipalities have populations of 60,000 or less (one has less than 2,000). Cities and municipalities may also establish Community Councils in different parts of their territory whose expenditures are met directly from the local government budget. Cities and municipalities in Vojvodina are financed in the same way and at the same level as those elsewhere in Serbia, but the central government element in their revenues accrues through the province.

Table 2.4: Overview of subnational government structure in Serbia

Level of government	Central	Regional	Municipal
Corporate Body	Yes	Yes	Yes
Own political leadership	Yes	Yes	Yes
Approves own budget	Yes	Yes	Yes
Number of jurisdictions	1	1	146
Average population	7.1 million	1.9 million	50,000
% of public revenue	94.1%	*	5.9%
% of public expenditure	83.5%	*	16.5%

*Vojvodina is in effect part of central government for the purposes of this analysis.

7. Table 2.5 shows the overall balance of local government finance (2015-17). Cities and municipalities in total were in balance in 2015 and ran aggregate surpluses in 2016 and 2017 which were used to repay debt or build balances, depending on the financial position of the local governments concerned.

Table 2.5: Local government finance 2015-17 (RSD bn. and % of GDP)

	2015	2016	2017
GDP (RSD bn.)	4,043	4,262	4,465
Taxes and own revenues	215 (5.3)	242 (5.7)	253 (5.7)
Net transfers from central government	66 (1.6)	70 (1.6)	77 (1.7)
Total revenue	281 (6.9)	312 (7.3)	329 (7.4)
Total expenditure	281 (6.9)	302 (7.1)	317 (7.1)
Net deficit/surplus	0	9 (0.2)	12 (0.3)

Source: Ministry of Finance, RS

8. Table 2.6 shows the breakdown of total local government revenue, and Table 2.7 the breakdown of expenditure by the main economic categories. For the local government as a whole, about two thirds of revenue are determined by the central government (share of income tax and central government transfers), with the remaining third accruing from property tax and non-tax revenues. More economically advanced local governments are mainly dependent on tax revenues, while the less advanced are heavily reliant on general fiscal transfers. Tax revenues account for about 55% of revenues, government transfers 23%, non-tax revenues 21% and grants the rest. Most transfers are general, i.e. to be spent at the discretion of the recipient local government, but a minority are targeted

by central government Ministries to be spent for particular purposes – mainly public investment projects. The distribution of general transfers is based on a formula in which population size has 65 per cent of the weighting and geographical area 19 per cent, with the remainder dependent on school class numbers and the number of children needing protection; local governments receiving less than 90 per cent of the average tax revenue per head of population qualify for additional compensatory transfers.

Table 2.6: Total revenue of local government units in the Republic of Serbia 2015-17
(RSD million and % of total)

	2015		2016		2017	
	mil	%	mil	%	mil	%
Total revenue	280,957	100	311,554	100	329,477	100
Tax revenue	160,726	57.2	170,296	54.7	181,369	55.0
Share of income taxes	101,950	36.3	107,390	34.5	112,321	34.1
Share of profit tax	5,707	2.0	6,175	2.0	8,459	2.6
Tax on property	40,769	14.5	42,379	13.6	45,652	13.9
Other tax revenue	12,300	4.4	14,352	4.6	14,938	4.5
Nontax revenue	52,854	18.8	70,480	22.6	70,397	21.4
Grants	1,325	0.5	840	0.3	985	0.3
Transfers from central government	66,051	23.5	69,938	22.4	76,726	23.3

Source: Ministry of Finance RS, 2018

9. As Table 2.7 shows, the share of expenditure on pay fell by three percentage points, while that on goods and services increased. Interest payments accounted for only a very small proportion of expenditure, while subsidies, welfare payments and capital expenditure all fluctuated somewhat.

Table 2.7: Total expenditures of local government units in the Republic of Serbia 2015-17 (mil RSD and % of total)

	2015		2016		2017	
	mil. RSD	%	mil. RSD	%	mil. RSD	%
Total expenditure	280,556	100	302,438	100	317,197	100
Current expenditure	245,992	87.7	261,749	86.5	280,146	88.3
Pay, etc.	80,833	28.8	81,301	26.9	81,921	25.8
Purchases of goods and services	67,951	24.2	80,929	26.8	87,872	27.7
Interest payments	3,958	1.4	3,402	1.1	2,860	0.9
Subsidies	31,918	11.4	26,144	8.6	32,312	10.2
Social welfare	40,935	14.6	48,479	16.0	49,310	15.5
Other current expenditure	20,398	7.3	21,495	7.1	25,871	8.2
Capital expenditure (including net lending)	34,565	12.3	40,689	13.2	37,049	11.7

Source: Ministry of Finance RS, 2018

10. The normal structure of a PEFA report at sub-national level looks for a summary of the functional allocation of local government expenditure according to the ten main expenditure categories in the UN Classification of Functions of Government (COFOG). This analysis is not produced by the Government of Serbia, although all the information required for its production is held in the records of the Treasury Single Account managed by the Ministry of Finance (MoF). An OECD Profile of Serbia produced in 2016 jointly with the Serbian Standing Conference of Towns and Municipalities shows that expenditure in 2014 was allocated as follows:

- General Public Services – 20 per cent
- Economic Affairs – 21 per cent
- Environment Protection – 3 per cent
- Housing and Community Amenities – 19 per cent
- Health – 1 per cent
- Recreation, Culture and Sport – 11 per cent
- Education – 19 per cent
- Social Protection – 6 per cent.

This may somewhat overstate the amount for General Public Services, since the functional expenditure tables produced by each local government include capital repayments (treated as a financing rather than expenditure by IMF GFS) and interest payments (excluded from the functional allocation of expenditure by the PEFA criteria) under this heading.

2.4. Applicable Legislation

11. **The Law on Local Self-Government**² provides for local populations to manage affairs of direct, shared, and common interest through freely elected representatives; it provides for local authorities to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. In the exercise of its rights and the discharge of its duties in connection with meeting the needs of the local population, **a local authority may establish enterprises, institutions, and other organisations that provide public services**, as envisaged by Law and its articles of association. Much of service delivery – road maintenance, street cleaning, minor construction, etc. – is carried out by corporatised entities owned by local authorities. Until recently authorities retained discretion to have some of this work done directly by municipal administrations. However, the central government required that as from 1 December 2016 all such work should be assigned to utility companies. As noted in paragraph 6 above, in order to meet the general, shared, and day-to-day needs of particular local populations, local authorities may establish **local community councils** or other sub-local governments. **Local authorities perform the following duties** through their bodies as envisaged by the Constitution and Law:

- Enact development programmes;
- Enact urban plans;
- Adopt budgets and final accounts;
- Establish rates of own-source municipal revenues and criteria for setting local fees and charges;
- Regulate and ensure the provision and development of local public utilities;
- Enact programmes for the management of development land;
- Enact local economic development programmes and pursue appropriate projects;
- Ensure environmental protection and enact programmes for the use and protection of natural resources and environmental protection programmes;
- Establish institutions and organisations tasked with primary education, culture, primary healthcare, recreation, sports, children’s welfare, and tourism, and monitor and facilitate their operation;
- Establish social welfare institutions and monitor and facilitate their operation;
- Prescribe basic requirements for the protection, use, and management of agricultural land;
- Ensure the exercise, protection, and enhancement of human rights and individual and collective rights of national minorities and ethnic groups;

² Law on Local Self-Government (*Official Gazette of the Republic of Serbia*, Nos. 129/2007, 83/2014, 101/2016, and 47/2018).

- Other duties of immediate interest to members of the public.

12. **Some powers of public administration may be devolved on all or some local authorities by the central government** where doing so allows members of the public to exercise their rights and perform their duties more efficiently and effectively and ensures their needs can be met more appropriately. Funds for the exercise of devolved public administration powers are provided from the central budget in proportion to the type and extent of such powers. These devolved duties consist of some aspects of inspection oversight in education, healthcare, environmental protection, mining, trade in goods and services, agriculture, water management, forestry, and other areas as envisaged by Law.

13. In recent years, local government finance in Serbia has seen frequent changes. Individual line ministries generally enact internal plans for enacting new regulations, but the exact scope of duties and spending powers to be devolved on local authorities remains unknown in advance. As such, new spending powers are devolved on local authorities year after year pursuant to ad hoc decisions (Government orders, Ministry rules, collective agreements, and Government conclusions) rather than by statute. Whenever it assigns or devolves new powers onto a local authority, the central government is required to provide the funds, required for the exercise of these powers in the form of earmarked transfers or additional revenue sources. The amount of these transfers and the criteria for their disbursement are set by line ministries, but the practice has revealed a great deal of discretion in arranging these transfers; their allocation is based neither on realistic needs nor on objective criteria.

14. In the period 2014-2018, the priority was on fiscal consolidation and rationalisation, and thus the ultimate goal of the Government of Serbia to establish the strategic framework for decentralisation and deconcentration did not materialise³. The Ministry of Public Administration and Local Self-Government (MPALSG) recognises the need for strategic planning of further reform of the local self-government system and the process of decentralisation in the context of a Decentralisation Strategy or a programme of reform of local self-government⁴. It remains to be seen whether the MPALSG will manage to effectively engage and/or lead in strategic planning of decentralisation efforts, co-ordinate ministries, and supervise the transfer of new functions and the required financial arrangements onto the local level.

15. **All revenue of a local authority constitutes its general revenue and may be used for any purpose** provided this is envisaged by Law and the local authority's budget decision, **except for revenue directed by Law into a special revenue fund**. A local authority's budget is derived from own-source and shared revenue, transfers, borrowing, and other income and receipts. Each local authority is entitled to own-source revenue collected in its territory. Rates of own-source revenue and criteria for setting local fees and charges are set by the local legislature; for the most important own-source revenue, local property taxes, a maximum annual rate of 0.4 per cent of assessed value of a property is set by Law, with local authorities free to charge a lower rate. For shared revenue, the central government establishes taxable bases and tax rates, as well as criteria for setting fees and charges, and administers these levies, whereupon it shares with each local government all or part of the revenue collected in that local authority's territory. As well as shared revenues, local authorities receive fiscal transfers (Law on Local Self-Government Article 37), which may be general (non-earmarked) or earmarked (used to finance a specific type of expenditure for the exercise of an original or devolved power). A local authority may receive a donation from a Serbian or foreign individual or a legal entity provided it enters into the appropriate agreement with the donor.

16. Serbia operates a decentralised **public procurement system**; public procurement rules are governed by the Public Procurement Law⁵. Local authorities pursue procurement procedures

³ Ministry of Public Administration and Local Self-Government, *Annual Report 2015-2017 on the implementation of the Action Plan for implementing the Public Administration Reform Strategy for RS for the period 2015-2017*, 6 March 2018, http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf

⁴ *ibid*

⁵ Public Procurement Law (*Official Gazette of the Republic of Serbia*, Nos. 124/2012, 14/2015 i 68/2015)

independently but must notify the central-level Public Procurement Office of all tenders advertised and contracts awarded. In 2017, local authorities and their wholly-owned companies together accounted for one-third of the aggregate value of public procurement in Serbia (17 per cent was spent by public utility companies, whilst town/city and municipal administrations spent 15 per cent).

17. Serbian **local authorities enjoy fiscal autonomy**: they are able to **introduce and collect local taxes, fees, charges, and other public revenues**. The Tax Administration has been decentralised and local tax administrations have been created. That said, the ability of local authorities to set property tax rates is restricted by a cap imposed through central-level legislation. Under the Budget System Law⁶, the local executive is responsible for fiscal policy and management of public assets, revenues and receipts, and expenditures and outlays. The Law provides accountability mechanisms in the form of general fiscal accountability principles, procedures, and rules that also apply to local authorities. The Budget System Law caps **fiscal deficit**: a local authority may incur a fiscal deficit only for public investments, this may not exceed 10 per cent of its revenue for the year in question.

18. Cities/towns and municipalities may **borrow** in the financial market, subject to approval by MoF. Local authorities may freely compare offers available in the market and choose either to borrow from banks or issue municipal bonds. The Public Debt Law⁷ prevents local authorities from issuing guarantees. This piece of legislation stipulates that borrowing decisions are made by the appropriate body of the local government. Local authorities may borrow in Serbia or abroad. Short-term borrowing is permitted only to finance temporary liquidity issues, whilst capital projects require long-term borrowing. The legal framework imposes some restrictions on borrowing by local governments: short-term borrowing to overcome current liquidity constraints may not exceed 5 per cent of aggregate local revenue for the preceding year; local authorities may not incur short-term debt to finance capital investments; total long-term debt may not exceed 50 per cent of total current revenue in previous year, excepting where the repayment period for such long-term borrowing is greater than five years; aggregate costs associated with long-term capital borrowing may not exceed 15 per cent of aggregate local revenue for the preceding year, excepting where two-thirds of the current revenue surplus amount to more than 15 per cent of such aggregate revenue. Under Serbian Law, the central government (through the Ministry of Finance) is able to grant or withhold permission for borrowing by local authorities and so exercises control over this process.

19. Local authorities have not been fully **autonomous in terms of their hiring practices** since the recent entry into effect of the Law on the Manner of Determining the Maximum Number of Employees in the Public Sector⁸. This piece of legislation requires local governments to register all staff whose salaries are paid from the local budget with the Ministry of Finance. A provision of this Law continuing in effect in 2018 obliges local authorities to seek approval for any new open-ended hiring from a Government Commission through the Ministry of Public Administration and Local Self-Government. From the standpoint of local authorities, it appears that this provision has been applied arbitrarily without regard to the need to replace staff who move or retire; this inevitably causes greater problems where individual authorities were efficiently run than for authorities which employed relatively more staff. As well as controls over staff numbers, the central government maintains close control over local government pay. All permanent employees must be placed within a salary grid which determines their pay by reference to their qualifications, experience and responsibilities. Pay has been frozen for most of the period covered by this assessment.

⁶ Budget System Law (*Official Gazette of the Republic of Serbia*, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – amendment, 108/13, 142/14, 68/15, 103/15)

⁷ Public Debt Law (*Official Gazette of the Republic of Serbia*, Nos. 61/2005, 107/2009, 78/2011 i 68/2015)

⁸ Law on the Manner of Determining the Maximum Number of Employees in the Public Sector (*Official Gazette of the Republic of Serbia*, Nos. 68/2015 and 81/2016)

City/municipality background information

2.5 General information

20. The municipality of Osečina is located in western Serbia and is part of the Kolubara district. It covers an area of 319 km² and contains 20 settlements. According to the last census in 2011, there were 12,536 inhabitants. The economy of Osečina is largely made up of agriculture, food processing, chemical industry and crafts. There is some light industry that consists mostly of small plastic, paper and wood manufacturers. The private sector, which consists of small and medium enterprises and independent craft and trade shops, is well developed. Osečina is known for fruit production. It is the leading producer of plums in Serbia and its companies are responsible for almost half of Serbian plum exports.

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the municipality's share of national taxes and general transfers from central government, together with its own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of municipal property. Table 2.8 shows the overall fiscal balance for each of the years 2015-17, Table 2.9 provides details of revenue, and Tables 2.10 and 2.11 show functional and economic analyses of expenditure. Revenue figures in all cases exclude the proceeds of new loans, and expenditure figures in all cases exclude capital repayments.

Table 2.8: Fiscal Balance 2015-17

RSD thousands

	2015	2016	2017
Total revenue	295,126	297,699	339,700
Total expenditure	281,163	313,150	303,953
Fiscal balance	+13,963	15,451	+35,747

Source: Osečina Finance Dept.

Table 2.9: Municipal revenues 2015-17

RSD thousands

	2015	2016	2017
Income tax	67,573	70,789	73,724
CG transfers	186,462	186,444	214,851
Other shared CG rev.	2,200	3,036	2,770
Total from CG	256,112	260,268	291,345
Property tax	17,794	14,286	24,322
Tax on goods & servs.	5,132	7,178	7,440
Trade name fee	3,512	3,030	3,579
Property revenue	590	2,316	1,419
Sales revenue	10,523	9,246	10,750
Other revenue	1,451	1,008	834
Asset sales	11	367	11
Total own revenue	39,014	37,431	48,355
Overall total revenue	295,126	297,699	339,700

Source: Osečina Finance Dept.

22. Table 2.9 shows clearly the very heavy dependence of the municipality on funds from central government, with transfers providing about 63 per cent and income tax a further 22 per cent. The

municipality's own revenues provide less than 15 per cent of total revenue, with property tax – the largest element - contributing only about 7 per cent in 2017, and less than 5 per cent in 2016.

Table 2.10: Functional analysis of expenditure 2015-17

RSD thousands

	2015	2016	2017
General public servs.	60,758	66,703	68,798
Defence	-	-	371
Public order, etc	3,341	3,614	2,865
Economic affairs	69,515	81,197	67,151
Environ. Protection	10,951	22,275	17,916
Housing, amenities	32,935	34,448	24,821
Health	7,485	9,900	8,934
Culture, sport, recr.	28,452	28,664	38,058
Education	55,889	56,131	57,301
Social Protection	11,336	10,002	17,688
Total	280,660	312,934	303,903

Source: Osečina Finance Dept.

23. Table 2.10 shows a fairly stable allocation as between different functions. Interest payments and capital repayments have been deducted from figures for General Public Services.

Table 2.11: Economic breakdown of expenditure 2015-17

RSD thousands

	2015	2016	2017
Employment costs	69,868	72,898	72,492
Goods & services	106,761	125,764	107,584
Interest paid	503	216	50
Subsidies	24,374	23,377	21,118
Transfers	38,348	41,481	59,018
Social benefits	15,582	13,082	7,929
Other expenditure	14,208	12,851	17,365
Capital expenditure	11,518	23,481	18,396
Total expenditure	281,163	313,150	303,953

Source: Osečina Finance Dept.

24. Table 2.11 shows that employment costs remained relatively stable, while expenditure on goods and services and capital expenditure increased considerably between 2015 and 2016, and then fell back in 2017. The reduction in expenditure on social benefits was apparently partly offset by grants (transfers) to social security organisations.

2.7 Municipal organisation

25. The territory of the municipality is divided into 23 local communities. Local communities are established to meet the needs and interests of the local population in urban settlements and rural areas. They have the status of indirect budget users. A local community has the status of a legal entity with rights and duties established by its statute and founding decision. By the decision of the Municipal Assembly, it is possible for all or some local communities to carry out certain tasks within the competence of the Municipality, which provides the necessary funds. Pursuant to the provisions of Article 2 of the Budget System Law, direct users of budgetary funds are administrative bodies and departments. Direct budget beneficiaries are Municipal Assembly, Mayor, Municipal Council and Municipal Administration. The activities of the Attorney-General are performed by the Joint Attorney

of the City of Valjevo and the municipalities of Lajkovac, Ljig, Mionica and Osečina, each of which meet a share of the costs. The indirect beneficiaries of budgetary funds are: "Lane" pre-school institution (21 full-time employees and 13 fixed-term employees - a total of 34); Cultural Center National Library Osečina (6 permanent employees and 1 fixed-term employee - total 7); Physical Culture Institution Sports Center Osečina (6 permanent employees and 1 fixed-term employee - total 7); Tourist organisation "Podgorina" (2 full-time and 1 fixed-term employees - total 3) (see: Table 2.12 below).

26. There is a Utility company owned by the Municipality that is divided into departments for water supply and drainage services, maintenance of public roads, central heating, parking, provision of funeral services, and maintenance of water quality. This company is partially dependent on funding from the local budget. Payments from the municipal budget provided about 42% of its total revenues in 2017 (see: Table 2.13 below).

Representative body

27. The Municipal Assembly has ultimate responsibility for the functions of local government in Osečina. The Speaker of the Assembly organises its work, convenes and presides over its sessions, and performs other tasks determined by the Law and the statute of the municipality. The municipal assembly consists of 33 councillors elected on party lists for 4-year terms. The Municipal Assembly enacts its Statute and Rules of Procedure, adopts the annual municipal budget and the subsequent final account, and determines the rates and other conditions of municipal taxes and charges, including fees for land development and construction. It adopts the municipal development programme, including urban planning and land use. The Assembly has ultimate authority over the activities and staffing of the services, public enterprises, institutions and organisations established in accordance with the statute of the Municipality. It elects its own Speaker, Deputy Speaker and Secretary, and appoints the President (Mayor) of the Municipality, the Deputy President and the members of the Municipal Council. It may establish permanent and interim working bodies for the consideration of issues within its competence.

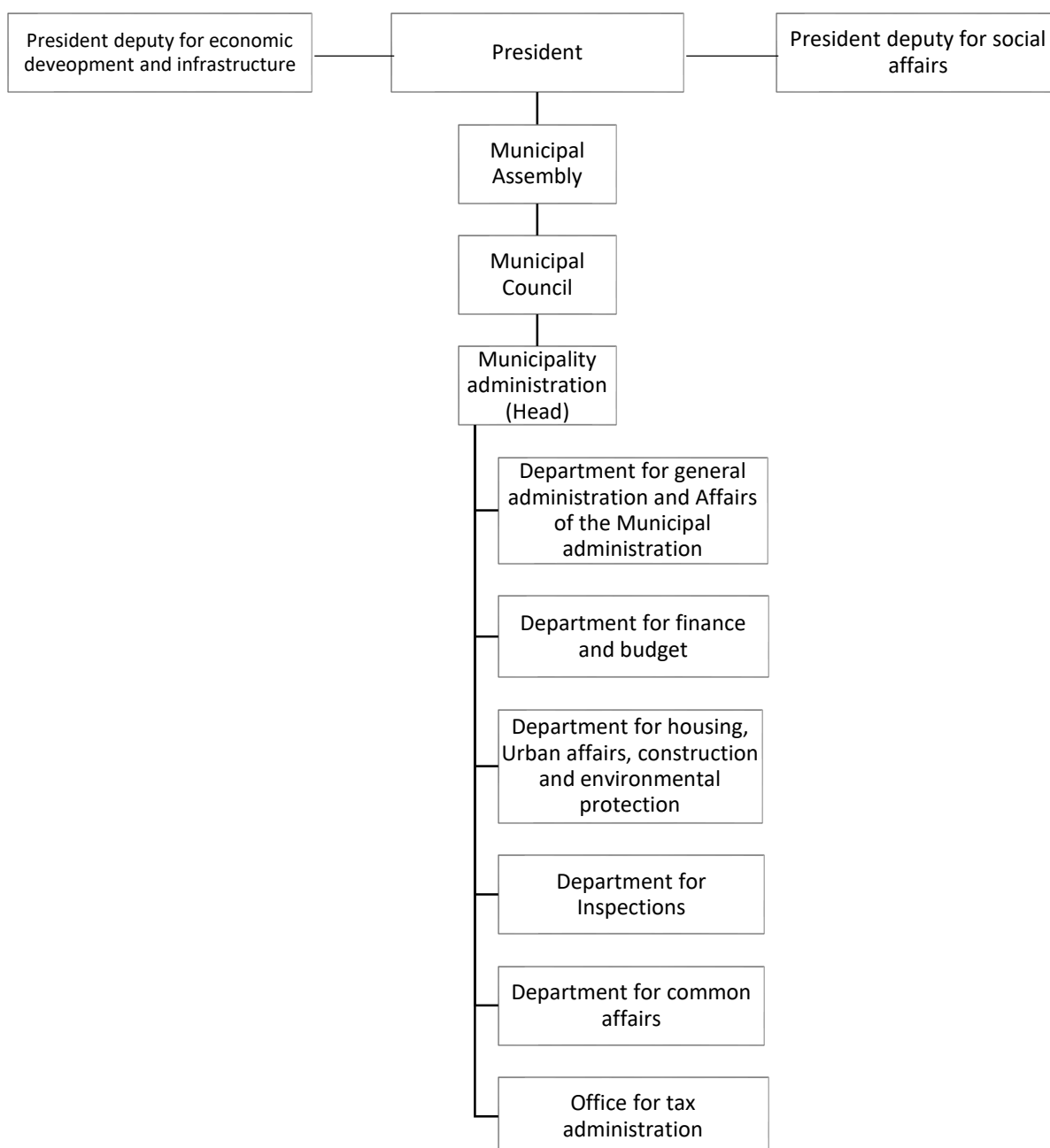
Management

28. The activities of Osečina municipality are managed by the President (Mayor) and the Municipal Council. The President represents the municipality, submits proposals for decision by the municipal Assembly, supervises the execution of the budget, and ensures the control of the use of budget funds. Within the limits set by central government, the President controls the staffing structure and numbers employed in the municipal administration and the indirect budget beneficiary organisations. He/she directs the work of the municipal administration, manages the exploitation and use of municipal property and other assets, subject in some cases to the consent of the Property Directorate of the Republic of Serbia), and informs the public about the work of the municipality.

Municipal council

29. Apart from the President of the Municipality and his deputy, the Municipal Council has five members. The Council proposes the Statute, the budget and other decisions and acts to be adopted by the Assembly and supervises their execution. The Council may decide on temporary financing in case the Assembly does not pass the budget before the beginning of the fiscal year. It may form expert advisory bodies to assist the performance of tasks within its competence.

Chart 1: Inner organisation of Municipality Osečina



Municipal administration and administrative departments

30. Within the Municipal Administration, there are five departments and one service: Department for General Administration and Affairs of the Municipal Authority (8 systematised posts); Department for finance and budget (13 posts); Inspection Department (4 posts); Department for housing, Urban affairs, construction and environmental protection (11 posts), Department of Common Affairs (14 posts) and Office of Tax Administration (4 posts). The total number of systematised posts is set by the Rulebook on Organisation and Job Classification of Workplaces. However, current restrictions imposed by central government on new hiring mean that at present there are 33 permanent employees and 12 employees on fixed term contracts.

Table 2.12: Number of employees and asset value of public institutions- indirect budgetary users – in 2017.

	Public Institutions	No. of employees	Assets value
1	Narodna biblioteka Osečina (library)	7	14.851.129,89
2	Sportski centar "Osečina" (sport center)	7	86.480.647,06
3	Predškolska ustanova "Lane" (kindergarten)	34	22.779.651,94
4	Turistička organizacija "Podgorina" (tourist office)	3	1.980.165,05
5	Mesna zajednica Gunjaci (local council)	-	122.746,00
6	Mesna zajednica Dragijevica (local council)	-	128.890,00

Source: Budget and finance department, Municipality Osečina

Table 2.13: Financial dependency of City/municipality Osečina public companies on local budget in 2017.

No.	Public companies	Total revenues of public companies, without revenues from city budget	Total public companies' revenue from city budget	Total public companies' revenue	Public companies' revenue from budget as % of total revenue
		1	2	3 (1+2)	2/3
1.	JKP "Osečina"	44.680.643	32.207.452	76.888.095	42

Source: Municipality of Osečina, 2018

Chapter 3: Assessment of PFM performance

Pillar 1 Budget reliability

This section includes four Performance Indicators. HLG-1 looks at the predictability of revenue dependent on central government. PIs 1 and 2 examine the difference between budget estimates of expenditure and actual out-turn, in aggregate and in composition. PI-3 examines the city's own revenue in aggregate and composition.

HLG-1 Transfers from central government

This Indicator has three dimensions: the first looks at the overall predictability of revenue accruing through action by central government, the second the predictability of targeted (earmarked) transfers, and the third at the predictability of the in-year timing of transfers.

HLG-1.1 Out-turn of transfers from central government

The three main streams of revenue accruing from central government are shown in Table 3.1 below. Municipalities receive 77 per cent of personal income tax paid by their residents (the share was reduced from 80 per cent from the beginning of 2017). Amounts are paid throughout the year as funds are received by central government. General transfers are based on a formula designed to enable comparable levels of service to be provided throughout the country and may be spent at the municipality's discretion; they are paid in twelve equal instalments. Targeted transfers may be spent only on the purposes for which they have been provided – generally specific investment projects. Targeted transfers are never notified before the beginning of each fiscal year; thus, they can only be taken into account with certainty in budget-setting where a project extends beyond the first year, and funds have been committed by central government for the second year.

Table 3.1: Transfers from central government

RSD thousands

	2015 budget	2015 out-turn	2016 budget	2016 out-turn	2017 budget	2017 out-turn
Share of income tax	69,450	64,022	73,450	66,870	72,035	70,068
General transfers	175,006	175,006	175,006	175,006	175,006	200,006
Targeted transfers	8,968	11,456	8,673	11,437	8,306	14,129
Total transfers	253,424	250,484	257,129	253,313	255,347	284,203
Out-turn as % of budget		98.8%		98.5%		111.3%

Source Osečina Finance Dept.

Since the out-turn was over 95 per cent of budget in all three years 2015-17, score is A.

HLG-1.2 Earmarked grants out-turn

As noted above, municipalities must bid after the beginning of each fiscal year for new targeted grants. If they are successful, the budget Law permits the additional amounts to be spent without any need for a budget revision. Since there is no satisfactory basis for measuring differences between budget and out-turn, this dimension is Not Applicable.

HLG-1.3 Timeliness of transfers from central government

Funds are received from central government in a steady and predictable stream through the year. General transfers are paid monthly in 12 equal instalments, in accordance with a previously agreed time schedule, while tax revenue is transferred daily as it is received by central government. The general transfers account for almost 75 per cent of total transfers from CG. The timing of the payment of targeted transfers is determined when the amounts are notified to the municipalities concerned. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
HLG-1 (M1)	A	
1.1 Transfers from Central Govt (CG)	A	Transfers out-turn as % of budget in all three years were more than 95% of budget.
1.2 Conditional transfers out-turn	NA	Conditional transfers are not notified before the budget is enacted.
1.3 Timeliness of transfers from CG	A	Transfers are paid in a steady and predictable stream

PI-1 Aggregate expenditure out-turn

This Indicator measures the overall difference between originally budgeted expenditure and the actual out-turn.

Table 3.2: Budgeted and actual total expenditure 2015-17

RSD thousands

	2015		2016		2017	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Current expenditure	279,240	269,624	328,073	289,669	290,345	285,557
Capital expenditure	21,864	11,518	35,405	23,481	34,070	18,396
Total expenditure	301,104	281,142	363,478	313,150	324,415	303,953
Out-turn as % of budget		93.4%		86.2%		93.7%
Interest payments	560	503	176	216	85	50
Total less interest expenditure	300,544	280,639	363,302	312,934	324,330	303,903

As % of budget		93.4%		86.1%		93.7%
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Since out-turn is more than 90 per cent of budget in two of the three years 2015-17, score is B.

PI-2 Expenditure composition out-turn

This Indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It looks separately at reallocations by function (dimension 2.1) and by economic classification (dimension 2.2). It also reviews the amount of expenditure charged to contingency reserves. The variance of expenditure is measured by adjusting the originally budgeted amounts of expenditure in each functional or economic category by the overall difference between budget and out-turn; the absolute differences between these adjusted amounts and the actual expenditure in each category are then summed, and the variance is calculated as the percentage the sum of the differences represents of the actual total out-turn.

2.1 Expenditure composition out-turn by function

Table 3.3 below shows the functional breakdown of expenditure in the original budgets and actual out-turns for 2015-17. Capital repayments, interest payments and contingency reserves are deducted from the figures for total expenditure and expenditure on General Public Services.

Table 3.3: Budgeted and actual expenditure by functional classification 2015-17 RSD thousands

	2015 budget	2015 (2) Out-turn	Budget x 0.9512(3)	Difference (3) – (2)
General Public Services	61,502	60,735	58,501	2,234
Public Order & Safety	4,319	3,341	4,108	767
Economic Affairs	80,192	69,515	76,279	6,764
Environment Protection	9,500	10,951	9,036	1,915
Housing	29,118	32,935	27,697	5,238
Health	7,750	7,485	7,372	113
Sport, Recreation, Culture	29,151	28,452	27,728	724
Education	63,318	55,889	60,228	4,339
Social Protection	10,194	11,336	9,697	1,639
Total expenditure	295,044	280,639	280,639	21,733
Variance as % of out-turn				7.7%
	2016 budget	2016 (2) Out-turn	Budget x 0.8746 (3)	Difference (3) – (2)
General Public Services	64,534	66,704	56,441	10,263
Public Order & Safety	4,468	3,341	3,908	567
Economic Affairs	95,292	81,197	83,342	2,145
Environment Protection	24,987	22,275	21,854	421
Housing	39,910	34,448	34,905	457
Health	11,206	9,900	9,801	99
Sport, Recreation, Culture	35,151	28,664	30,743	2,079
Education	70,762	56,131	61,888	5,757
Social Protection	11,491	10,002	10,050	48
Total expenditure	357,801	312,934	312,934	21,836
Variance as % of out-turn				7.0%
	2017	2017 (2)	Budget x	Difference

	budget	Out-turn	0.9532 (3)	(3) – (2)
General Public Services	69,791	68,797	66,525	2,272
Defence	950	371	906	535
Public Order & Safety	3,777	2,865	3,600	735
Economic Affairs	71,966	67,151	68,598	1,447
Environment Protection	18,600	17,916	17,730	186
Housing	24,170	24,821	23,039	1,782
Health	8,250	8,934	7,864	1,070
Sport, Recreation, Culture	43,061	38,058	41,046	2,988
Education	60,550	57,301	57,716	415
Social Protection	17,715	17,688	16,886	802
Total expenditure	318,830	303,902	303,902	12,232
Variance as % of out-turn				4.0%

Source: Osečina Finance Dept.

Since the variance was less than 10 per cent in all three years, score is B.

2.2 Expenditure composition out-turn by economic type

Table 3.4 shows the economic breakdown of expenditure in the original budgets and actual out-turns for 2015-17. Contingency reserves are excluded.

Table 3.4: Budgeted and actual expenditure by economic classification 2015-17 RSD thousands

	2015 Budget	Actual Out-turn (2)	Budget x 0.9511 (3)	Difference (3) – (2)
Pay, etc.	73,060	69,868	69,487	381
Goods and services	105,443	106,761	100,287	6,474
Interest paid	560	503	533	30
Subsidies	24,936	24,374	23,717	657
Transfers to community councils	42,954	38,348	40,854	2,506
Social service expenditure	15,400	15,582	14,647	935
Other current expenditure	16,887	14,208	16,061	1,853
Capital expenditure	21,864	11,518	20,795	9,277
Total expenditure	295,604	281,142		22,113
Variance as % of out-turn				7.9%
	2016 Budget	Actual Out-turn (2)	Budget x 0.8748 (3)	Difference (3) – (2)
Pay, etc.	73,691	72,898	64,465	8,433
Goods and services	126,115	125,764	110,325	15,439
Interest paid	176	216	154	62
Subsidies	39,877	23,377	34,884	11,507
Transfers to community councils	54,034	41,481	47,269	5,788
Social service expenditure	15,466	13,082	13,530	448
Other current expenditure	13,209	12,851	11,555	1,296
Capital expenditure	35,405	23,481	30,972	7,491
Total expenditure	357,977	313,150		50,464
Variance as % of out-turn				16.1%
	2017	Actual	Budget x	Difference

	Budget	Out-turn (2)	0.9531	(3) – (2)
Pay, etc.	73,727	72,492	70,269	2,223
Goods and services	106,316	107,584	101,330	6,254
Interest paid	85	50	81	31
Subsidies	22,824	21,118	21,754	636
Transfers to community councils	58,968	59,018	56,202	2,816
Social service expenditure	7,600	7,929	7,244	685
Other current expenditure	15,325	17,365	14,606	2,759
Capital expenditure	34,070	18,396	32,472	14,076
Total expenditure	318,915	303,952		29,480
Variance as % of out-turn				9.7%

Source: Osečina Finance Dept.

Since the variance was less than 10 per cent in two of the three years, score is B.

2.3 Expenditure from contingency reserves

An A score is given for this dimension if the amounts actually charged to a contingency reserve were on average less than 3 per cent of the original budget. Although a reserve of 5.5m RSD was included in the original budgets for each of the three years 2015-17, no expenditure was charged to the reserve in any year. The score is therefore A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-2 (M1)	B+	
2.1 Expenditure composition out-turn by function	B	Variance was less than 10 % of out-turn in all three years 2015-17
2.2 Expenditure composition out-turn by economic type	B	Variance was less than 10% in two of the three years 2015-17
2.3 Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in the years 2015-17

PI-3 Revenue out-turn

This Indicator has two dimensions, aggregated by Method 2. The first looks at the difference between original budget and actual out-turn, while the second looks at changes in the mix of revenue in the same way as PI-2 measures the variance of expenditure. Only revenue which is under the control of the municipality is taken into consideration; its share of tax revenue collected by central government and transfers from central government are covered in HLG-1 above.

3.1 Aggregate revenue out-turn

Own revenue out-turn was 96.9%, 53.5% and 82,5% of original budget in the three years 2015-17 respectively (see Table 3.5 below). Since the out-turn was outside the range 92% - 116% in two of the three years 2015-17, score is D.

3.2 Revenue composition out-turn

Table 3.5: Municipality own revenue by type, 2015-17

Revenue type	2015 budget	2015 (2) Out-turn	Budget x (3)0.9692	Difference (3) – (2)
Property tax	21,900	22,747	21,225	1,522
Other local taxes	6,600	5,132	6,397	1,265
Trade name fee	3,200	3,512	3,101	411
Property revenue	2,101	597	2,036	1,439
Sales of goods & services	9,745	10,525	9,445	1,080
Fines	2,230	1,695	2,161	466
Other	1,652	1,451	1,601	150
Refunds	200	545	194	351
Proceeds of asset sales	15	11	15	4
Total own revenue	47,643	46,215		6,688
Out-turn as % of budget		97.0%		
Variance as % of actual revenue				14.4%
	2016 budget	2016 (2) Out-turn	Budget x (3) 0.5353	Difference (3) – (2)
Property tax	46,100	18,205	24,677	6,472
Other local taxes	6,900	7,177	3,694	3,483
Trade name fee	12,300	3,030	6,584	3,554
Property revenue	2,051	2,313	1,098	1,215
Sales of goods and services	11,703	9,246	6,267	2,981
Fines	2,360	2,750	1,263	1,487
Other	1,370	987	733	254
Refunds	101	306	54	252
Proceeds of asset sales	17	367	9	358
Total own revenue	82,902	44,381		20,056
Out-turn as % of budget		53.5%		
Variance as % of actual revenue				45.2%
	2017 budget	2017 (2) Out-turn	Budget x (3) 0.8249	Difference (3) – (2)
Property tax	29,500	27,977	24,335	3,642
Other local taxes	8,600	7,941	7,094	847
Trade name fee	4,000	3,579	3,300	279
Property revenue	3,250	1,419	2,681	1,262
Sales of goods and services	16,497	10,751	13,608	2,857
Fines	3,380	2,452	2,788	336
Other	1,100	834	907	73
Refunds	68	318	56	262
Proceeds of asset sales	13	11	11	-
Total own revenue	66,408	55282		9,558
Out-turn as % of budget		83.2%		

Variance as % of actual revenue				17,0%
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Source Osečina Finance Dept.

The high calculated variances reflect an unrealistic budgeted amount for property tax in 2016. Since the variance exceeded 15% in two of the three years 2015-17, score is D.

Indicator/Dimension	2018 Score	Justification for 2018 score
PI-3 (M2)	D	
3.1 Aggregate revenue out-turn	D	Revenue was outside the range 92%-116% of budget in two of the three years 2015-17
3.2 Revenue composition variance	D	Variance of revenue composition exceeded 15% in two of the three years 2015-17

Pillar 2: Transparency of public finances

This Pillar contains six Performance Indicators. PI-4 assesses the extent to which the classifications of revenue and expenditure in budget and out-turn statements meet international standards. PI-5 assesses the comprehensiveness of information provided to the municipal Assembly together with the budget proposals for the following year. PI-6 measures the extent to which revenue and expenditure controlled by the municipality are reported municipal financial reports. PI-7 assesses the transparency and timeliness of transfers from a higher to a lower level of government and is Not Applicable to Osečina. PI-8 reviews the extent of performance information for service delivery. PI-9 assesses the comprehensiveness of fiscal information available to the general public.

PI-4 Budget formulation, execution and reporting

Osečina municipality provides consistent information about the approved budget and actual out-turn broken down by administrative, economic (consistent with GFS), functional (COFOG) and programme classifications. All classifications are used in budget formulation, execution and reporting. This is in compliance with the Rulebook on Classification⁹, which specifies that SNG should use economic, administrative, functional and programme classifications in budget formulation, execution and reporting.

All transactions take place through the (national) Treasury system which provides the basis for out-turn reports on all classifications. IMF confirmed in July 2018 that Serbia has implemented the enhanced General Data Dissemination System for its public finance statistics at both central government and SNG levels. Score A.

PI-5 Budget Documentation

Basic elements:

1. Forecast of fiscal deficit/surplus: Yes
2. Previous year's budget out-turn in the same format as budget proposal (i.e. 2016 for 2018 proposed budget): although the 2016 budget execution will have been published some months before, this may not have been in same format, and it is not included in budget documentation: No
3. Current year's budget (i.e. 2017 for 2018 budget proposal): Yes

⁹ Rulebook on Classification (*Official Gazette of the Republic of Serbia*, Nos. 6/2016, 49/2016, 107/2016, 46/2017, 114/2017, 20/2018, 36/2018, 93/2018, 104/2018, 14/2019, 33/2019, 68/2019 and 84/2019)

4. Aggregated budget data for revenue and expenditure broken down by main classification heads (administrative, economic, functional, programme) for 2016 out-turn, 2017 revised budget and 2018 proposals: No

Additional elements:

5. Deficit financing: Not Applicable (NA), since deficit not proposed

6. Macroeconomic assumptions: LGs are not in a position to make independent forecasts, so NA

7. Debt stock: Yes (there is only a very small amount outstanding)

8. Financial assets: No

9. Summary information on fiscal risks, including contingent liabilities: although there are no guarantees or PPPs there are MOEs which could pose risks. Since there is no report about them: No

10. Explanation of budget implications of new decisions about revenue and expenditure: No

11. Documentation on medium-term fiscal forecasts: no medium-term forecasts provided: No

12. Quantification of tax expenditure: NA – LGs have no discretion to grant tax exemptions.

Because only 2 of 4 basic elements satisfied, score is D.

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

Expenditure from own revenue collected by indirect budget beneficiaries is included in the municipal budget. Some activities which were previously provided directly through the municipal budget were transferred to corporatised entities by decision of the central government on 1 December 2016. The municipal utility company responsible for these activities makes quarterly reports of its income and expenditure to the municipal administration; its annual expenditure of about 70m RSD (nearly a quarter of annual budget expenditure) is financed by some 20m RSD charges to users and 50m RSD from the municipal budget, partly in the form of a subsidy, and partly as payment for services. Although this company could also be regarded as an extra-budgetary unit, it is considered in this report to be a public corporation covered by PI-10. Since there are no activities of the municipality not covered by financial reports, score is A.

6.2 Revenue outside financial reports

Revenue collected by indirect budget beneficiaries is included in the town budget. Revenue other than transfers from the town accruing to municipal bodies is included in their reports to the town Administration. Reporting is as for expenditure. Score A

6.3 Financial reports of extra-budgetary units

Since the municipal utility company is not considered to be an extra-budgetary unit, the score for this dimension is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-6 (M2)	A	
6.1 Expenditure outside financial reports	A	There are no extra-budgetary units.
6.2 Revenue outside financial reports	A	As for 6.1
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

PI-7 Transfers to subnational governments

Although about 15 per cent of the annual budget is spent at the discretion of community councils, all transactions take place within the framework of the municipal budget. Score for this Indicator and its two dimensions covering respectively the system for allocating transfers and the timeliness of information on transfers to subordinate governments is NA.

PI-8 Performance information for service delivery (M2)

8.1 Performance plans for service delivery

Since the introduction of Programme Budgeting in 2015 budget proposals include objectives to be achieved by each programme specified as performance indicators. All expenditure has to be fitted within 17 programmes specified by MoF, which do not always correspond to local circumstances. Objectives are for the most part defined in terms of outputs rather than outcomes. Score B.

8.2 Performance achieved for service delivery

Performance reports for 2017 and the first half of 2018 were submitted for the first time to MoF by 1 September 2018. Since no reports have yet been published, score is D.

8.3 Resources received by service delivery units

Indirect budget beneficiaries' (kindergarten schools, library, cultural institutions) resources (both funds provided by the municipality and any income from user charges) are fully reported in budgets and execution statements. Score A.

8.4 Performance evaluation for service delivery

There have been no independent evaluations. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-8 (M2)	C+	
8.1 Performance plans for service delivery	B	Output objectives for the programmes into which all SNG expenditure is fitted have been published since 2015.
8.2 Performance achieved for service delivery	D	No reports have yet been published.
8.3 Resources received by service delivery units	A	Resources received by nursery schools and cultural institutions are fully reported in budgets and out-turn statements.
8.4 Performance evaluation for service delivery	D	There have been no independent evaluations.

PI-9 Public access to fiscal information

Basic information:

1. Annual budget proposal documentation: published immediately on city website – Yes
2. Enacted budget: published immediately on city website – Yes
3. In-year budget execution reports: published in detail at 6 and 9 month stages but not otherwise - No
4. Annual budget execution report: published by 15 May – No (the figures are published, but without the explanation of differences between approved amounts and actuals)
5. Audited annual financial

report: budget execution report includes auditor’s report – Yes in years when there is a limited commercial audit, but not when audit is undertaken in a longer timescale by SAI.

Additional elements:

6. Prebudget statement: not issued – No

7. Other external audit reports: there are none – NA: Information on fees, charges and taxes belonging to SNG may be substituted, but there are currently difficulties about this -see PI-19.1 below -No

8. Summary of budget proposal: No

9. Macroeconomic forecasts: not relevant at LG level – NA: Information about municipal services may be substituted - Yes

Since only two of the five basic elements are fully satisfied, together with one other, score is D.

Pillar 3: Management of assets and liabilities

This Pillar contains four Performance Indicators. PI-10 assesses fiscal risk reporting. PI-11 looks at different aspects of the planning and management of public expenditure. PI-12 assesses the management and monitoring of financial and nonfinancial assets, and the transparency of asset disposal. PI-13 assesses debt management.

PI-10 Fiscal risk reporting (M2)

10.1 Monitoring of public corporations

Osečina receives an audited financial statement from its MOE before the end of June each year, but takes no steps to publish it. Score C.

10.2 Monitoring of subnational governments

Osečina has no subordinate governments. Score NA.

10.3 Contingent liabilities and other fiscal risks

There are no guarantees or PPPs. Although a risk assessment was carried out for the first time in 2018, no information has been published about contingent liabilities and possible fiscal risks, including those arising from the operations of MOEs. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-10 (M2)	D+	
10.1 Monitoring of public corporations	C	Audited reports are received from MOE by end-June, but are not published.
10.2 Monitoring of subordinate governments	NA	Osečina has no subordinate governments
10.3 Contingent liabilities and other fiscal risks	D	No information is published.

PI-11 Public investment management (M2)

11.1 Economic analysis of investment proposals

A recent MoF Order requires the economic appraisal of projects costing more than 0.5m Euro, but the promised software to be used for this purpose has not been provided. In any event very few municipal projects are large enough to fall within the ambit of this Order. Otherwise, there are no applicable national guidelines for the assessment of projects, nor any independent assessment of projects. Osečina's strategic plan includes objectives for the development of business, agriculture, social welfare and infrastructure, but investments required depend essentially on the availability of finance from central government or external donors. Most of the municipality's investments are minor improvements in the local infrastructure which do not lend themselves to sophisticated economic analysis. Two substantial projects for the main urban centre are in the process of implementation over a period of several years as finance becomes available: the installation of a sewage system, and the construction of a by-pass road. Much of the road has been built, and some of the sewage pipes have been laid. Expenditure on these two projects accounted for over 25 per cent of investment expenditure during the period 2015-17, and nearly 7 per cent of total expenditure during the same period. A feasibility study for a wastewater treatment plant has been carried out with finance from the Czech Republic, but it has not been published. Score C.

11.2 Investment project selection

All projects whatever their size is, are prioritised by the Council; the most important are the completion of a by-pass road and the construction of a waste water treatment plant for which the sewage pipes have already been laid. But there are no published or unpublished criteria for project selection. Score C.

11.3 Investment project costing

The capital costs of investment projects in the budget year only are included in budget documentation. Score D

11.4 Investment project monitoring

The total cost and physical progress of projects is systematically monitored by the town services basis in accordance with standing instructions. Annual reports are made to central government, but these are not reviewed by the municipal Assembly or published. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-11 (M2)	D+	
11.1 Economic analysis of investment proposals	C	A feasibility study for a waste water treatment plant has been carried out.
11.2 Investment project prioritisation	C	All projects are prioritised by the municipal Council, although there are no standard criteria.
11.3 Investment project costing	D	Only expenditure during the year ahead is included in budget documentation.
11.4 Investment project monitoring	C	Progress in implementing public investments is systematically monitored, and an annual report is made to central government.

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

The municipality has full records of its financial assets, which include the historical cost of the assets belonging to its utility company. But there is no publication of MOE financial performance. Score C.

12.2 Nonfinancial assets monitoring

The town has recently received details of assets returned to it by central government, but registration is incomplete and valuation lacking. The national cadastre is open but the town's holdings are not published. Since the register is not complete, score is D.

12.3 Transparency of asset disposal

Sales of town property would require the agreement of the central government Property Directorate, and be subject to competitive bids. During the period 2015-17, revenue from asset sales of all kinds was absolutely insignificant (about 10,000 RSD per year as compared with total revenues of more than 300 million RSD). Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-12 (M2)	D+	
12.1 Financial asset monitoring	C	The municipality has full records of its financial assets.
12.2 Nonfinancial asset monitoring	D	The register is incomplete.
12.3 Transparency of asset disposal	NA	There have been no significant asset disposals.

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

There is only a very small amount outstanding, which is fully recorded, with reconciled monthly reports of interest and debt repayments. Score A.

13.2 Approval of debt and guarantees

Borrowing whose management is the exclusive responsibility of the municipal Finance Department is subject to established procedures including the consent of MoF and approval by the town Assembly. Under the Public Debt Law, the approval of the municipal Assembly must be obtained before consent for borrowing is sought from the Minister of Finance. SNGs are forbidden to give guarantees. Score A.

13.3 Debt management strategy

Since there are no significant debts, dimension is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-13 (M2)	A	
13.1 Recording and reporting of debt and guarantees	A	Records are complete concerning the very small outstanding debts, and reconciled reports are made monthly of interest paid and principal repaid.
13.2 Approval of debt and guarantees	A	Incurrence of debt, which is exclusively managed by the municipal Finance Department, requires approval of both MoF and municipal Assembly.

13.3 Debt management strategy	NA	There are no debts requiring such a strategy.
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Pillar 4: Policy-based fiscal strategy and budgeting

This Pillar contains five Performance Indicators. PI-14 reviews macroeconomic and fiscal forecasting, and PI-15 assesses the operation of a fiscal strategy. PI-16 reviews the development of a medium-term perspective in expenditure budgeting. PI-17 examines arrangements for the preparation of the annual budget by the municipal Administration, while PI-18 assesses the extent of the municipal Assembly's scrutiny of the budget proposals.

PI-14 Macroeconomic and fiscal forecasting (M2)

14.1 Macroeconomic forecasts

Since the municipality relies on central government forecasts, dimension is Not Used (NU). (The central government forecasts would score D because of the absence of information on interest and exchange rates.)

14.2 Fiscal forecasts

No forecasts beyond the budget year immediately ahead have been produced. Score D.

14.3 Macrofiscal sensitivity analysis

Since no fiscal forecasts have been produced, dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-14 (M2)	D	
14.1 Macroeconomic forecasts	NU	The municipality relies on central government forecasts.
14.2 Fiscal forecasts	D	No forecasts beyond the year immediately ahead have been produced.
14.3 Macrofiscal sensitivity analysis	NA	There are no fiscal forecasts.

PI-15 Fiscal strategy (M2)

15.1 Fiscal impact of policy proposals

The annual budget sets out the municipal administration's proposals on local tax rates and new investments as well as any other initiatives concerning expenditure and includes an explanation how these decisions are fitted within the overall requirement for a balanced budget. Budget documentation includes the impact of new decisions on revenue and expenditure in the budget year only. Score C.

15.2 Fiscal strategy adoption

No consideration has been given to periods beyond the budget year immediately ahead, and no longer term fiscal objectives have been set even in qualitative terms. The municipality had not gone further in 2018 than respecting the requirement that the budget for the year ahead must be balanced, including the proceeds of any borrowing as revenue. Once it has the necessary resources, it intends to implement medium-term fiscal planning. Score D.

15.3 Reporting on fiscal outcomes

Since there is no fiscal strategy, dimension is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-15 (M2)	D+	
15.1 Fiscal impact of policy proposals	C	Budget documentation shows the impact of revenue and expenditure decisions for the budget year only.
15.2 Fiscal strategy adoption	D	The municipality has not adopted a fiscal strategy.
15.3 Reporting on fiscal outcomes	NA	In the absence of a strategy, this dimension is Not Applicable.

PI-16 Medium-term perspective in expenditure budgeting (M2)

16.1 Medium-term expenditure estimates

No medium-term expenditure estimates have been produced. Score D.

16.2 Medium-term expenditure ceilings

In the absence of medium-term expenditure estimates, this dimension is Not Applicable.

16.3 Alignment of strategic plans and medium-term budgets

Since there are no medium-term budgets, this dimension is Not Applicable.

16.4 Consistency of budgets with previous year's estimates

Since there are no medium-term budgets, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-16 (M2)	D	
16.1 Medium-term expenditure estimates	D	No medium-term expenditure estimates have been produced.
16.2 Medium-term expenditure ceilings	NA	The question of ceilings does not arise in the absence of medium-term estimates.
16.3 Alignment of strategic plans and medium-term budgets	NA	There are no medium-term budgets.
16.4 Consistency of budgets with previous year's estimates	NA	In the absence of medium-term budgets there is no basis for comparisons.

PI-17 Budget preparation process (M2)

17.1 Budget calendar

There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the municipality. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September, and initial responses are made accordingly by budget users. MoF Guidance on economic assumptions about overall GDP growth, inflation and public service pay should be received by August 1. But in practice this has been provided much later – for 2018 budget on 10 November. The municipality's budget circular has been issued on time, using the previous year's assumptions. When MoF Guidance is finally received, budget users have to revise their

figures within a very short timescale. Since budget users have 4 weeks to provide their submissions after receipt of the circular, score is B.

17.2 Guidance on budget preparation

Budget ceilings are issued by the Finance Department without any prior discussion with the Council. They are reviewed and approved by the Council only after the estimates have been completed in every detail. The Council has a week to review the budget proposals before their submission to the Assembly. Given that the Council is in a position to make substantive changes, score is C.

17.3 Budget submission to the Assembly

The budget proposals have been submitted to the Assembly on 16 December, 16 December and 11 December of the previous year for 2016, 2017 and 2018 budgets. Since the Assembly has less than one month to consider the proposals, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-17 (M2)	C	
17.1 Budget calendar	B	Although the final MoF Guidance is not received in the required timescale, Budget users are able to complete most of their work on the basis of interim instructions given within the specified timescale.
17.2 Guidance on budget preparation	C	The Council does not consider the ceilings for budget users until the draft budget is complete. But there is some scope for the Council to amend the proposals before they are submitted to the Assembly.
17.3 Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before the end of the year.

PI-18 Legislative scrutiny of budgets (M1)

18.1 Scope of budget scrutiny

The Assembly's review is limited to a detailed review of estimates of revenue and expenditure for the year immediately ahead. Score C.

18.2 Legislative procedures for budget scrutiny

There are standard procedures adopted by the Assembly, which include arrangements for public consultation on the draft proposals the day before the budget is considered by the Council, and study by a specialised Committee of the Assembly before its enactment. One amendment was agreed to the 2016 Budget proposals, while a proposed amendment to the 2017 proposals was rejected. Score A.

18.3 Timing of budget approval

The Assembly has approved the budget before the start of the year for the last 3 budgets. Dates were 25 December, 26 December and 22 December respectively for 2016, 2017 and 2018 budgets. Score A.

18.4 Rules for budget adjustments by the executive

Under Article 61 of the Budget System Law reallocations of up to 10% of the amounts for each programme can be made subject to approval by the Council. Larger reallocations or reallocations between programmes require a supplementary budget approved by the Assembly with full transparency. These limits are respected. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-18 (M1)	C+	
18.1 Scope of budget scrutiny	C	The Assembly's scrutiny is restricted to details of revenue and expenditure.
18.2 Legislative procedures for budget scrutiny	A	Proposals are reviewed by a specialised Committee, having been the subject of public consultation before submission by the Council to the Assembly.
18.3 Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4 Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.

Pillar 5: Predictability and control in budget execution

This Pillar, which contains eight Performance Indicators, covers revenue administration, cash management, internal controls over payroll and other expenditure, procurement, and internal audit.

PI-19 Revenue administration (M2)

About two thirds of Osečina's own revenue accrues from property and other taxes. The remainder comes from property income, the sale of goods and services, and miscellaneous sources. The issues dealt with in this PI do not arise in relation to these other elements of revenue, and the scores are therefore given by reference to Osečina's performance in collecting its tax revenues.

19.1 Rights and obligations for revenue measures

Full information should be provided to domestic and business payers of property tax about the basis on which their liabilities is calculated. The same applies to public utility charges on new constructions, charges for the use of public space and charges for the display of business names. Domestic property tax amounts should be notified by the municipality, but business taxpayers must self-assess using instructions provided. However, regular arrangements whereby domestic property taxpayers are notified by means of automatically generated documents delivered by the Post Office had broken down completely in 2018, with the result that no 2018 assessments had been sent out at the time of this assessment (end-October 2018). This problem should be reduced in future by the adoption as from January 2019 of common property tax management software throughout the country. Delays in sending out the 2016 assessments may have been partly responsible for total collections in 2017 exceeding the total of assessments for that year. If the municipality's response to a complaint is not accepted, it may be taken to MoF Regional Office through a procedure which is not fully independent and transparent. Score D.

19.2 Revenue risk management

The Tax Department which collects about two thirds of the city's own revenues has only three members of staff, of whom only two are permanent. Osečina was unsuccessful in bidding for RELOF assistance to improve its property register. Some use is made of the Land Registry to identify liability for land tax payments, but no systematic arrangements are in place to address revenue risks. The municipal Assembly takes little interest in own tax revenues which provide less than 10 per cent of Osečina's total annual income. Score D.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. Since there is no such programme in Osečina, score is D.

19.4 Revenue arrears monitoring

Movements in revenue arrears during 2016-17 are shown in Table 3.6 below.

Table 3.6: Movements in revenue arrears RSD thousands

	Arrears at 1.1.16	2016 Assessments	2016 Collections	Arrears at 1.1.17	2017 Assessments	2017 Collections	Arrears at 1.1.18
Property tax							
Individuals	16,483	13,925	8,434	17,885	14,796	16,854	23,277
Businesses	8,560	6,783	5,877	10,337	7,243	7,492	11,565
Trade name fee	14,863	2,447	3,030	15,103	2,489	3,579	16,098
Environment fee	1,650	2,200	1,695	2,269	2,189	2,193	2,608
Total	41,556	25,356	19,036	45,594	26,717	30,117	53,548

Source: Osečina Finance Dept.

As Table 3.6 shows, revenue arrears have continued to increase despite collections exceeding assessments in 2017. This is because interest charges continue to mount as long as debts remain unpaid. For any score above D, total arrears at the end of 2017 must not exceed 40 per cent of collections during that year, and arrears over 12 months old must not exceed 75 per cent of total arrears. Specific information about the age of arrears is not available, but since arrears were 177 per cent of collections in 2017, the score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-19 (M2)	D	
19.1 Rights and obligations for revenue measures	D	2018 assessments had not been sent out as of end-October 2018.
19.2 Revenue risk management	D	No arrangements are in place to address revenue risks.
19.3 Revenue audit and investigation	D	There is no taxpayer compliance improvement programme.
19.4 Revenue arrears monitoring	D	Revenue arrears at end 2017 were 177 per cent of collections during that year.

PI-20 Accounting for revenue (M1)

20.1 Information on revenue collections

All revenue is paid into the municipality's account at the MoF-administered TSA. The system collects full details of each receipt. The Finance Department makes a monthly report broken down by revenue type to the Council and MoF. Score A.

20.2 Transfer of revenue collections

All revenue is paid the same day into the city's account in the TSA. Score A.

20.3 Revenue accounts reconciliation

A full monthly reconciliation is made within four weeks of month-end of assessments, collections, arrears and payments into TSA. Individual taxpayer accounts are updated and reconciled as payments are received. Score A.

Indicator/Dimension	2018 Score	Justification for 2018 score
PI-20 (M1)	A	
20.1 Information on revenue collections	A	A monthly report of revenue broken down by type is made to the Council and MoF.
20.2 Transfer of revenue collections	A	All revenue is paid daily into the municipality's account in the TSA.
20.3 Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.

PI-21 Predictability of in-year resource allocation (M2)

21.1 Consolidation of cash balances

Cash balances are all held in TSA and consolidated daily. Score A.

21.2 Cash forecasting and monitoring

A cash flow forecast is produced for the fiscal year and updated quarterly in the light of experience of actual cash inflows and outflows. Score B.

21.3 Information on commitment ceilings

The town's financial reserves enable it to assure budget users within a month of budget enactment that all approved budgetary allocations for the year may be committed at any time. Score A.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly with full transparency. There were three revisions in 2017 in order to give effect to reallocations beyond those permitted under the Budget Law. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-21 (M2)	B+	
21.1 Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2 Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year, and updated quarterly.
21.3 Information on commitment ceilings	A	Budget users may commit their allocations in full at any time.
21.4 Significance of in-year budget adjustments	C	Three budget revisions were agreed in 2017.

PI-22 Expenditure arrears (M1)

22.1 Stock of expenditure arrears

The municipality has no arrears. Score A.

22.2 Expenditure arrears monitoring

Contractors and suppliers register their invoices directly with the CG Treasury, which suspends transfers of tax revenue if invoices are not paid within the stipulated period. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-22 (M1)	A	
22.1 Stock of expenditure arrears	A	There are no expenditure arrears.
22.2 Expenditure arrears monitoring	A	Suppliers register their invoices with the CG Treasury, which suspends payments to the municipality if they are not paid within 45 days.

PI-23 Payroll controls (M1)

23.1 Integration of payroll and personnel records

Osečina has 39 employees in its central administration, 34 engaged in its indirect beneficiary activities, and a further 46 in its MOE. Only the first two groups are directly paid from the town budget, on the basis of approved lists of staff positions. Personnel and payroll records are not directly linked, but all changes in personnel records are subject to close control, and no changes are made to payroll unless authorised by HR management at senior level. Operation of the payroll is supervised by the Head of Finance, and it is reconciled monthly. Score B.

23.2 Management of payroll changes

Payroll is updated monthly in the light of any changes in relevant personnel records. Retroactive adjustments are very rare, and far below 3 per cent of the annual payroll. Score A.

23.3 Internal control of payroll

There is close hierarchical supervision of changes to personnel and payroll records, which ensures the integrity of the data, and there is always an audit trail. Score A.

23.4 Payroll audit

The staff records of all municipalities are subject to external inspection annually organised by central government, in order to check whether their posts have all been authorised, whether staff are actually working, and whether salaries have been correctly assessed dependent on qualifications and length of service of the staff. It appears that this system, which is designed to prevent unjustified payments and eliminate ghost workers, was not taken into account in 2015. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-23 (M1)	B+	
23.1 Integration of payroll and personnel records	B	Although there are no automatic links between personnel records and the payroll, the payroll is only changed when authorised at a high level by the municipality's senior management.

23.2 Management of payroll changes	A	The payroll is updated monthly and retroactive adjustments are very rare.
23.3 Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4 Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that posts have been authorised and that staff are being paid correctly based on their qualifications and length of service.

PI-24 Procurement (M2)

24.1 Procurement monitoring

Records of procurement by the central municipal administration are stated to be accurate and complete, but it is not clear that they cover indirect budget beneficiaries who are responsible for their own procurement (see 24.2 below). It is difficult to reconcile the procurement statistics in Table 3.7 below (total value of 2017 contracts of 11,206,000 RSD) with the total expenditure on goods and services in Table 3.4 above (107,584,000 RSD in 2017); the municipality gives the explanation that much of its procurement is by single source from its MOE (and thus excluded from the statistics), but the MOE's total receipts from the municipal budget are shown in Table 2.13 above as only 32,207,000 RSD in 2017. In view of this discrepancy, the score is D.

24.2 Procurement methods

Osečina's procurement in 2016-17 as notified following the assessment team's visit is summarised in Table 3.7 below. Figures in brackets are the number of contracts. At the time of the visit it was stated that about 30 contracts were placed each year by the municipal administration, with a further 10 each by indirect budget beneficiaries and the municipal utility company (MOE contracts are not included in municipal procurement for the purposes of this Indicator). As noted in 24.1 above, a substantial amount of municipal procurement has not been undertaken through competitive procedures. In its audit of the 2017 financial statements the SAI criticised the extent of municipal procurement without competitive procedures.

Table 3.7: Procurement contracts 2016-17

RSD thousands

2016	Goods	Services	Works
Open procedure	-	-	-
Low value procurement	10,021 (6)	8,107 (8)	11,327 (3)
Single source	-	-	-
Total	10,021 (6)	8,107 (8)	11,327 (3)
2017			
Open procedure			
Low value procurement	3,211 (4)	7,995 (6)	-
Single source	-	-	-
Total	3,211 (4)	7,995 (6)	-

Source Osečina Dept of Finance

Since it appears that less than half of total expenditure on procurement was subject to competition, score is D.

24.3 Public access to procurement information

5 of 6 key elements of information are in principle accessible (legal and regulatory framework, municipal procurement plans, bidding opportunities, contract awards, data on resolution of procurement complaints). Procurement plans (subject to the limitations noted in 24.1 above), bidding opportunities and contract awards are all published on the Public Procurement Portal and the municipal website without delay, while the results of any procurement complaints are published by the Republican Commission (see 24.4 below). But it is doubtful whether the information about procurement plans, bidding opportunities and contract awards is complete. Annual procurement statistics have not been published either by the town or by central government. Score D.

24.4 Procurement complaints management

The Republican Commission which judges complaints satisfies all 6 criteria: it is not involved in any way in procurement decisions, its fees are not such as to prohibit access, it follows defined procedures, it exercises authority to suspend the procurement process, it issues decisions within the prescribed timescale, and its decisions are binding on all parties (although they do not preclude a subsequent appeal to the Administrative Court). Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-24 (M2)	D+	
24.1 Procurement monitoring	D	Discrepancies between total expenditure on goods and services and the total value of procurement contracts cast doubt on the completeness of the procurement records.
24.2 Procurement methods	D	It appears that less than half of the total value of procurement contracts was let through competitive methods.
24.3 Public access to procurement information	D	Five of the six elements are available; only annual procurement statistics are lacking. But it is doubtful whether the information about procurement plans, bidding opportunities and contract awards is complete.
24.4 Procurement complaints management	A	The Republican Commission meets all six criteria.

PI-25 Internal controls on nonsalary expenditure (M2)

25.1 Segregation of duties

Responsibilities for different stages of payment process are clearly specified and appropriate segregation ensured through the municipal Decision on the Organisation of the Municipal Administration, taking into account the Rulebooks on the Organisation and Systemisation of Workplaces and on Accounts and Budgetary Accounting. Score A.

25.2 Effectiveness of expenditure commitment controls

New IT software introduced since 2015 ensures that no order is placed unless there is specific budgetary provision and cash available. Score A.

25.3 Compliance with payment rules and procedures

According to the Finance Department all payments are properly authorised and justified, without any exceptions. The SAI audit of 2017 concluded that apart from some reservations about the operation of competition in procurement all payments were in accordance with the law. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-25 (M2)	A	
25.1 Segregation of duties	A	The municipal decision on the Organisation of the Municipal Administration provides for appropriate segregation of duties.
25.2 Effectiveness of expenditure commitment controls	A	New IT system prevents commitments from being undertaken unless budgetary provision and cash are available.
25.3 Compliance with payment rules and procedures	B	With the exception of some elements of procurement procedure, the SAI found that all payments had been made correctly in accordance with the law.

PI-26 Internal audit (M1)

26.1 Coverage of internal audit (IA)

An official has been partially trained to be the municipality's internal auditor, but staffing restrictions have prevented his release from his current position as Head of Accounting. No audits have yet been implemented. Score D.

26.2 Nature of audits and standards applied

Since there have been no audits, dimension is NA.

26.3 Implementation of internal audits and reporting

No audits have been undertaken. Score: NA.

26.4 Response to internal audits

Since the function is not yet operational, there is no question of any management response. Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-26 (M1)	D	
26.1 Coverage of internal audit	D	The function is not yet operational.
26.2 Nature of audits and standards applied	NA	No audits have been undertaken.
26.3 Implementation of internal audits and reporting	NA	There have been no audits.
26.4 Response to internal audits	NA	There is no question yet of any management response.

Pillar 6: Accounting and reporting

This Pillar contains three Performance Indicators: PI-27 looks at financial data integrity, while PIs 28 and 29 address in-year financial reporting and annual financial reports, respectively.

PI-27 Financial data integrity (M2)

27.1 Bank account reconciliation

All budgetary transactions take place through the TSA with daily reconciliations with city records. This dimension also covers bank reconciliations by other bodies under municipal control where they are classed as Extra-Budgetary Units (EBU) rather than as public corporations. While Osecina's MOE has some of the characteristics of an EBU, it is treated in this report as a public corporation whose banking transactions are therefore outside the scope of this dimension. Thus, the score is A.

27.2 Suspense accounts

Full information is collected about all receipts. Any deficiency in information would prompt immediate investigation. No use is made of suspense accounts. Score NA.

27.3 Advance accounts

Apart from advances to contractors under works contracts, the municipality makes no advances. Advances to contractors are cleared at each stage of the contract, and none are outstanding at year end because there is no construction activity during the winter. Monthly or quarterly reconciliations are required for scores higher than C, so score is C.

27.4 Financial data integrity processes

There is no separate unit responsible for ensuring data integrity. But access to IT systems is controlled and supervised and gives rise to an audit trail on each occasion. The system does not allow retrospective alteration of data. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-27 (M2)	B	
27.1 Bank account reconciliation	A	All funds are held in the TSA, which ensures automatic daily reconciliation of budgetary transactions.
27.2 Suspense accounts	NA	No use is made of suspense accounts.
27.3 Advance accounts	C	Advances to contractors are reconciled at least annually.
27.4 Financial data integrity processes	B	There is no separate unit, but access and changes to records are restricted and recorded, and leave an audit trail.

PI-28 In-year budget reports (M1)

28.1 Coverage and comparability of reports

The Treasury system contains all the information needed to produce reports of revenue and expenditure on all classifications at any time. Monthly reports of revenue and expenditure by functional, programme, administrative and economic classifications are submitted by the Finance Department to MoF by 15th of the next month, with full coverage of indirect budget beneficiaries. Reports with the same detail as the original budget are produced quarterly and published after 6 and 9 months. Score A.

28.2 Timing of in-year budget reports

Reports are produced by the municipal Finance Department within 15 days of month-end. Score A.

28.3 Accuracy of in-year budget reports

There are no material concerns about data accuracy. A detailed analysis of budget execution is published after 6 and 9 months, but commitments are not reported. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-28 (M1)	B+	
28.1 Coverage and comparability of reports	A	Monthly reports to MoF are broken down by functional, programme, administrative and economic classifications.
28.2 Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3 Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).

PI-29 Annual financial reports (M1)

29.1 Completeness of annual financial reports

Reports are produced in accordance with MoF Regulations issued in 2006, and contain full information on revenue and expenditure, financial assets and liabilities, and a cash flow statement. But tangible assets are not covered, as is required for an A score. Score B.

29.2 Submission of reports for external audit

Articles 78 and 79 of the Budget System Law require audited financial reports adopted by the town's Assembly by 15 June to be submitted to MoF by 30 June. Reports include the balance sheet and financing as well as revenue and expenditure, and reconciliations should be provided between the different statements as well as notes on accounting policies. Budget execution reports for the year must be submitted to MoF by 28 February, and these represent the starting point for the audit. SAI decides by 15 April whether it will audit each SNG; if it does not decide to audit, SNG must appoint commercial auditors before the end of April to carry out a financial audit within a very short space of time, in order to comply with the required timetable. Score B, since auditors – both SAI and commercial auditors - receive the report within five months of year-end. SAI will thus have been in a position to begin its audit of 2017 by May 2018, and will have had all the supporting information by 15 June. Score B.

29.3 Accounting standards

Annual financial statements are prepared in accordance with MoF Regulations issued in 2006. Osečina complied with the requirements of Article 79 of the Budget System Law in its financial report on 2017. This is confirmed in the SAI Report. Accounting standards applied to financial reports are consistent with all the country's legal framework's requirements. The financial reports are presented in the consistent format and follow the standards disclosed in *Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds*¹⁰ and *Government Order on Budgetary Accounting*¹¹. Score A.

¹⁰ Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds, *Republic of Serbia's Official Gazette Nos. 18/2015 and 104/2018*

¹¹ Government Order on Budgetary Accounting, *Republic Serbia's Official Gazette Nos. 125/2003 and 12/2006*.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-29 (M1)	B+	
29.1 Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement, but tangible assets are not covered.
29.2 Submission of reports for external audit	B	Reports are submitted within five months of year-end
29.3 Accounting standards	A	Reports are consistent from one year to the next, but differences from IPSAS are not explained.

Pillar 7: External scrutiny and audit

This Pillar contains two Performance Indicators: PI-30 assesses the functioning of external audit, and PI-31 the response of the municipal Assembly to audit findings.

PI-30 External audit (M1)

The State Audit Institution (SAI)'s audit remit covers all SNGs and publicly-owned enterprises as well as the activity of the central government. But it does not have the resources to achieve complete coverage every year, and thus chooses each year which SNGs will be subject to its audit. Where the SAI does not audit, SNGs must appoint commercial auditors to undertake a limited financial audit. The SAI takes no part in these appointments and does not supervise the extent or quality of the commercial auditors' work.

30.1 Audit coverage and standards

In most years SNGs are subject to a limited financial audit by commercial auditors which according to the municipal administration pays little attention to the functioning of systems or compliance with legal requirements. Osečina was audited by the SAI in 2018 in respect of the 2017 financial statements, having had limited financial audits by commercial auditors for 2015 and 2016. The SAI audit included substantive reviews of administrative and accounting systems, with particular attention given to the inadequate software used by the local tax administration, to municipal procurement, and to the control of overtime. MOEs are similarly subject to audit, and are within the ambit of the SAI, although it does not appear that the municipality utility company has been audited recently by that body. For a score of C the 2016 criteria require that more than half of total expenditure over the three year period 2015-17 was subject to effective audit in line with international standards. Since the work of the commercial auditors does not meet these standards, the audit of only one of the three years will have covered only about a third of the expenditure to be taken into consideration, resulting in the score D.

30.2 Submission of audit reports to the legislature

Audit reports for 2015 and 2016 which did not meet international standards were submitted to the Assembly within two months of the auditor receiving the draft financial statements. The SAI report for 2017 was submitted to the municipality on 18 November 2018 but has never been submitted to the Assembly. Score D.

30.3 External audit follow-up

Where there is only a limited financial audit, and no recommendations are made, the question of follow-up does not arise. However, there was a full SAI audit for 2017, to which Osečina has made a full response. Some errors were corrected in the course of the audit, and action has been taken in response to findings that procurement procedures were insufficiently competitive, and that inadequate attention was given to the collection of outstanding revenue arrears. Score is A.

30.4 Supreme Audit Institution (SAI) independence

The President and Council members of the SAI are appointed by the National Assembly on a proposal by its relevant Committee for five year terms, renewable once (Article 19 of the SAI Law as amended in 2010). The SAI is independent of the executive in determining its work programme, and executing its budget; it has full access to all information. Its budget is put forward to the Government by the National Assembly (Article 51 of the SAI Law), but it appears that MoF ultimately controls the amount of the approved budget. Because the SAI is not independent of the executive in the determination of the amount of its budget, the score is C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-30 (M1)	D+	
30.1 Audit coverage and standards	D	A full audit of the 2017 financial statements of the municipality has been undertaken by the SAI, with appropriate attention to the functioning of systems. But there were no comparable audits of 2015 and 2016, so overall coverage is below 50%.
30.2 Submission of audit reports to the Assembly	D	The SAI report on 2017 was never submitted to the Assembly.
30.3 External audit follow-up	A	Audits for 2015-16 have not provided any basis for follow-up action, but the Administration has made a full response to the SAI report for 2017.
30.4 Supreme Audit Institution (SAI) independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But the amount of its budget is ultimately controlled by the executive.

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Commercial audit reports are submitted to the Assembly with the annual financial statements. Any consideration of the reports must be completed quickly, given the requirement to transmit the audited financial statements adopted by the Assembly to MoF by 1 July. So if there is any substantive scrutiny, it must be completed within much less than three months, arguably resulting in the score A. However, since it appears that the audits for 2015 and 2016 were limited to checking the apparent correctness of the financial statements, and did not address the performance of systems or the efficiency of operations, any scrutiny would have been purely formal. In the case of 2017, the Assembly never scrutinised the SAI report, resulting in the score D.

31.2 Hearings on audit findings

There have been no hearings. Score D.

31.3 Recommendations on audit by the Assembly

The Assembly did not consider the results of the 2017 audit. The audit of 2017 was the first substantive audit of the municipality. The Assembly has not established any procedures beyond approving the Administration's response to the audit. Score D.

31.4 Transparency of legislative scrutiny of audit reports

The Assembly did not consider the 2017 report. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-31 (M2)	D	
31.1 Timing of audit report scrutiny	D	Scrutiny of the SAI's report for 2017 never conducted.
31.2 Hearings on audit findings	D	There have been no hearings.
31.3 Recommendations on audit by the Assembly	D	The Assembly did not consider the 2017 report.
31.4 Transparency of legislative scrutiny of audit reports	D	The Assembly did not consider the 2017 report.

Chapter 4: Conclusions of the analysis of PFM systems

4.1 Integrated analysis of PFM performance

1. The findings from the assessment of each Indicator are summarised in terms of each of the seven Pillars of the PFM performance measurement framework.

4.1.1 Reliability of the Budget

2. About a quarter of central government funding for Osečina comes through the municipality's share of income and other CG taxes, with the remainder accruing mainly through general transfers (targeted transfers were less than 7 per cent of total transfers from CG). Total receipts from CG transfers were close to budget in 2015 and 2016 (-1.2 per cent and -1.5 per cent respectively), and 11 per cent above budget in 2017 when general transfers increased significantly. But own revenue fell short of budget, leading to actual expenditure falling 6.6 per cent below budget in 2015, 13.9 per cent below in 2016, and 6.3 per cent below in 2017 (Score B for PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in all three years 2015-17 (8.5 per cent, 7.0 per cent and 4.0 per cent respectively), indicating that expenditure on most functions fell below budget by similar percentages (Score B for PI-2.1). The somewhat larger measured variance by economic classification (8.4 per cent, 16.1 per cent and 9.7 per cent for the three years 2015-17 respectively) results mainly from the differences between budget and out-turn for capital investment, while actual staff costs were close to budget despite the overall expenditure shortfalls (Score B for PI-2.2). No expenditure was charged to contingency during 2015-17.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of

budget proposals needs supplementing in order to meet PEFA standards (Score D for PI-5). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public needs to be improved (Score D for PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are received for the municipality's utility company, but neither these reports nor any analyses of the fiscal risks faced by the municipality have been published (PI-10). Investment is planned within the framework of the municipal strategic plan, and progress is regularly monitored (PI-11). MOEs are effectively monitored, as are the municipality's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking (PI-12). Osečina has only very small outstanding borrowing (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

5. Osečina has been unable to allocate the staff resources necessary to undertake medium-term fiscal and expenditure planning (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

4.1.5 Predictability and control in budget execution

6. Osečina has lacked the resources needed to expand its property tax base, and improve the enforcement of collection. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the municipality's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the municipal administration (including indirect budget beneficiaries) has been criticised by the SAI as providing insufficiently for competition, and it is not clear that information is complete (PI-24). Internal control arrangements were found to be generally satisfactory by the SAI (PI-25), although internal audit is not yet operational (PI-26).

4.1.6 Accounting and reporting

7. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory, and annual financial statements contain all the information required to comply with the requirements of the Budget System Law (PIs 28 and 29).

4.1.7 External scrutiny and audit

8. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution every three or four years. In other years a limited financial audit is undertaken by a

commercial audit firm, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Osečina has been audited by the SAI for 2017, with a strong focus on the performance of systems. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been no substantial involvement of the Assembly in audit follow-up (PI-31).

4.2 Effectiveness of the internal control framework

9. The internal control system should contribute towards four objectives: (1) the execution of operations in an orderly, ethical, economical, efficient and effective manner; (2) fulfilment of accountability obligations; (3) compliance with applicable Laws and regulations; and (4) safeguarding of resources against loss, misuse and damage. The analysis of the performance of the internal control system looks at the five control components: (1) the control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

10. The control environment depends on the legal and regulatory framework, and the way it is applied in practice. The Budget Systems Law (2009) sets out how internal audit and internal financial control (including inspection) should operate (Articles 80-89). Other relevant legislation is the Law on local self-government (2007), the Public Debt Law (2005), the Public Procurement Law (2013) the Law on Determining the Maximum Number of Employees in the Public Sector (2015), and the State Audit Institution Law (2005). In the local government context, the performance of the city will depend on the integrity of management and staff, the management styles of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the city organisation, and to adopt a strategy to minimise the risks of damage to the provision of good services.

11. Osečina depends on central government for 85 per cent of its annual revenue, over which it has no control. The main risks over which it has some control are that revenue from its own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure the best value. A continued focus on maximising local revenues will be important in sustaining the services, which are the responsibility of the municipality.

12. Internal controls in the municipal administration appear to work satisfactorily, but internal audit is not yet operational. There has been a full audit by the SAI for 2017. Monitoring the performance of service delivery is still in the process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018. Please refer to Annex 2, which maps the findings from the assessment of specific control activities in each indicator/dimension against the five internal control components.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

13. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. But budget estimates have been poor predictors of own revenue during 2015-17, with capital investment falling well below amounts originally envisaged. The predictability of revenue dependent on the central government is good, and the transfers are paid in a steady and predictable stream. However, this has a negative impact on managing Osečina's own revenue accrues from the property and other taxes. Namely, as transfers in all three years were more than 85% of the budget, there are not many incentives for the municipality to improve revenue out-turn through improving revenue administration – notifications

to the taxpayers are significantly late, the municipal Assembly takes little interest in own tax revenues, there is no taxpayer compliance improvement programme, and revenue arrears continues to increase.

4.3.2 Strategic allocation of resources

14. Osečina has yet to introduce medium-term fiscal and expenditure planning, while public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised, but will have little impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

4.3.3 Efficient use of resources for service delivery

15. The presentation of all SNG (and central government) expenditure in terms of 17 programmes represents the first step towards results-oriented budgeting. However, it appears that the definition of the programmes may need to be reconsidered, so that they fit more readily into the responsibilities and circumstances of SNGs. It should be recognised, moreover, that the services for which SNGs are responsible – local infrastructure, urban planning, recreational and cultural facilities - do not very readily lend themselves to measurement of the standard of services delivered. Analysis of the costs of standard operations (e.g. road maintenance, public lighting) may over time provide indications where greater efficiency could be achieved, although differences in local circumstances are likely to mean that comparisons of cost need to be treated cautiously.

4.3.4 Role of Assembly

16. The Assembly takes an active role in budget preparation, approval, and relocation. Under the Public Debt Law, the approval of the municipal Assembly must be obtained before consent for borrowing is sought from the Minister of Finance. The Assembly has approved the budget before the start of each observed year. However, in other areas of public finance, the Assembly takes a passive role. Although public finances are independently reviewed every year by the commercial audit or SAI, there is no follow up by the Assembly. The SAI audit report was never submitted to the Assembly, neither the Assembly did any hearings on key findings of audit reports. The audit follow-up solely depends on municipal management. The same is true for the investment project monitoring where annual reports are made to the central government, but these are not reviewed by the Assembly.

4.4 Performance changes since 2015

17. Osečina's PFM performance has remained mostly stable since 2015. Central government restrictions on the employment of staff have substantially limited the scope for initiatives. The improvement in the stability and predictability of central government general transfers has contributed to better expenditure management by the municipality, as evidenced by the reduced divergence between original budget and actual out-turn, and the greater stability of the functional allocation of expenditure as evidenced by the lower measured variance as between budget and out-turn. Expenditure commitment control has improved through the use of new software provided by the central government, and budget users have had more flexibility in the timing of the placing of their commitments. Osečina was not successful in obtaining external assistance to improve the functioning of its tax system, which has faced further difficulties in 2018 through the failure of a software system on which it has relied to send out tax assessments. Resource limitations have prevented progress in the introduction of medium-term fiscal planning and internal audit.

Chapter 5: Government PFM reform process

5.1 Approach to PFM reform

1. Serbia is engaged in an ambitious and wide-ranging Public Administration Reform (PAR) programme with the objective of meeting the standards required for admission to the European Union. Different elements cover the functioning of the economy and the working of the judicial system, as well as government operations and the provision of public services. Within this framework, the Government is implementing a PFM Reform programme, with technical assistance from OECD/SIGMA, IMF, SECO and others. The specific objectives are (1) to improve the quality of economic and fiscal projections; (2) to improve medium-term fiscal planning and budgeting; (3) improvements in public procurement legislation and practice; (4) the embedding of Public Internal Financial Control (PIFC) arrangements on the EU model (through a development strategy and action plan for the period 2017-20); the further development of TSA business practices and reporting; and (5) enhancement of the work of the SAI. RELOF is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Government. Besides RELOF, Osečina did not directly participate in other programmes/projects.

PFM reforms in Serbia are defined by the 'Public Financial Management Reform Program 2016 – 2020' with the main goal to address macroeconomic imbalances and vulnerabilities. This programme does not include any pillar, measure or activity specifically related to the PFM decentralisation. This said, no specific reforms are conducted at the central level regarding the PFM decentralisation.

5.2 Institutional considerations

2. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Osečina did not qualify for RELOF assistance to the functioning of its tax administration, while staff limitations have prevented progress in other areas targeted by RELOF. There remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Annex 1: Performance indicator summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level of Government (M1)	A	
1.1	Difference between planned and actual transfers	A	Transfers in all three years were more than 95% of budget.
1.2	Conditional grant composition Variance	NA	Conditional transfers are not notified before budget is enacted.
1.3	In-year timeliness of transfers from central government (CG)	A	Transfers are paid in a steady and predictable stream.
PI-1	Aggregate expenditure out-turn	B	Out-turn exceeded 90% of budget in two of three years
PI-2	Expenditure composition out-turn (M1)	B+	
2.1	Expenditure composition out-turn by function	B	Variance was less than 10% in all three years.
2.2	Expenditure composition by economic classification	B	Variance was less than 10% in two of the three years
2.3	Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in 2015-17
PI-3	Revenue out-turn (M2)	D	
3.1	Aggregate revenue out-turn	D	Revenue was outside the range 92%-116% of budget in two of the three years
3.2	Revenue composition out-turn	D	Variance of revenue composition exceeded 15% in two of the three years
PI-4	Budget classification	A	Consistent information is presented, broken down by administrative, economic, functional and programme classifications.
PI-5	Budget documentation	D	Only two of the basic elements are satisfied
PI-6	Operations outside financial reports (M2)	A	
6.1	Expenditure outside financial reports	A	All municipal expenditure is included in financial reports. There are no extra-budgetary units.
6.2	Revenue outside financial reports	A	All municipal revenue is included in financial reports. There are no extra-budgetary units.
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7	Transfers to lower tier governments	NA	Osečina has no subordinate governments.
PI-8	Performance information for service delivery (M 2)	C+	
8.1	Performance plans for service delivery	B	Output objectives for the programmes within which all SNG expenditure is fitted have been published since 2015.
8.2	Performance achieved for service delivery	D	No reports have yet been published.
8.3	Resources received by service delivery units	A	Resources received by nursery schools and cultural institutions are fully reported in Budgets and out-turn statements.

8.4	Performance evaluation for service delivery	D	There have been no independent evaluations.
PI-9	Public access to fiscal information	D	Only two of the five basic elements are fully satisfied, and one other.
PI-10	Fiscal risk reporting (M2)	D+	
10.1	Monitoring of public corporations	C	MOE submits audited report by end-June
10.2	Monitoring of subordinate governments	NA	Osečina has no subordinate governments
10.3	Contingent liabilities and other fiscal risks	D	No information is published
PI-11	Public investment management (M2)	D+	
11.1	Economic analysis of investment proposals	C	A feasibility study has been undertaken for the municipality's most important investment project.
11.2	Investment project prioritisation	C	Projects are approved by the Municipal Council
11.3	Investment project costing	D	Only expenditure during the budget year is included in budget documentation
11.4	Investment project monitoring	C	Progress is systematically monitored, and an annual report made to central government.
PI-12	Public asset management (M2)	D+	
12.1	Financial asset monitoring	C	The municipality has full records of its financial assets.
12.2	Nonfinancial asset monitoring	D	The register is incomplete.
12.3	Transparency of asset disposal	NA	There have been no significant asset disposals.
PI-13	Debt management (M2)	A	
13.1	Recording and reporting of debt and guarantees	A	Records of the small outstanding debts are complete and regularly reconciled
13.2	Approval of debt and guarantees	A	Incurrence of debt requires approval of both MoF and municipal Assembly.
13.3	Debt management strategy	NA	There are no debts requiring such a strategy.
PI-14	Macroeconomic and fiscal forecasting(M2)	D	
14.1	Macroeconomic forecasts	NU	The municipality relies on CG forecasts
14.2	Fiscal forecasts	D	No forecasts beyond the year immediately ahead have been produced.
14.3	Macrofiscal sensitivity analysis	NA	There are no fiscal forecasts
PI-15	Fiscal strategy (M2)	D+	
15.1	Fiscal impact of policy proposals	C	Budget documentation shows the impact of revenue and expenditure decisions for the budget year only.
15.2	Fiscal Strategy adoption	D	Osečina has not adopted a fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	There is no fiscal strategy against which to measure progress.
PI-16	Medium-term perspective in expenditure budgeting (M2)	D	
16.1	Medium-term expenditure estimates	D	No medium-term expenditure estimates have been produced.
16.2	Medium-term expenditure ceilings	NA	The question of ceilings does not arise in the absence of any medium-term expenditure estimates.

16.3	Alignment of strategic plans and medium-term budgets	NA	There are no medium-term budgets
16.4	Consistency of budgets with previous year's estimates	NA	In the absence of medium-term budgets there is no basis of comparison.
PI-17	Budget preparation process (M2)	C	
17.1	Budget calendar	B	Although MoF guidance is not received at the time specified by regulations, budget users are able to prepare their submissions on the basis of interim instructions given within the required timescale.
17.2	Guidance on budget preparation	C	The Council does not consider the expenditure ceilings until the draft budget proposals have been completed.
17.3	Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before year-end.
PI-18	Legislative scrutiny of budgets (M1)	C+	
18.1	Scope of budget scrutiny	C	The Assembly's scrutiny is restricted to details of revenue and expenditure.
18.2	Legislative procedures for budget scrutiny	A	Proposals are reviewed by a specialised committee, having been the subject of public consultation before submission to the Assembly.
18.3	Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4	Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.
PI-19	Revenue administration (M2)	D	
19.1	Rights and obligations for revenue measures	D	2018 assessments had not been sent out as of end-October 2018.
19.2	Revenue risk management	D	No specific arrangements are in place to address revenue risks.
19.3	Revenue audit and investigation	D	There is no taxpayer compliance improvement programme in operation.
19.4	Revenue arrears monitoring	D	Revenue arrears at end-2017 were 177% of collections during that year.
PI-20	Accounting for revenue (M1)	A	
20.1	Information on revenue collections	A	A monthly report of revenue broken down by type is made to MoF and municipal Council.
20.2	Transfer of revenue collections	A	All revenue is paid daily into the municipality's account in the TSA.
20.3	Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.
PI-21	Predictability of in-year resource allocation (M2)	B+	
21.1	Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year and updated quarterly.
21.3	Information on commitment ceilings	A	Budget users may commit their allocations in full at any time during the year.

21.4	Significance of in-year budget adjustments	C	Three budget revisions were agreed by the Assembly in 2017.
PI-22	Expenditure arrears (M1)	A	
22.1	Stock of expenditure arrears	A	There are no expenditure arrears
22.2	Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices are registered.
PI-23	Payroll controls (M1)	B+	
23.1	Integration of personnel records and the payroll	B	Payroll is only changed when authorised at high level by senior management.
23.2	Management of payroll changes	A	The payroll is updated monthly and retroactive adjustments are very rare.
23.3	Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4	Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that all posts have been authorised and that all staff are paid correctly based on their qualifications, responsibilities and length of service.
PI-24	Procurement (M2)	D+	
24.1	Procurement monitoring	D	It is doubtful whether the reported data are complete.
24.2	Procurement methods	D	Less than half of expenditure on goods and services is subject to competition.
24.3	Public access to procurement information	D	5 of the 6 elements are available; only annual procurement statistics are lacking. The completeness of data is doubtful.
24.4	Procurement complaints management	A	The Republican Commission meets all 6 criteria.
PI-25	Internal controls on nonsalary expenditure (M2)	A	
25.1	Segregation of duties	A	Appropriate arrangements are in place, in accordance with Rulebooks on organisation and accounting.
25.2	Effectiveness of expenditure commitment controls	A	A new IT system ensures that commitments cannot be undertaken unless budgetary provision and cash are available.
25.3	Compliance with payment rules and procedures	B	Apart from some questions relating to the operation of competition in procurement, the SAI considered all payments in 2017 to have been correctly made in accordance with the law.
PI-26	Internal audit (IA) (M1)	D	
26.1	Coverage of internal audit	D	IA is not yet operational.
26.2	Nature of audits and standards applied	NA	There have been no audits.
26.3	Implementation of audits and reporting	NA	There have been no audits.
26.4	Response to internal audits	NA	There have been no audits.
PI-27	Financial data integrity (M2)	B	
27.1	Bank account reconciliations	A	Budgetary transactions through the TSA are reconciled daily.
27.2	Suspense accounts	NA	No use is made of suspense accounts
27.3	Advance accounts	C	Advances to contractors are cleared at least annually.
27.4	Financial data integrity processes	B	Access and changes to records are restricted and recorded, and leave an audit trail.

PI-28	In-year budget reports (M1)	B+	
28.1	Coverage and comparability of reports	A	Monthly reports to MoF are broken down by functional, programme, administrative and economic classifications.
28.2	Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3	Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).
PI-29	Annual financial reports (M1)	B+	
29.1	Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement. But tangible assets are not covered.
29.2	Submission of reports for external audit	B	Reports are submitted within 4 months of year-end.
29.3	Accounting standards	A	Reports are consistent from one year to the next and consistent with all the country's legal framework's requirements.
PI-30	External audit (M1)	D+	
30.1	Audit coverage and standards	D	A full audit of the 2017 financial statements of the municipality but not the utility company has been undertaken by the SAI, with appropriate attention to the functioning of systems. But only one third of 2015-17 expenditure has been covered by effective audit.
30.2	Submission of audit reports to the Assembly	D	The SAI report on 2017 was never submitted to the Assembly
30.3	External audit follow-up	A	The Administration has made a full response to the SAI report for 2017.
30.4	SAI independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But its budget is ultimately controlled by the executive.
PI-31	Legislative scrutiny of audit reports	D	
31.1	Timing of audit report scrutiny	D	The Assembly did not consider the 2017 SAI report.
31.2	Hearings on audit findings	D	There have been no hearings.
31.3	Recommendations on audit by the Assembly	D	The Assembly did not consider the audit of 2017
31.4	Transparency of Assembly's scrutiny of audit reports	D	The Assembly did not consider the audit report on 2017.

Annex 2: Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control throughout the organisation	The municipal administration is run by experienced staff who have maintained a well-functioning operation. Internal audit has yet to be established (PI-26).
1.2 Commitment to competence	The staff are well-qualified and competent.
1.3 The “tone at the top”	The head of the municipal administration gives an appropriate lead to the staff.
1.4 Organisation structure	The heads of the municipal departments report to the Mayor through the head of the administration. (See Organisation chart in Chapter 2).
1.5 Human resources policies and practices	The municipality’s scope for initiative is drastically limited by the central government controls over appointments and conditions of service, and by the current freeze on new appointments (Chapter 2). Staff pay is well managed (PI-23).
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of property and other local taxes, and of failure to obtain the best value in procurement (PI-19, PI-24).
2.2 Risk assessment	Restrictions over staff recruitment have prevented much progress towards the establishment of PIFC arrangements on the EU model (PI-26). An accountant in the Finance Department has received training to be internal auditor, but cannot be released from his current duties because no replacement may be recruited.
2.3 Risk evaluation	Reports on performance against objectives have only just begun to be produced, and have not yet been published (PI-8). There has been no publication of fiscal and other risks faced by the municipality (PI-10.3).
2.4 Risk appetite assessment	Osečina has avoided commitment to investment projects until the necessary finance has been assured (PI-11, PI-22).
2.5 Responses to risk	Osečina is a small municipality with very limited administrative resources. Tax collection needs to be strengthened (PI-19).
3. Control activities	
3.1 Authorisation and approval procedures	New arrangements as part of the municipality’s interface with the Treasury Single Account ensure that commitments are not undertaken unless financial provision for them has previously been shown to be available (PI-21, PI-25).
3.2 Segregation of duties	Within the constraints of a very small administration, segregation of duties appears to work adequately (PI-25).
3.3 Controls over access to resources and records	The budget, payment and accounting system includes controls over access to records (PI-27.4).
3.4 Verifications	Payroll and financial management systems include appropriate requirements for verifications before commitments are undertaken or payments made (PI-23, PI-25).
3.5 Reconciliations	There are daily reconciliations of revenue and expenditure (PI-20, PI-27).
3.6 Reviews of operating performance	Reporting has only just been initiated, and results have not yet been published. There have been no external evaluations (PI-8).

3.7 Reviews of operations, processes and activities	Systems reviews are undertaken when the municipality is subject to audit by the SAI (PI-30).
3.8 Supervision	The structure of the administration provides appropriately for supervision (PIs 21, 23, 24, 25, 27).
4. Information and communication	Reporting to MoF and the public on the performance of internal audit and internal controls has yet to be developed (PI-8, PI-25, PI-26).
5. Monitoring	
5.1 Ongoing monitoring	Monitoring of the implementation of public investment projects is regularly undertaken, and an (unpublished) annual report is made to the central government (PI-11). Monitoring of procurement by indirect budget beneficiaries and the municipal utility company could be strengthened. (PI-24). Expenditure is continuously tracked against budget (PI-28).
5.2 Evaluations	No significant action hitherto.
5.3 Management responses	Adequate responses are made to external audit findings (PI-30).

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	Ministry of Finance Republic of Serbia	Public financial management reform Programme 2016-20	2015	https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Financial%20Management%20Reform%20Program%202016-2010%20EN.PDF
	OECD	Serbia Profile	9/2016	https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf
2	IMF	Republic of Serbia: Request for a 30-Month Policy Coordination Instrument-Press Release; Staff Report; and Statement by the Executive Director for Serbia, IMF Country Report 18/237.	July 24, 2018	https://www.imf.org/en/Publications/CR/Issues/2018/07/23/Republic-of-Serbia-Request-for-a-30-Month-Policy-Coordination-Instrument-Press-Release-Staff-46118
3	IMF	Republic of Serbia: Eighth Review Under the Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia IMF Country Reports 17/397.	December 21, 2017	www.imf.org/en/Publications/CR/Issues/2017/12/21/Republic-of-Serbia-Eighth-Review-Under-the-Stand-By-Arrangement-Press-Release-Staff-Report-45506
4	EU COMMISSION	STAFF WORKING DOCUMENT Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2018 Communication on EU Enlargement Policy, Strasbourg.	April 17, 2018	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf
5	Ministry of Public Administration and Local Self-Government	Public Administration Reform Report	3/2018	http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf
6	Opština Osečina	Strategija lokalnog ekonomskog razvoja opštine Osečina od 2011. do 2020.	2011	https://osecina.com/slike/2013/03/Strategija-lokalnog-odrzivog-razvoja-Osecina.pdf
7	Opština Osečina	Godišni i polugodišnji izveštaji o poslovanju javnih preduzeća Opštine Osečina od 2015. do 2017.	1/2018	http://www.jkposecina.rs/2018/01/24/dokumenta-jkp-osecina/

8	Opština Osečina	Opština Osečina (2011), Strategija lokalnog ekonomskog razvoja opštine Osečina od 2011. do 2020.		https://osecina.com/lokalna-samouprava/dokumenta-za-download/?script=lat
9	Opština Osečina	Javne nabavke Opštine Osečina od 2015. do 2017		https://osecina.com/lokalna-samouprava/dokumenta-za-download/?script=lat
10	Opština Osečina	Funkcionalna klasifikacija rashoda Opštine Osečina 2015. do 2017.		https://osecina.com/dokumenta/budzet/?script=lat
11	Opština Osečina	Administrativna/organizacijska klasifikacija/ rashoda po korisnicima Opštine Osečina od 2015. do 2017.		https://osecina.com/dokumenta/budzet/?script=lat
12	Opština Osečina	Programska klasifikacija rashoda Opštine Osečina od 2015. do 2017.		https://osecina.com/dokumenta/budzet/?script=lat
13	Opština Osečina	Prihodi po ekonomskoj klasifikaciji Opštine Osečina od 2015. do 2017		https://osecina.com/dokumenta/budzet/?script=lat
14	Opština Osečina	Rashodi po ekonomskoj klasifikaciji Opštine Osečina od 2015. do 2017.		https://osecina.com/dokumenta/budzet/?script=lat
15	Opština Osečina	Autonomni budžetski prihodi/fiskalna autonomija Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat
16	Opština Osečina	Stanje budžetske rezerve Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat
17	Opština Osečina	Odobranja i amandamni na budžet Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat
18	Opština Osečina	Potraživanja za porezne prihode Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat
19	Opština Osečina	Potraživanja za neporezne prihode Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat
20	Opština Osečina	Broj obveznika neporeznih prihoda i broj onih sa dugom po svakom od neporeznih prihoda Opštine Osečina od 2015. do 2017.	10/2018	https://osecina.com/dokumenta/budzet/?script=lat

21	Opština Osečina	Ovisnost finansiranja javnih i komunalnih preduzeća od sredstava iz budžeta u 2017.	10/2018	
22	Opština Osečina	Indirektni budžetski korisnici, broj zaposlenih i vrednost imovine Opštine Osečina od 2015. do 2017.	10/2018	
23	Opština Osečina	Broj poreznih obveznika i obveznika sa dugom Opštine Osečina a od 2015. do 2017.	12/2018	
24	Opština Osečina	Godišni i polugodišnji izveštaji o poslovanju javnih preduzeća Opštine Osečina od 2015. do 2017.	12/2018	
25	Opština Osečina	Godišni i polugodišnji izveštaji o poslovanju javnih preduzeća - dostavljenje opštini/gradu, učestalost objava Opštine Osečina od 2015. do 2017.	10/2018	
26	Opština Osečina	- Odluka o budžetu opštine Osečina za 2015. godinu, broj 060-44/2014, od 25.12.2014. god., objavljena u "Opštinskom službenom glasniku", broj 7/2014	25.12.2014.	https://osecina.com/dokumentacija/opstinski-sluzbeni-glasnik/?script=lat
27	Opština Osečina	- Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2015. godinu, broj 060-16/2015, od 20.03.2015. god., objavljena u "Opštinskom službenom glasniku", broj 3/2015	20.03.2015.	https://osecina.com/dokumentacija/opstinski-sluzbeni-glasnik/?script=lat
28	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2015. godinu, broj 060-45/2015, od 25.08.2015. god., objavljena u "Opštinskom službenom glasniku", broj 8/2015	25.08.2015.	https://osecina.com/dokumentacija/opstinski-sluzbeni-glasnik/?script=lat
29	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2015. godinu, broj 060-55/2015, od 23.11.2015. god., objavljena u "Opštinskom službenom glasniku", broj 9/2015	23.11.2015.	https://osecina.com/dokumentacija/opstinski-sluzbeni-glasnik/?script=lat
30	Opština Osečina	Odluka o budžetu opštine Osečina za 2016. godinu, broj 060-62/2015, od 25.12.2015.	25.12.2015.	https://osecina.com/dokumentacija/opstinski-sluzbeni-glasnik/?script=lat

		god., objavljena u "Opštinskom službenom glasniku", broj 11/2015		
31	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2016. godinu, broj 060-33/2016, od 19.08.2015. god., objavljena u "Opštinskom službenom glasniku", broj 7/2016	19.08.2015	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
32	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2016. godinu, broj 060-43/2016, od 03.11.2015. god., objavljena u "Opštinskom službenom glasniku", broj 8/2016	03.11.2015	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
33	Opština Osečina	Grafički prikaz organizacije lokalne jedinice u 2018.		https://osecina.com/organizaciona-struktura/?script=lat
34	Opština Osečina	Odluka o budžetu opštine Osečina za 2017. godinu, broj 060-51/2016, od 26.12.2016. god., objavljena u "Opštinskom službenom glasniku", broj 10/2016	26.12.2016.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
35	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2017. godinu, broj 060-41/2017, od 18.09.2017. god., objavljena u "Opštinskom službenom glasniku", broj 8/2017	18.09.2017.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
36	Opština Osečina	- Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2017. godinu, broj 060-51/2017, od 13.11.2017. god., objavljena u "Opštinskom službenom glasniku", broj 11/2017	13.11.2017	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
37	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2017. godinu, broj 060-59/2015, od 22.12.2017. god., objavljena u "Opštinskom službenom glasniku", broj 13/2017	22.12.2017	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
38	Opština Osečina	Odluka o budžetu opštine Osečina za 2018. godinu, broj 060-59/2017, od 22.12.2017. god., objavljena u "Opštinskom službenom glasniku", broj 13/2017	22.12.2017	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
39	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2018. godinu, broj	14.05.2018.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat

		060-18/2018, od 14.05.2018. god., objavljena u "Opštinskom službenom glasniku", broj 2/2018		
40		Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2018. godinu, broj 060-29/2018, od 02.08.2018. god., objavljena u "Opštinskom službenom glasniku", broj 5/2018	02.08.2018	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
41	Opština Osečina	Odluka o izmenama i dopunama Odluke o budžetu opštine Osečina za 2018. godinu, broj 060-55/2018, od 17.12.2018. god., objavljena u "Opštinskom službenom glasniku", broj 10/2018	17.12.2018	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
42	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - jun 2015. godine, broj 060-42/2015, od 17.08.2015. god. (nije objavljen u opštinskom glasilu)	17.08.2015.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
43	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - septembar 2015. godine, broj 060-55/2015, od 23.11.2015. god. (nije objavljen u opštinskom glasilu)	23.11.2015.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
44	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - jun 2016. godine, broj 060-33/2016, od 19.08.2016. god. (nije objavljen u opštinskom glasilu)	19.08.2016	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
45	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - septembar 2016. godine, broj 060-42/2016, od 20.10.2016. god. (nije objavljen u opštinskom glasilu)	20.10.2016.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
46	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - jun 2017. godine, broj 060-34/2017, od 27.07.2017. god., objavljen u "Opštinskom službenom glasniku", broj 8/2017	27.07.2017.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat
47	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - septembar 2017. godine, broj	26.10.2017.	https://osecina.com/dokument/opstinski-sluzbeni-glasnik/?script=lat

		060-47/2017, od 26.10.2017. god. (nije objavljen u opštinskom glasilu)		
48	Opština Osečina	Izveštaj o izvršenju budžeta opštine Osečina za period januar - jun 2018. godine, broj 060-26/2018, od 24.07.2018. god., objavljen u "Opštinskom službenom glasniku", broj 5/2018	24.07.2018	https://osecina.com/dokumenta/opstinski-sluzbeni-glasnik/?script=lat
49	Opština Osečina	- Izveštaj o izvršenju budžeta opštine Osečina za period januar - septembar 2018. godine, broj 060-55/2018, od 17.12.2018. god., objavljen u "Opštinskom službenom glasniku", broj 10/2018]	17.12.2018.	https://osecina.com/dokumenta/opstinski-sluzbeni-glasnik/?script=lat

Annex 3B: List of people interviewed

	Name and Surname	Department	Position
1	Zlatija Miličić	Assembly	President
2	Nenad Stevanović	Deputy of mayor	Deputy of mayor
3	Milan Urošević	Public administration	Head
4	Mladenka Nenadović	Assembly	Secretary
5	Vesna Pavlović	Finance and budget department	Head
6	Marko Matić	Finance and budget department	Head of Accounting
7	Snežana Milošević	Section for general administration and municipality common affairs	Associate
8	Radmila Radulović	Finance and budget department	Advisor for revenues
9	Biljana Nedeljković	Finance and budget department	Tax inspector

Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
HLG-1 Predictability of transfers from higher level of government	Budget documents and budget execution reports for 2015, 2016, 2017
Budget reliability	
PI-1. Aggregate expenditure outturn	Budget documents and budget execution reports for 2015, 2016, 2017
1.1. Aggregate expenditure outturn	
PI-2. Expenditure composition outturn	Budget documents and budget execution reports for 2015, 2016, 2017
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	Budget documents and budget execution reports for 2015, 2016, 2017
3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification	Documentation as for PIs 1-3, IMF report on compliance with GFS
4.1 Budget classification	
PI-5. Budget documentation	Discussion with Osečina officials
5.1 Budget documentation	
PI-6. Central government operations outside financial reports	
6.1. Expenditure outside financial reports	Discussion with Osečina officials
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Discussion with Osečina officials confirmed that Indicator is NA
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
PI-8. Performance information for service delivery	Budget documentation and discussion with Osečina officials
8.1. Performance plans for service delivery	
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
PI-9. Public access to fiscal information	Budget documentation, discussion with Osečina officials, and further information supplied by the municipality
9.1. Public access to fiscal information	
Management of assets and liabilities	
PI-10. Fiscal risk reporting	
10.1. Monitoring of public corporations	Discussion with Osečina officials
10.2. Monitoring of sub-national government	
10.3. Contingent liabilities and other fiscal risks	
PI-11. Public investment management	Discussion with Osečina officials and further information supplied by the municipality
11.1. Economic analysis of investment proposals	
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
PI-12. Public asset management	Discussion with Osečina officials, municipal financial statements
12.1. Financial asset monitoring	
12.2. Nonfinancial asset monitoring	
12.3. Transparency of asset disposal.	
PI-13. Debt management	Discussion with Osečina officials

13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	
14.1. Macroeconomic forecasts	Discussion with Osečina officials
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	
15.1. Fiscal impact of policy proposals	Discussion with Osečina officials
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	
16.1. Medium-term expenditure estimates	
16.2. Medium-term expenditure ceilings	Discussion with Osečina officials
16.3. Alignment of strategic plans and medium-term budgets	
16.4. Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	
17.1. Budget calendar	Discussion with Osečina officials and specific information on relevant dates
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	
18.1. Scope of budget scrutiny	Discussion with Osečina officials and specific information on relevant dates
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	
19.1. Rights and obligations for revenue measures	Discussion with Osečina officials and specific information on relevant dates
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
PI-20. Accounting for revenues	
20.1. Information on revenue collections	Discussion with Osečina officials
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	
21.1. Consolidation of cash balances	Discussion with Osečina officials
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	
22.1. Stock of expenditure arrears	Discussion with Osečina officials
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	
23.1. Integration of payroll and personnel records	Discussion with Osečina officials
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	
24.1. Procurement monitoring	Discussion with Osečina officials, together with further information about the findings of the SAI audit on 2017 supplied by the municipality
24.2. Procurement methods	

24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	
25.1. Segregation of duties	Discussion with Osečina officials, together with further information about the findings of the SAI audit on 2017 supplied by the municipality
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	
26.1. Coverage of internal audit	Discussion with Osečina officials
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
Accounting and reporting	
PI-27. Financial data integrity	
27.1. Bank account reconciliation	Discussion with Osečina officials
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	
28.1. Coverage and comparability of reports	Discussion with Osečina officials, and further specific information about the content of in-year reports
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	
29.1. Completeness of annual financial reports	Discussion with Osečina officials, annual financial statements, opinion of the SAI on compliance with IPSAS
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	
30.1. Audit coverage and standards	Discussion with Osečina officials, and further information about the results of the SAI audit of 2017
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	
31.1. Timing of audit report scrutiny	Discussion with Osečina officials
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: Tracking change in performance based on previous versions of PEFA

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment. This annex should present comparisons with previous assessments that used the 2005 or 2011 versions of the framework and should be prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 at www.pefa.org.

Indicator/Dimension	Score previous assessment 2015	Score current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1 Aggregate expenditure out-turn compared to original approved budget	D	B	Since out-turn is more than 90 per cent of budget in two of the three years 2015-17, score is B. Under the 2011 criteria used in 2015, interest payments were excluded. Since these payments were very small, the score would remain B.	Performance improvement Out-turn is more than 90 per cent of budget in two of the three years 2015-17, while it was less than 85% for 2011-13.
PI-2 Composition of expenditure out-turn compared to original approved budget	D+	B+		Performance improvement Due to improvement of PI-2 (i)
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	B	The variance was less than 10 per cent in two of three years.	Performance improvement The variance was less than 10 per cent in two of three years, while in 2015 variance exceeding 15 per cent in all three years.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Although a reserve of 5.5m RSD was included in the original budgets for each of the three years 2015-17, no expenditure was charged to the reserve in any year.	No change

PI-3 Aggregate revenue out-turn compared to original approved budget	A	D	The out-turn was outside the range 92% - 116% in two of the three years 2015-17.	Performance deterioration The out-turn was outside the range 92% - 116% in two of the three years 2015-17, which is deterioration in comparison to 2015 where in two out of three years out-turn was above 97%.
PI-4 Stock and monitoring of expenditure payment arrears	A	A		No change
(i) Stock of expenditure payment arrears and a recent change in the stock	A	A	The municipality has no arrears.	No change
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	A	Suppliers register their invoices with the CG Treasury which suspends payments to the municipality if they are not paid within 45 days.	No change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	A	A	Municipality provides consistent information broken down by administrative, economic (consistent with GFS), functional (COFOG) and programme classifications, in line with Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds and Government Order on Budgetary Accounting All transactions take place through the national Treasury system which	No change

			enables reports to be made using all classifications.	
PI-6 Comprehensiveness of information included in budget documentation	C	B	Benchmarks 1,2,3,4 and 7 are satisfied.	Performance improvement Benchmark 7 is now satisfied in comparison to 2015.
PI-7 Extent of unreported government operations	A	A		No change
(i) Level of unreported government operations	A	A	Expenditure from own revenue collected by indirect budget beneficiaries is included in the municipal budget. There are no activities of the municipality not covered by financial reports.	No change
(ii) Income/expenditure information on donor-funded projects	NA	NA	There has been no significant donor funded expenditure in 2015-17, although any such expenditure would be included in fiscal reports.	No change
PI-8 Transparency of inter-governmental fiscal relations	NA	NA		No change
(i) Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	NA	NA	There are no SNG under the level of municipality.	No change
(ii) Timeliness and reliable information to SN Governments on their allocations	NA	NA	There are no SNG under the level of municipality.	No change
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	NA	NA	There are no SNG under the level of municipality.	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	A		Performance improvement Due to improvement under PI-9 (i)
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	A	The public enterprise submits quarterly reports as well as annual audited accounts.	Performance improvement In 2015 the accounts were not audited.

(ii)	Extent of central government monitoring of SN government's fiscal position	NA	NA	There are no SNG under the level of municipality.	No change
	PI-10 Public access to key fiscal information	A	B	Three of the five applicable elements are satisfied (ii) and (v) not complete, (iv) NA.	Performance deterioration
C. BUDGET CYCLE					
<i>C(i) Policy-Based Budgeting</i>					
	PI-11 Orderliness and participation in the annual budget process	B	B		No change
(i)	Existence of, and adherence to, a fixed budget calendar	B	B	There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the municipality. MoF Guidance is late and budget users have to revise their figures within a very short timescale. Budget users have 4 weeks to provide their submissions after receipt of the circular.	No change
(ii)	Guidance on the preparation of budget submissions	D	C	Budget ceilings are issued by the Finance Department without any prior discussion with the Council. They are reviewed and approved by the Council only after the estimates have been completed in every detail. The Council is now in a position to make substantive changes.	Performance improvement The Council is now in a position to make substantive changes which was not case in 2015.
(iii)	Timely budget approval by the legislature	A	A	The budget approval in the past three years has being align	No change

			with league requirements.	
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D		No change
(i) Multiyear fiscal forecasts and functional allocations	D	D	No medium-term expenditure estimates have been produced.	No change
(ii) Scope and frequency of debt sustainability analysis	NA	NA	There is infrequent need to borrow and municipality has no need for debt sustainability.	No change
(iii) Existence of costed sector strategies	C	D	There are no sector strategies with multi-year costing of recurrent and investment expenditure.	No underlying change Previous report gave C despite absence of multi-year costings in development strategy.
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	There are no forward expenditure estimates.	No change
<i>C(ii) Predictability and Control in Budget Execution</i>				
PI-13 Transparency of taxpayer obligations and liabilities	B	C		Performance deterioration Due to performance deterioration under PI-13 (i) and PI-13 (ii)
(i) Clarity and comprehensiveness of tax liabilities	A	C	Notifying taxpayers of their liabilities were not functioning in 2018	Performance deterioration Notifications to taxpayers not operating in 2018 in the way they were in 2015.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	C	Normal arrangements for notifying taxpayers of their liabilities were not functioning in 2018	Performance deterioration Taxpayers were notified in 2015
(iii) Existence and functioning of a tax appeal mechanism	C	C	Appeals mechanism is not independent of the administration.	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	D+		Apparent performance deterioration
(i) Controls in the taxpayer registration system	B	D	Osecina did not receive Swiss government's	Performance deterioration

			assistance to improve its tax base. There is no current effort to ensure completeness of register.	More effort was devoted to expansion of the register in years before 2015.	
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	D	C	Compliance is encouraged by high interest rate on unpaid amounts.	No underlying change No underlying change, but interest penalties were apparently not considered in 2015
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	D	There is no systematic effort on tax audit and investigation	No change
PI-15 Effectiveness in collection of tax payments		D+	D+		No change
(i)	Collection ratio for gross tax arrears	D	D	Revenue arrears were 177% of 2017 collections.	No change
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All revenue is paid the same day into the city's account in the TSA.	No change
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	A full monthly reconciliation is made within four weeks of month-end of assessments, collections, arrears and payments into TSA. Individual taxpayer accounts are updated and reconciled as payments are received.	No change
PI-16 Predictability in the availability of funds for commitment of expenditures		B+	C+		Probably performance improvement Due to improvement of PI-16 (ii) but no underline change in PI-16(i) and PI-16 (iii)
(i)	Extent to which cash flows are forecasted and monitored	A	B	A cash flow forecast is produced for the fiscal year and updated quarterly in the light of	No underlying change 2015 report gave A on basis of monthly revenue and expenditure reports to MoF

			experience of actual cash inflows and outflows.		
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	A	The town's financial reserves enable it to assure budget users within a month of budget enactment that all approved budgetary allocations for the year may be committed at any time.	Performance improvement Performance improvement, since in 2015 budget users were subject to quarterly commitment ceilings.
(iii)	Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	C	There were 3 budget revisions in 2017.	No underlying change A score given in 2015 despite 3 annual budget revisions.
PI-17 Recording and management of cash balances, debt and guarantees		A	A		No change
(i)	Quality of debt data recording and reporting	A	A	There are reconciled monthly reports of interest and debt repayments	No change
(ii)	Extent of consolidation of the government's cash balances	A	A	Cash balances are all held in TSA and consolidated daily.	No change
(iii)	Systems for contracting loans and issuance of guarantees	B	B	Loans require approval of municipal Assembly and MoF, but they do not reflect fiscal targets.	No change
PI-18 Effectiveness of payroll controls		A	B+		Probably no underlying change Due to PI-18 (i)
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	B	Personnel and payroll records are not directly linked, but all changes in personnel records are subject to close control, and no changes are made to payroll unless authorised by HR management at senior level.	No underlying change There were no direct links between personnel records and payroll in 2015.

(ii)	Timeliness of changes to personnel records and the payroll	A	A	Payroll is updated monthly in the light of any changes in relevant personnel records. Retroactive adjustments are very rare, and far below 3 per cent of the annual payroll.	No change
(iii)	Internal controls of changes to personnel records and the payroll	A	A	There is close hierarchical supervision of changes to personnel and payroll records, which ensures the integrity of the data, and there is always an audit trail.	No change
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	D	A	The staff records of all municipalities are subject to external inspection annually organised by central government, in order to check whether their posts have all been authorised, whether staff are actually working, and whether salaries have been correctly assessed dependent on qualifications and length of service of the staff.	Performance improvement System of annual staff inspections not taken into account in 2015. There has probably been no underlying change.
PI-19 Competition, value for money and controls in procurement		A	C+		Performance deterioration Due to PI-19 (ii) and PI (iii)
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	The legal and regulatory framework for procurement meets all six of the listed requirements.	No change
(ii)	Use of competitive procurement methods	A	D	A substantial amount of municipal procurement has	Performance deterioration Much of procurement not

			not been undertaken through competitive procedures. In its audit of the 2017 financial statements the SAI criticised the extent of municipal procurement without competitive procedures.	subject to competition	
(iii)	Public access to complete, reliable and timely procurement information	A	D	Information is published on the official website and public procurement portal. Additional information is provided in accordance to the Law on free access to information of public importance. But it is doubtful whether information on plans, bidding opportunities and contract awards is complete.	Apparent performance deterioration
(iv)	Existence of an independent administrative procurement complaints system	A	A	The Republican Commission satisfy all criteria needed for score A.	No change Although the requirement that the Commission should be composed of independent professionals is no longer the essential benchmark as it was under the 2011 PEFA criteria, there has been no essential change in the composition of this body since 2015, when this benchmark was satisfied.
	PI-20 Effectiveness of internal controls for non-salary expenditure	C+	A		Performance improvement Due to improvement of PI-20 (i) and PI-20 (ii)

(i)	Effectiveness of expenditure commitment controls	C	A	New IT software introduced since 2015 ensures that no order is placed unless there is specific budgetary provision and cash available.	Performance improvement New IT software introduced.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	A	Controls and procedures are understood and respected. No evidence of any problems in 2015-17.	Apparent performance improvement Not clear why 2015 report gave a lower score
(iii)	Degree of compliance with rules for processing and recording transactions	A	B	Some criticism by SAI of procurement practices, but assurance that other transactions are legal and regular.	Apparent performance deterioration Not clear that procurement was better in 2015
PI-21 Effectiveness of internal audit		D	D		No change
(i)	Coverage and quality of the internal audit function	D	D	The function is not yet operational.	No change
(ii)	Frequency and distribution of reports	D	NA	Since there have been no audits, dimension is NA.	No change
(iii)	Extent of management response to internal audit function.	NA	NA	Since there have been no audits, dimension is NA.	No change
C(iii) Accounting, Recording and Reporting					
PI-22 Timeliness and regularity of accounts reconciliation		A	B+		Probably no underlying change
(i)	Regularity of bank reconciliation	A	A	All budgetary transactions take place through the TSA with daily reconciliations with city records.	No change
(ii)	Regularity and clearance of suspense accounts and advances	A	B	Full information is collected about all receipts. Any deficiency in information would prompt immediate investigation. No use is made of suspense account. Advances to	Probably no underlying change Advances to contractors not considered in 2015

			contractors not subject to regular reconciliation.	
PI-23 Availability of information on resources received by service delivery units	A	A	Indirect budget beneficiaries' (kindergarten schools, library, cultural institutions) resources (both funds provided by the municipality and any income from user charges) are fully reported in budgets and execution statements	No change
PI-24 Quality and timeliness of in-year budget reports	C+	C+		No change
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Expenditure is not covered during the commitment stage.	No change
(ii) Timeliness of the issue of reports	A	A	Reports are produced by the municipal Finance Department within 15 days of month-end.	No change
(iii) Quality of information	A	A	There are no material concerns about data accuracy.	No change
PI-25 Quality and timeliness of annual financial statements	A	A		No underlying change
(i) Completeness of the financial statements	A	A	Reports are produced in accordance with MoF Regulations issued in 2006, and contain full information on revenue and expenditure, financial assets and liabilities, and a cash flow statement.	No change
(ii) Timeliness of submissions of the financial statements	A	A	Legislation requires audited reports adopted by the town's Assembly to be submitted to MoF by 30 June.	No change

(iii)	Accounting standards used	A	A	Annual financial statements are prepared in accordance with MoF Regulations issued in 2006, and meet all national requirements.	No underlying change
C(iv) External Scrutiny and Audit					
PI-26 Scope, nature and follow-up of external audit		D	D+		Performance improvement
(i)	Scope/nature of audit performed (including adherence to auditing standards)	D	D	Full audit by SAI of 2017 financial statements, but no comparable audit for 2015 and 2016, so coverage less than 50%	Performance improvement Despite no improvement in score, since there was a substantive audit of 2017.
(ii)	Timeliness of submission of audit reports to the Legislature	NA	B	Report on 2017 submitted to Assembly within 8 months of receipt of financial statements by auditor	Performance improvement since previously no reports were submitted to Assembly.
(iii)	Evidence of follow up on audit recommendations	NA	A	There was a full SAI audit for 2017, to which Osečina has made a full response.	Performance improvement Administration is following up recommendations
PI-27 Legislative scrutiny of the annual budget law		D+	D+		No underlying change
(i)	Scope of the legislature scrutiny	C	C	The Assembly's review is limited to a detailed review of estimates of revenue and expenditure at the stage when detailed proposal has been finalised.	No change
(ii)	Extent to which the legislature's procedures are well established and respected	A	A	There are standard procedures adopted followed by the Assembly, which include arrangements for public consultation on the draft proposals the day before the budget is considered by the Council, and	No change

			study by a specialised Committee of the Assembly before its enactment.		
(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	D	The Assembly has less than a month to consider proposals, as in 2015.	No change
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	Under Article 61 of the Budget System Law reallocations of up to 10% of the amounts for each programme can be made subject to approval by the Council. Larger reallocations or reallocations between programmes require a supplementary budget approved by the Assembly with full transparency.	No underlying change 2018 assessment considers that criteria justify A, and that A would have been correct in 2015,
PI-28 Legislative scrutiny of external audit reports		D	D		No change
(i)	Timeliness of examination of audit reports by the legislature	D	D	The Assembly did not consider the 2017 SAI audit.	No change .
(ii)	Extent of hearing on key findings undertaken by the legislature	NA	D	No hearings held.	No underlying change
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	NA	D	Assembly did not consider the 2017 report	No change