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SREMSKA MITROVICA



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

April, 2020





City of Sremska Mitrovica - Serbia

Public Expenditure and Financial Accountability (PEFA)
Performance Assessment Report

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,

January 29, 2021

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Local currency unit: Serbian Dinar (RSD)

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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. Sremska Mitrovica is the administrative, economic, and cultural centre of the Srem district of the Province of Vojvodina, with about 80,000 inhabitants across its territory. It is one of the most economically developed cities in Serbia, based on agricultural production and food processing and located on the main transport arteries 60km North-West of Belgrade. About two-thirds of city revenues accrue from its share of nationally-collected taxes and from central government budget transfers, with the remainder coming from property and other local taxes, charges for goods and services, revenue from exploiting city property, and sales of assets. This repeat PEFA assessment reflects the situation in 2018; where Indicator scores are based on fiscal statistics for the period 2015-17. Where applicable, the cut-off date is end-December 2018. The assessment uses the revised PEFA criteria issued in 2016, and thus provides a baseline against which future changes in public financial management can be measured. It also gives an indication of changes since the previous 2014 assessment based on 2011-13 data; comparisons are made using the 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 Program 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, given that Sremska Mitrovica has no subordinate governments.

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 three-quarters of central government funding for Sremska Mitrovica comes (via the Vojvodina Province) through the city’s share of income and other CG taxes, where the yield was overestimated by 8-12 per cent when budgets were prepared (HLG-1.1). CG transfers were overestimated by about 30 per cent in 2015 and 5 per cent in 2017, and underestimated by 22 per cent in 2016; this situation reflects the absence of reliable information about targeted transfers at the time budgets were prepared. The city’s own revenues were also substantially overestimated in all three years, leading overall to actual expenditure falling far short of budget in each of the years 2015-17 (PI-1 and PI-3.1). The functional breakdown of expenditure inevitably showed considerable variance (as measured by the PEFA criteria) because of the wide divergences between budget and out-turn on some but not all functions (PI-2.1), although actual expenditure on housing, recreation and culture, and education was relatively stable across the three years. The measured variance by economic classification very substantially results from the large differences between budget and out-turn in capital investment expenditure (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 could be improved by giving more of the context with summary comparisons covering the preceding, current and budget years on all three classifications (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 is satisfactory (PI-9).

3. Management of assets and liabilities

5. Full financial reports are published for the city's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment is planned within the framework of the city's sustainable development strategy 2010-20, and progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the city's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Debts are relatively unimportant (interest paid in 2017 was 0.5 per cent of expenditure in 2017) and are fully reconciled and reported, but there is no debt management strategy (PI-13).

4. Policy-based fiscal strategy and budgeting

6. Apart from public investment, which the city seeks to plan over a medium-term horizon, Sremska Mitrovica has not yet produced any medium-term fiscal forecasts or expenditure projections (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. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. 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 city'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 budget users are given quarterly ceilings for expenditure commitment (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 city administration appears satisfactory, but a good part of expenditure on goods and services is not subject to competition. Information is lacking about procurement by the indirect budget beneficiaries and the city's utility companies (PI-24). Internal control arrangements work satisfactorily (PI-25), but as yet there is no internal audit (it is hoped that internal audit will be established in 2020) (PI-26).

6. Accounting and reporting

8. Bank reconciliations arising from budgetary operations are undertaken daily, but the information is lacking about the practices of the city's utility companies which also come within the ambit of PI-27.1. 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. Sremska Mitrovica's 2017 financial statements were accordingly subject to audit by the SAI. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, but other audits have not given rise to significant findings. 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 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; he has accordingly adopted a strategy to minimise the risks of damage to the provision of good services.

12. The main risks faced by Sremska Mitrovica are that revenue from the city's 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 city.

13. Internal controls in the city administration appear to work satisfactorily, but there is no internal audit. External audit by the SAI, most recently for 2017, has not found serious problems in the city's financial management, which has benefitted from the stability of experienced staff in the finance function. 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.

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 actual and own revenue during 2015-17, with capital investment falling far below amounts originally envisaged.

Strategic allocation of resources

15. Sremska Mitrovica has so far made only limited progress in terms of medium-term budgetary planning. Allocations to the main functions – Education, Housing, Culture – are reasonably stable from one year to the next, although 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. Nevertheless, the city has made progress in the execution of its strategic development plan, and a number of major investment projects have been brought to fruition.

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 the 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. Most Performance Indicators remained unchanged over this period. The more difficult fiscal climate for municipalities is reflected in lower scores for the Indicators of budget reliability, while centrally-imposed staffing restrictions held back progress in medium-term fiscal planning and the establishment of internal audit. Public investment planning has been developed, and the local property tax base extended through the identification of more taxpayers. Commitment control has been strengthened through the provision of new software.

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 Programme is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Government. Over the period since 2015 these efforts have been largely focused on central government operations, with relatively less attention paid to SNGs.

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. Sremska Mitrovica has made progress in tax administration and investment planning, but there remains much scope for improvements in 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 | C | NA | A | | D+ |
| PI-1 | Aggregate expenditure out-turn | M1 | D | | | | D |
| PI-2 | Expenditure composition out-turn | M1 | D | C | A | | D+ |
| 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 | B | | | | B |
| Pillar 3 | Management of assets and liabilities | | | | | | |
| PI-10 | Fiscal risk reporting | M2 | B | NA | NA | | B |
| PI-11 | Public investment management | M2 | C | A | B | A | B+ |
| PI-12 | Public asset management | M2 | B | D | D | | D+ |
| PI-13 | Debt management | M2 | A | A | D | | B |
| 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 | C | NA | D+ |
| PI-17 | Budget preparation process | M2 | C | C | D | | D+ |
| PI-18 | Legislative scrutiny of budgets | M1 | B | B | A | A | B+ |
| Pillar 5 | Predictability and control in budget execution | | | | | | |
| PI-19 | Revenue administration | M2 | A | B | B | D | B |
| PI-20 | Accounting for revenue | M1 | A | A | A | | A |
| PI-21 | Predictability of in-year resource allocation | M2 | A | A | B | A | A |
| 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 | A | | 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 | B | A | C | D+ |
| PI-31 | Legislative scrutiny of audit reports | M2 | D | C | 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.

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), a consultant with extensive PFM experience including as a 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), Milesa 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], Milesa 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): submitted for review April 30, 2020.
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF2), Darko Komnenc (Ministry of Finance), Milovan Filimonović (UNDP) and Duško Šarošković (City of Sremska Mitrovica)
- Reviewers who provided comments: PEFA Secretariat [May 20, 2020] Ana Jolović and Georgios Chatzigiagkou, RELOF [May 8, 2020], Thomas Stauffer, SECO [June 1, 2020], Milovan Filimonović, UNDP [May 26, 2020], Duško Šarošković, City of Sremska Mitrovica [May 22, 2020].

1.3 Assessment methodology

6. The assessment covers the cities Sremska Mitrovica, Užice and Vranje, and the municipalities Paraćin, Knjaževac 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 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. Where applicable, the cut-off date is end-December 2018. Visits to the SNGs to collect evidence were made in two stages in August/September (Užice, Paraćin, Knjaževac) 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. In the case of Sremska Mitrovica, the city administration takes direct responsibility for the promotion of economic development through the local economic development office, and there is extensive consultation with all stakeholders in the preparation of public investment projects where particular importance is attached to attracting inward investment. 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 Užice, 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 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 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.

¹ Source: www.mfin.gov.rs.

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, 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;
- 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

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

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 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

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)

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 the 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. Sremska Mitrovica in the Srem district of the Vojvodina autonomous province is one of the most economically developed cities in Serbia. It is the administrative, economic, cultural and educational center of the Srem district. The basis of the economic structure of Sremska Mitrovica is primary agricultural production and food processing. The city occupies an area of 740 km². According to the 2011 population census, the city had 79,940 inhabitants. The city's territory consists of 26 settlements. The city administration has a strong focus on economic development, which underlies its strategic development plan. Investment projects are planned within this overall framework, and inward investment is encouraged through its local economic development office with the participation of the Deputy Mayor. Data from the Serbian Business Register show employment in the city expanding, unemployment falling, and average incomes increasing over the period 2015-18 by about 6 per cent overall (see Table 2.14 below).

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the city's share of national taxes and general transfers from central government, together with the city's own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of city property. While the city's development strategy may in the long run add to tax revenues accruing from central government, in the short run increases in revenue are most readily achieved by increasing the efficiency of property tax collection. Table 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 borrowing, and expenditure figures in all cases exclude capital repayments.

Table 2.8 Fiscal Balance 2015-17 RSD thousands

| | 2015 | 2016 | 2017 |
|-------------------|-----------|-----------|-----------|
| Total revenue | 2,073,927 | 2,212,855 | 2,365,748 |
| Total expenditure | 2,296,229 | 2,449,591 | 2,324,876 |
| Fiscal balance | -222,302 | -236,736 | +40,872 |

Source: S. Mitrovica Finance Dept.

Table 2.9 City Revenues 2015-17 RSD thousands

| | 2015 | 2016 | 2017 |
|-------------------------|------------|-----------|-----------|
| Income tax | 944,395 | 986,840 | 1,058,418 |
| Property taxes | 269,453 | 328,011 | 297,621 |
| Tax on goods & servs. | 37,072 | 38,693 | 41,760 |
| Other taxes | 37,575 | 34,315 | 41,981 |
| External grants | - | 6,747 | - |
| CG Transfers | 399,218 | 452,688 | 525,437 |
| Dividends, rents, etc | 116,066 | 143,235 | 124,272 |
| Sales of goods & servs. | 176,762 | 102,899 | 216,604 |
| Fines | 14,489 | 16,363 | 15,113 |
| Other revenue | 70,732 | 95,038 | 30,821 |
| Asset sales | 8,166 | 8,026 | 13,721 |
| Total revenue | 2,073, 927 | 2,212,855 | 2,365,748 |

Source: S. Mitrovica Finance Dept.

22. Table 2.9 shows the great importance of the city's share of income tax revenue, which with shares of revenue from other taxes collected by central government, accounts for nearly half total revenues. About 20 per cent of revenue comes from central government transfers, with property tax providing up to 15 per cent.

Table 2.10 Functional analysis of expenditure

RSD thousands

| | 2015 | 2016 | 2017 |
|-----------------------|-----------|-----------|-----------|
| Genl. public services | 249,050 | 255,638 | 277,199 |
| Public order, safety | 3,850 | 4,307 | 4,718 |
| Economic affairs | 499,988 | 609,853 | 470,405 |
| Env. protection | 86,978 | 88,869 | 144,039 |
| Housing | 399,589 | 420,376 | 364,125 |
| Health | 22,328 | 16,778 | 65,989 |
| Sport, recr., culture | 479,887 | 489,635 | 485,765 |
| Education | 472,409 | 475,268 | 412,724 |
| Social protection | 82,107 | 81,521 | 87,076 |
| Total | 2,296,185 | 2,442,246 | 2,312,039 |

Source: S. Mitrovica Finance Dept.

23. The figures in Table 2.10 exclude debt repayments and interest payments, which have been deducted from the city's figures for General Public Services. It appears that significant changes in spending for some functions as between one year and the next are to a great extent the result of fluctuations in investment.

Table 2.11 Economic breakdown of expenditure

RSD thousands

| | 2015 | 2016 | 2017 |
|------------------------|-----------|-----------|-----------|
| Employment costs | 417,294 | 419,832 | 419,826 |
| Goods & services | 849,903 | 783,636 | 903,194 |
| Interest paid | 44 | 7,345 | 12,837 |
| Subsidies | 91,628 | 55,671 | 93,897 |
| Transfers to comm. cs. | 286,456 | 251,563 | 237,617 |
| Social benefits | 67,242 | 60,976 | 47,578 |
| Other expenditure | 218,480 | 213,512 | 144,750 |
| Capital expenditure | 365,182 | 657,056 | 465,177 |
| Total expenditure | 2,296,229 | 2,449,591 | 2,324,876 |

Source: S. Mitrovica Finance Dept.

24. As Table 2.11 shows, employment costs remained constant throughout the period, while expenditure on goods and services and capital expenditure varied according to the availability of finance.

2.7 City organisation

25. The city is divided into 34 local communities, each of which has the status of a legal entity and is treated as an indirect budget beneficiary. Expenditure plans are approved by the city Assembly, with funds provided in the annual budget. As in the case of other indirect budget beneficiary organisations, all revenue and expenditure pass through the city's account in the Treasury Single Account.

Pursuant to the provisions of Article 2 of the Budget System Law, the direct users of budgetary funds are the City Assembly, the Mayor, the City Council, the City Administration and the City Public Attorney. In addition to the local communities, there are 12 Indirect Budget Users with 402 employees in the city which are listed in Table 2.12 below. These are mainly cultural institutions (museums, theatres, libraries, monuments protection institutes, etc.) sports organisations (sports centres, and stadium) and tourist organisations.

26. Some public services are provided by utility and other companies wholly owned by the city. The managements of these companies are subject to approval by the Assembly, which also approves their financial plans and receives regular financial reports (with the annual report due by 30 April for the previous year). There are five companies owned by the city which provide communal services, including gas and water supply. These are listed in Table 2.13 below. A total of 451 employees are employed in these companies. PUC Vodovod deals with water supply, PUC Toplifikacija, provides heating services in the city area, and PUC Utilities undertakes city cleaning, provision of parking and funeral services, and maintenance of green areas and the city market. As well as these utility companies there are two public companies - JP Srem Gas deals with gas supply and JP Urbanism manages planning and land use. There are three further limited liability companies owned by the city with a total of 21 employees. These are the Rural Development Agency, the City Housing Company that organises the maintenance of housing and business premises, and Sirmium Road company that manages the maintenance of streets and roads in the city.

Representative body

27. The City Assembly has ultimate responsibility for the functions of local government in Sremska Mitrovica. The Speaker of the Assembly organises its work and convenes and presides over its sessions. The Assembly has 61 members elected on party lists for four-year terms. Members are barred from membership of the City Council or employment in the city Administration. The Assembly elects its own Speaker, Deputy Speaker and Secretary, and appoints the Mayor and the other 12 members of the City Council for four-year terms. The City Assembly establishes permanent, special and interim working bodies for the consideration of issues under its jurisdiction. Members of permanent working bodies are appointed by the Assembly for a period of four years. People who are not members of the Assembly can be appointed to serve on these bodies. There are five Committees (finance; economic development; urbanism, housing and communal activities; social activities; and development of local self-government) and eight commissions (statutory issues and regulations; personnel and administrative issue; awards; complaints and appeals; gender equality; street and square names; marking important dates and events in the city; and the Mandate-Immunity Commission). In addition to the permanent working bodies, the Assembly establishes special working bodies. These monitor the implementation of the Code of Ethics and provide youth advice. An Ombudsman is established in the City. The City Assembly makes a special decision that regulates in detail the position, powers and manner of work, as well as other issues regarding this appointment.

Management

28. The city's activities are managed by the Mayor and the City Council. The Mayor heads the City Council, convenes and conducts its meetings. He/she is responsible for the preparation of proposals for decision by the Assembly, for the supervision of the execution of the budget and for control of the use of budget funds. Within limits set by central government the Mayor controls the structure and staffing of the city Administration and indirect budget beneficiary organisations. He/she directs the work of the city Administration, manages the exploitation and use of city 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 city. The Council may appoint expert advisory bodies to assist

its work and may decide on temporary financing if the Assembly does not pass the budget before the beginning of the fiscal year.

Administration and administrative departments

29. The city Administration is made up of seven Departments, which each cover a specific part of the city's functions, and City attorney's office. These are shown in Chart 1 below. The City Administration consists of: 1. Department for General and Common Affairs and Property, 2. Department for Urban Planning, Spatial Planning and Construction of the Municipality, 3. Budget department and Local Economic Development, 4. Department for Education, Culture and Sport, 5. Department for health and social protection, 6. Department for traffic, communal and inspection affairs, 7. Department for agriculture and environment protection, and 8. City attorney's office.

Chart 1: Inner organisation of City of Sremska Mitrovica

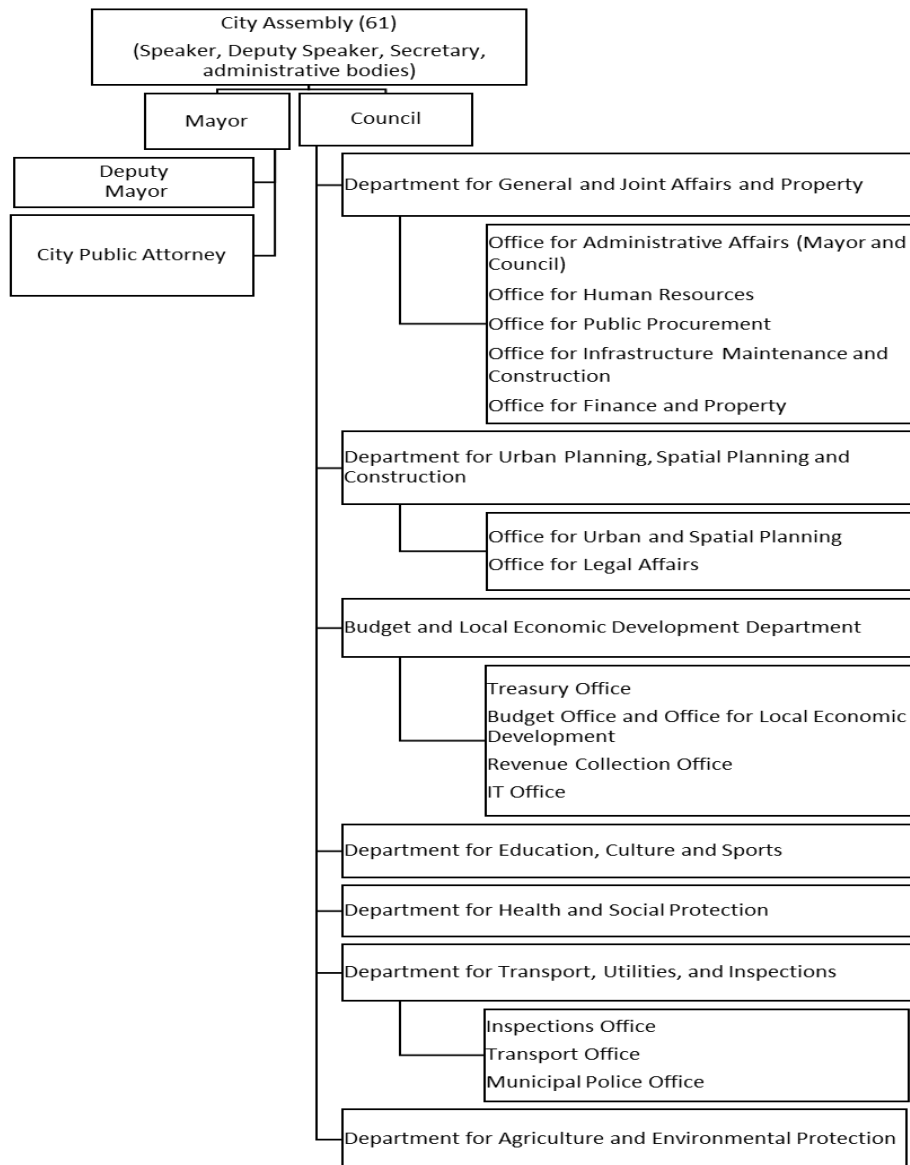


Table 2.12 Number of employees in indirect budgetary users 2017

| | | Public institutions | No. of employees |
|--------------|--|---|------------------|
| 1 | Pozorište Dobrica Milutinović | Theatre | 12 |
| 2 | Muzej Srema | Museum | 15 |
| 3 | Biblioteka Gligorije Vozarević | Library | 22 |
| 4 | Istorijski arhiv Srem | Archive | 24 |
| 5 | Zavod za zaštitu spomenika kulture Srem | Institute for cultural monuments protection | 18 |
| 6 | Poslovno sportski centar Pinki | Business sport centre | 4 |
| 7. | Ustanova za negovanje kulture "Srem" | Culture | 14 |
| 8. | Centar za kulturu "Sirmiumart" | Culture centre | 22 |
| 9. | Poslovno sportski centar Pinki | Business sport centre | 22 |
| 10. | Atletski stadion Grada Sremska Mitrovica | Sport stadium | 7 |
| 11. | Turistička organizacija Grada Sremska Mitrovica | Tourist office | 5 |
| 12 | Predškolska ustanova „Pčelica“ | Kindergarten | 237 |
| Total | | | 402 |

Source: City of Sremska Mitrovica, 2018

Table 2.13 Financial dependency of City Sremska Mitrovica public companies on local budget (RSD thousands)

| No | Public companies | Total revenues of public companies, from sources other than 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 Vodovod | 310,398.00 | 5,196.00 | 315,594.00 | 1.65 |
| 2. | JKP Toplifikacija | 244,141.00 | 55,626.00 | 299,767.00 | 18.56 |
| 3. | JP Srem gas | 611,897.00 | 15,132.00 | 627,029.00 | 2.41 |
| 4. | JKP Komunalije | 252,430.00 | 130,567.00 | 382,997.00 | 34.09 |
| 5. | JP Urbanizam | 211,666.00 | 18,235.00 | 229,901.00 | 7.93 |

Source: City of Sremska Mitrovica, 2018

2.14 Key economic indicators for Sremska Mitrovica

| Economic Indicator | Value | | | |
|--|--------|--------|--------|--------|
| | 2015 | 2016 | 2017 | 2018 |
| 1. Number of Companies | 809 | 842 | 848 | 865 |
| 2. Number of companies with net profit | 408 | 427 | 432 | 438 |
| 3. Total number of employed | 19,057 | 19,387 | 19,777 | 20,298 |
| 4. Total number of unemployed | 6,564 | 5,870 | 5,036 | 3,867 |
| 5. Average net income (in RSD) | 40,864 | 43,281 | 45,576 | 46,130 |

Source: Serbian Business Register and Public Policy Secretariat Database

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 main streams of revenue accruing from central government are shown in Table 3.1 below. Cities receive 77 per cent of personal income tax paid by their residents (the share was reduced from 80 per cent in [2016]). 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 city'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 until well after 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 | 1,022,826 | 944,395 | 1,533,429 | 1,387,859 | 1,643,779 | 1,439,779 |
| General transfers | 254,994.00 | 274,994 | 304,994 | 269,994 | 304,994 | 284,994 |
| Targeted transfers | 319,735.00 | 124,224 | 71,560 | 182,694 | 223,737 | 240,443 |
| Total allocations from central government | 1,597,555 | 1,343,613 | 1,909,983 | 1,840,547 | 2,172,510 | 1,965,216 |
| Out-turn as % of budget | | 84.1% | | 96.4% | | 90.5% |

Source: S. Mitrovica Finance Dept.

Since transfers in two of the three years were more than 85 per cent of the amount originally budgeted, the score is C.

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. Other municipalities in the sample allowed nothing in their original budgets for new targeted grants, but Sremska Mitrovica included figures which differed markedly from the eventual out-turns. There was no breakdown of targeted transfers in the original budget, nor in

execution reports. The targeted transfers related to the capital investments, and due to the delay in physical progress of investment projects, the out-turn differs significantly from the plan. Score NA.

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 in 12 equal instalments, while tax revenue is transferred daily as it is received by central government. The timing of payment of targeted transfers is determined when the amounts are notified to the municipalities concerned, in the case of targeted transfers after the beginning of the budget year. All transfers during 2015-17 were paid in accordance with the agreed timetable. Score: A

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--------------------------------------|------------|---|
| HLG-1(M1) | D+ | |
| 1.1 Transfers from Central Govt (CG) | C | Transfers were more than 85% of budget in 2 of 3 years |
| 1.2 Conditional transfers out-turn | D | SNGs have very little information about targeted transfers at time of budget enactment. |
| 1.3 Timeliness of transfers from CG | A | Transfers are paid in a steady and predictable stream |

PI-1 Aggregate expenditure out-turn

The score for this PI is based on the aggregate differences between originally budgeted total expenditure and actual out-turns over a three-year period. Table 3.2 below shows the original budget and actual out-turn totals for the years 2015-17. Under the 2011 criteria, interest payments were excluded from consideration. Interest on debt has no significant impact on the calculations.

Table 3.2: Budgeted and actual total expenditure 2015-17

RSD thousands

| | 2015 Budget | 2015 Out-turn | 2016 Budget | 2016 Out-turn | 2017 Budget | 2017 Out-turn |
|-------------------------|-------------|---------------|-------------|---------------|-------------|---------------|
| Total expenditure | 3,067,805 | 2,296,229 | 3,001,164 | 2,449,591 | 2,686,277 | 2,324,876 |
| Out-turn as % of budget | | 74.8% | | 81.6% | | 86.5% |
| Less interest paid | 3,500 | 44 | 14,000 | 7,345 | 12,600 | 12,837 |
| Exp. excl. interest | 3,064,305 | 2,296,185 | 2,987,164 | 2,442,246 | 2,673,677 | 2,312,039 |
| Out-turn as % of budget | | 74.9% | | 81.8% | | 86.5% |

Source: S. Mitrovica Finance Dept.

Since out-turn was below 85% of the original budget in two of the three years, the score is D, as in 2015.

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

Interest payments and expenditure from a contingency reserve are excluded from the amounts considered. The calculations assume that debt repayments, interest payments and contingency reserves, which are all excluded from the amounts considered in this dimension, are all classified as General Public Services in the statistics provided by the City. Table 3.3 below shows how the variance is assessed.

Table 3.3: Variance of expenditure by function

RSD thousands

| Function | 2015 Budget | 2015 (2) Out-turn | Budget x 0.7574 (3) | Difference (3) – (2) |
|----------------------------------|----------------|----------------------|------------------------|-------------------------|
| General public services | 236,424 | 249,050 | 179,068 | 69,982 |
| Public Order & Safety | 4,099 | 3,850 | 3,105 | 745 |
| Economic Affairs | 804,472 | 499,988 | 609,307 | 109,319 |
| Environment Protection | 296,857 | 86,978 | 224,839 | 137,861 |
| Housing | 521,155 | 399,589 | 394,723 | 4,866 |
| Health | 25,051 | 22,328 | 18,974 | 3,354 |
| Sport, recreation, culture | 539,187 | 479,887 | 408,380 | 71,507 |
| Education | 507,251 | 472,409 | 384,192 | 88,217 |
| Social protection | 97,309 | 82,107 | 73,702 | 8,405 |
| Total | 3,031,805 | 2,296,185 | | 494,265 |
| Variance as % of total out-turn | | | | 21.5% |
| | 2016 Budget | 2016 (2) Out-turn | Budget x 0.8245 (3) | Difference (3) – (2) |
| General public services | 263,895 | 255,638 | 217,581 | 38,057 |
| Public order & safety | 3,938 | 4,307 | 3,247 | 1,060 |
| Economic affairs | 783,608 | 609,853 | 646,085 | 36,232 |
| Environment protection | 301,855 | 88,869 | 248,879 | 160,010 |
| Housing | 467,431 | 420,376 | 385,396 | 34,980 |
| Health | 22,303 | 16,778 | 18,389 | 1,611 |
| Sport, recreation, culture | 476,576 | 489,635 | 392,937 | 96,698 |
| Education | 537,671 | 475,268 | 443,310 | 31,958 |
| Social protection | 104,887 | 81,521 | 86,479 | 4,958 |
| Total | 2,962,164 | 2,442,246 | | 405,564 |
| Variance as % of total out-turn | | | | 16.6% |
| | 2017 budget | 2017 (2) Out-turn | Budget x 0.8729 (3) | Difference (3) – (2) |
| General public services | 298,302 | 277,199 | 260,388 | 16,811 |
| Public order & safety | 4,552 | 4,718 | 3,973 | 745 |
| Economic affairs | 598,303 | 470,405 | 522,259 | 51,854 |
| Environment protection | 243,744 | 144,039 | 212,764 | 68,725 |
| Housing | 434,304 | 364,125 | 379,104 | 14,979 |
| Health | 16,376 | 65,989 | 14,292 | 51,697 |
| Sport, recreation, culture | 484,894 | 485,765 | 423,264 | 62,501 |
| Education | 467,074 | 412,724 | 407,709 | 5,015 |
| Social protection | 101,128 | 87,076 | 88,275 | 1,199 |
| Total | 2,648,677 | 2,312,039 | | 273,526 |
| Variance as % of actual out-turn | | | | 11.8% |

Source: S. Mitrovica Dept. of Finance

The variance reflects considerable changes in the relative shares of expenditure on most functions. There were particularly large shortfalls in environmental protection expenditure in 2015 and 2016, apparently resulting from reductions in investments. Since the variance was more than 15 per cent in two of the three years 2015-17, the score is D.

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 (1) | 2015 Out-turn (2) | Budget X 0.7565 (3) | Difference (3) – (2) |
|----------------------------------|--------------------|----------------------|------------------------|-------------------------|
| Pay, etc. | 426,310 | 417,294 | 322,504 | 94,790 |
| Goods and services | 981,611 | 849,903 | 742,589 | 107,314 |
| Interest paid | 3,500 | 44 | 2,648 | 2,604 |
| Subsidies | 103,700 | 91,628 | 78,449 | 13,179 |
| Transfers/Grants | 290,454 | 286,456 | 219,728 | 66,728 |
| Social benefits | 68,452 | 67,242 | 51,784 | 15,458 |
| Other expenditure | 169,348 | 218,480 | 128,112 | 90,368 |
| Capital expenditure | 991,930 | 365,182 | 750,395 | 385,213 |
| Total expenditure | 3,035,305 | 2,296,229 | | 775,654 |
| Variance as % of actual out-turn | | | | 33.8% |
| | 2016 Budget (1) | 2016 Out-turn (2) | Budget X 0.8231 (3) | Difference (3) – (2) |
| Pay, etc | 419,323 | 419,832 | 345,145 | 74,687 |
| Goods and services | 997,429 | 783,636 | 820,984 | 37,348 |
| Interest paid | 14,000 | 7,345 | 11,523 | 4,178 |
| Subsidies | 68,000 | 55,671 | 55,971 | 300 |
| Transfers/Grants | 273,458 | 251,563 | 225,083 | 26,480 |
| Social benefits | 80,505 | 60,976 | 66,264 | 5,288 |
| Other expenditure | 162,194 | 213,512 | 133,502 | 80,010 |
| Capital expenditure | 961,255 | 657,056 | 791,209 | 134,152 |
| Total expenditure | 2,976,164 | 2,449,591 | | 362,443 |
| Variance as % of actual out-turn | | | | 14.8% |
| | 2017 Budget (1) | 2017 Out-turn (2) | Budget X 0.8736 (3) | Difference (3) – (2) |
| Pay, etc. | 424,179 | 419,826 | 370,563 | 49,263 |
| Goods and services | 1,020,601 | 903,194 | 891,597 | 11,597 |
| Interest paid | 12,600 | 12,837 | 11,007 | 1,830 |
| Subsidies | 57,750 | 93,897 | 50,450 | 43,447 |
| Transfers/Grants | 250,588 | 237,617 | 218,914 | 18,703 |
| Social benefits | 63,407 | 47,578 | 55,392 | 7,814 |
| Other expenditure | 146,784 | 144,750 | 128,230 | 16,520 |
| Capital expenditure | 685,368 | 465,177 | 598,737 | 133,560 |
| Total expenditure | 2,661,277 | 2,324,876 | | 282,734 |
| Variance as % of actual out-turn | | | | 12.2% |

Source: S. Mitrovica Dept. of Finance

As the table shows, actual expenditure on pay and transfers was close to the original budget, while capital expenditure was held back. Since the variance was less than 15 per cent in two of the three years 2015-17, the score is C.

2.3 Expenditure from contingency reserves

An A score is given for this dimension if expenditure charged to a contingency reserve was on average less than 3 per cent of the original budget. Although a reserve of 15 million RSD was included in each of the three budgets for 2015-17, no expenditure was charged to the reserve in any of the three years. The score is therefore A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|--|
| PI-2 (M1) | D+ | |
| 2.1 Expenditure composition out-turn by function | D | Variance exceeded 15% in 2 of 3 years |
| 2.2 Expenditure out-turn by economic classification | C | Variance was less than 15% in 2 of 3 years |
| 2.3 Expenditure from contingency reserves | A | No expenditure was charged to contingency reserves |

PI-3 Revenue out-turn

This Indicator has two dimensions, aggregated by Method 2. The first looks at the difference between the 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 that 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

Actual revenue collected amounted to 76.1 per cent, 75.3 per cent, and 69.6 per cent of budget for the three years 2015-17. Since collections were never within the range 92-116 per cent of the budget, the score is D. Details are shown in Table 3.5 below.

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 0.7606 (3) | Difference (3) – (2) |
|---------------------------|-------------|-------------------|---------------------|----------------------|
| Property tax | 296,010 | 269,453 | 225,145 | 44,308 |
| Tax on goods & services | 40,510 | 37,072 | 30,812 | 6,260 |
| Other taxes | 32,000 | 37,575 | 24,339 | 13,236 |
| Property revenue | 134,000 | 116,066 | 101,920 | 14,146 |
| Sales of goods & services | 312,637 | 176,762 | 237,792 | 61,030 |
| Fines | 16,200 | 14,489 | 12,322 | 2,167 |
| Other | 101,081 | 70,324 | 76,882 | 6,558 |
| Refunds | 16,493 | 409 | 12,545 | 12,136 |
| Proceeds of asset sales | 11,300 | 8,166 | 8,595 | 429 |
| Total own revenue | 960,231 | 730,316 | | 160,270 |

| | | | | |
|---------------------------------|----------------|----------------------|------------------------|-------------------------|
| Variance as % of actual revenue | | | | 21.9% |
| | 2016 Budget | 2016 (2) Out-turn | Budget x 0.7528 (3) | Difference (3) – (2) |
| Property tax | 312,100 | 328,011 | 234,949 | 93,062 |
| Tax on goods & services | 38,960 | 38,693 | 29,329 | 9,364 |
| Other taxes | 45,000 | 34,315 | 33,876 | 439 |
| Property revenue | 115,000 | 143,235 | 86,572 | 56,663 |
| Sales of goods & services | 393,291 | 102,899 | 296,069 | 193,170 |
| Fines | 15,600 | 16,363 | 11,744 | 4,619 |
| Other | 85,459 | 95,015 | 64,334 | 30,681 |
| Refunds | - | 22 | - | 22 |
| Proceeds of asset sales | 12,890 | 8,026 | 9,704 | 1,678 |
| Total own revenue | 1,018,300 | 766,579 | | 389,698 |
| Variance as % of actual revenue | | | | 50.8% |
| | 2017 Budget | 2017 (2) Out-turn | Budget x 0.6961 (3) | Difference (3) – (2) |
| Property tax | 467,000 | 297,621 | 325,079 | 27,458 |
| Tax on goods & services | 41,620 | 41,670 | 28,972 | 12,698 |
| Other taxes | 60,000 | 41,981 | 41,766 | 215 |
| Property revenue | 168,800 | 124,272 | 117,502 | 6,770 |
| Sales of goods & services | 224,701 | 216,604 | 156,414 | 60,190 |
| Fines | 18,900 | 15,113 | 13,156 | 1,957 |
| Other | 46,000 | 30,506 | 32,021 | 1,515 |
| Refunds | 300 | 316 | 209 | 107 |
| Proceeds of asset sales | 95,825 | 13,722 | 66,704 | 52,982 |
| Total own revenue | 1,123,146 | 781,805 | | 163,892 |
| Variance as % of actual revenue | | | | 21.0% |

Source: S. Mitrovica Finance Dept.

There was considerable volatility in the different revenue streams, with sales revenues falling far short of budget in 2015 and 2016, while property tax revenues and asset sales fell far short of budget in 2017. The own revenue shortfalls resulted in shortfalls in expenditure particularly on capital programmes. Since the variance substantially exceeded 15 per cent in all three years 2015-17, the score is D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|----------------------------------|---------------|---|
| PI-3 (M2) | D | |
| 3.1 Aggregate revenue out-turn | D | Revenue fell below 92% of budget in all 3 years |
| 3.2 Revenue composition out-turn | D | Variance exceeded 15% in all 3 years |

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 Sremska Mitrovica. 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 classification

Sremska Mitrovica City 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 Classification, 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 this will have been published some months before, it is not included in the budget documentation. No
3. Current year's budget (i.e., 2017 for 2018 budget proposal): No
4. Aggregated budget data for revenue and expenditure broken down by main classification heads (administrative, economic, functional, programme/activities) for 2016 out-turn, 2017 revised budget and 2018 proposals: No

Additional elements:

5. Deficit financing: Yes
6. Macroeconomic assumptions: LGs are not in a position to make independent forecasts, so NA
7. Debt stock: Yes
8. Financial assets: No
9. Summary information on fiscal risks, including contingent liabilities: although there are no guarantees or PPPs there are City-Owned Enterprises (COEs) which could pose risks. These are not discussed in budget documentation: No
10. Explanation of budget implications of new decisions about revenue and expenditure: Yes
11. Documentation on medium-term fiscal forecasts: No
12. Quantification of tax expenditure: NA – LGs have no discretion to grant tax exemptions.

When information is published (see PI-9 below) it is available without delay on the city website (<http://www.sremskamitrovica.rs>). Because only one of the four basic elements is satisfied, the score is D.

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

All expenditure, including expenditure from own revenue collected by indirect budget beneficiaries (such as libraries, sports and cultural institutions) is included in the city budget and financial reports. The central government is responsible for the main education and health services where significant revenues typically accrue from service users. In the case of schools, hospitals, and similar where part of the expenditure is covered by the city according to the relevant law (such as Health Protection Law), all expenses are fully included in the budget. Score A.

6.2 Revenue outside financial reports

All revenue, including revenue collected by indirect budget beneficiaries, is included in the city budget and financial reports. (Technical assistance directly provided by RELOF towards PFM improvement is not included in the city's financial reports.) Score A.

6.3 Financial reports of extrabudgetary units

Since the municipal enterprises (see Table 2.13 above) are all established as corporate entities in accordance with Government policy and legislation, they are all considered under PI-10.1 below. Thus, there are no extra-budgetary units. Score NA.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-6 (M2) | A | |
| 6.1 Expenditure outside financial reports | A | All expenditure of the city is reported. |
| 6.2 Revenue outside financial reports | A | All revenue of the city is reported. |
| 6.3 Financial reports of extra-budgetary units | NA | There are no extra-budgetary units. |

PI-7 Transfers to subnational governments

Although about 10 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. The score for this Indicator and its two dimensions covering respectively the system for allocating transfers and the timeliness of the information on transfers to subordinate governments is NA.

| Indicator/Dimension | Score | Brief justification for score |
|--|-------|-------------------------------|
| PI-7. (M2) | NA | |
| System for allocating transfers | NA | No subnational governments |
| Timeliness of information on transfers | NA | No subnational governments |

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. Thus, information is published annually on programme objectives, key performance indicators, outputs to be produced, and the outcomes planned. All expenditure by all budget users 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 to MoF by 1 September. No reports have yet been published. Score D.

8.3 Resources received by service delivery units

Indirect budget beneficiaries' (kindergarten schools, libraries, cultural centres) resources including any charges paid by users are fully reported in budgets and execution statements. The national Treasury system where all transactions are recorded makes it possible to identify all the resources received by each institution. Annual reports are made to the Finance Department by each institution. 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 | Programme objectives and targets in terms of outputs are included in budget documentation. |
| 8.2 Performance achieved for service delivery | D | Performance reports were made to MoF for the first time in September 2018, but these have not yet been published. |
| 8.3 Resources received by service delivery units | A | Full information is available about resources received by nursery schools, cultural institutions, etc. |
| 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 - No
2. Enacted budget: published immediately on city website. The information is easily accessible for the public. There is a link on the homepage of Sremska Mitrovica (<http://www.sremskamitrovica.rs>) that leads to all budget-related information (both planning and execution). – Yes
3. In-year budget execution reports: published monthly and in detail at half year and 9 months – Yes
4. Annual budget execution report: published by 30 June, including narrative explanation – Yes
5. Audited annual financial report: budget execution report includes auditor's report in years when City is not audited by SAI. When there is an audit by SAI audited report is available within 12 months of year-end – Yes

Additional elements:

6. Prebudget statement: not issued – No
7. Other external audit reports: there are none – NA
8. Summary of budget proposal: Citizens' budget issued with NGO support – Yes
9. Macroeconomic forecasts: not relevant at LG level – NA

Information on fees, charges and taxes belonging to the City, and information on services provided by the City may be substituted for elements 7 and 9. Both are provided on the website and on demand at city offices.

Since four of the five basic and three additional elements are provided, score is B.

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

In line with the Public Enterprise Law, the City's five COEs prepare annual work programmes and make quarterly and annual programme and financial reports. The audited annual financial reports of all COEs are published and available to the public at the Serbian Business Register (www.apr.gov.rs). The Assembly formally approves the audited annual financial statements before the end of June each year. Consolidated quarterly and annual reports are submitted to the Ministry of Economy, but no consolidated overview has been published. Score B.

10.2 Monitoring of subnational governments

As noted in PI-7 above, there are no subordinate authorities in Sremska Mitrovica. Dimension is NA.

10.3 Contingent liabilities and other fiscal risks

The City has no exposure to PPPs. No formal guarantees may be given for COE borrowing, but the City could not avoid liability for risks from COE operations like those arising from its water and gas distribution systems, including dams and pipes, which fall to be considered under 10.1 above. No information has been published about the City's exposure to implicit contingent liabilities and other fiscal risks, including possible currency risks on its outstanding loans. Since this dimension is scored by reference to the city's explicit contingent liabilities, of which there are none, Score is NA.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|---|
| PI-10 (M2) | B | |
| 10.1 Monitoring of public corporations | B | Audited annual financial reports are published by the end of June each year, but no consolidated overview is published. |
| 10.2 Monitoring of subordinate governments | NA | Sremska Mitrovica has no subordinate governments. |
| 10.3 Contingent liabilities and other fiscal risks | NA | There are no explicit contingent liabilities. |

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. Although there are no applicable national guidelines for the assessment of projects, the City has commissioned independent economic analyses of the four major projects under construction in 2015-17 as part of its budgetary planning and procurement processes, taking into account their importance for the implementation of its sustainable development strategy 2010-20, which is currently under review with the assistance of the Vojvodina Province. However, the analyses have not been published. Score C.

11.2 Investment project selection

In 2016, the City adopted and published the Capital Investment Plan 2017-2021, which includes clear standard selection criteria (Annex 5 of the Capital Investment Plan). The Capital Investment Plan also includes a calendar for development of Capital Investment Plan, a set of formal procedures for submitting potential projects, including a submission template, as well as a list of projects submitted and selected with clear sources of finance for the four following years. The prioritisation of larger investment projects is based on their potential contribution to the city's social and economic development, their sustainability, and their state of preparation. During the period 2015-17, four major investment projects were under construction – a rail underpass (total costs 800.6m RSD), a swimming pool (total costs 289.4m RSD), an elementary school (total costs 109.7m RSD), and development of a landfill site (179.4m RSD). Together these projects accounted for about 92 per cent of the City's investment expenditure during the period 2015-17 (see PI-2.2 above). Since all major projects were prioritised by the City Council by reference to the criteria in the published strategic document, score is A.

11.3 Investment project costing

Although the city had not yet produced full revenue and expenditure projections for the two years following the budget year, the capital costs of investment projects and any associated running costs in the budget year and the two following years have been included in budget documentation. The full capital costs of each are given. Score B.

11.4 Investment project monitoring

As part of the city's arrangements for Financial Management and Control, the city General Affairs and Property Department has standard procedures for monitoring the costs and physical progress of investment projects. Regular reports are made by the Head of Department to the Mayor and Council. Monthly and annual reports are made to MoF, and information for citizens about project execution is published monthly and annually on the city website. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-11 (M2) | B+ | |
| 11.1 Economic analysis of investment proposals | C | Investment is planned within the framework of the city's development strategy, but the analyses are not published. |
| 11.2 Investment project selection | A | Projects are prioritised by the City Administration by reference to their contribution to the city's social and economic development objectives. |
| 11.3 Investment project costing | B | The full capital costs of investment projects are included in budget documentation, together with amounts (capital and current) to be spent over the next 3 years. |
| 11.4 Investment project monitoring | A | The costs and physical progress of projects are regularly monitored, and information for citizens is published monthly and annually on the city website. |

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

The City publishes the financial reports of its COEs each year, including balance sheet valuations of all assets at historical cost (but not fair or market value). City financial reports include its bank balances and other current financial assets. Score B.

12.2 Nonfinancial assets monitoring

The city has recently received details of assets returned to it by central government, but registration of all the City's assets in the national cadastre is incomplete and valuation lacking. The city's Urban Planning and Property Departments are currently working on the property register, but the task is made more difficult by resource limitations and issues arising from property restitution claims. The City is actively seeking donor's assistance to improve this segment. The national cadastre is open, but there is no consolidated publication of the City's holdings. Since the register is not complete, score is D.

12.3 Transparency of asset disposal

Sales or leases of city property require the agreement of the central government Property Directorate and are subject to competitive bids. But lease values and successful tenderers are not published. There is no information about original purchase costs. Score D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|-------------------------------------|------------|--|
| PI-12 (M2) | D+ | |
| 12.1 Financial asset monitoring | B | Financial reports of all COEs are published annually, with assets valued at historical cost. |
| 12.2 Nonfinancial asset monitoring | D | The register of the City's assets is incomplete. |
| 12.3 Transparency of asset disposal | D | Lease values and names of successful tenderers are not published. |

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

Total outstanding debt at end 2017 was about 10 per cent of annual revenue. Records maintained by the Finance Department are complete, and all details of amounts outstanding, interest paid, and repayments of principal are reconciled on a monthly basis. Management and statistical reports are submitted monthly to MoF. Public reports are made annually and half-yearly. Score A.

13.2 Approval of debt and guarantees

Under the Public Debt Law borrowing requires consent of MoF after approval by the city Assembly. Any borrowing by COEs requires the approval of the city Assembly and is included in quarterly reports to CG. SNGs are forbidden to give guarantees. Score A.

13.3 Debt management strategy

The City manages its debt within the MoF limit that debt service payments (interest and capital repayments) must not exceed 15 per cent of annual revenue. Interest payments in 2017 were about

0.5 per cent of total city revenue. However, no debt management strategy has been published with objectives in terms of debt maturity, interest rates or the extent of exposure to foreign currency risks. In the absence of such a published strategy, score is D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|---|
| PI-13 (M2) | B | |
| 13.1 Recording and reporting of debt and guarantees | A | All records of amounts outstanding, interest paid and principal repayments are complete and up to date. |
| 13.2 Approval of debt and guarantees | A | All borrowing requires approval of both MoF and city Assembly. |
| 13.3 Debt management strategy | D | No debt management strategy has been published. |

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 city relies on central government forecasts, dimension is Not Used.

14.2 Fiscal forecasts

Budget documentation covers the details of revenue and expenditure for the budget year only, with no forecasts for the two following years. Score D.

14.3 Macrofiscal sensitivity analysis

There are no medium-term fiscal forecasts which could serve as the basis for such analysis. Score NA.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---------------------------------------|------------|--|
| PI-14 (M2) | D | |
| 14.1 Macroeconomic forecasts | NU | The city relies on macroeconomic forecasts supplied by CG. |
| 14.2 Fiscal forecasts | D | No forecasts are produced beyond the budget year immediately ahead. |
| 14.3 Macrofiscal sensitivity analysis | NA | There are no forecasts which could serve as the basis for such analysis. |

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 of how these decisions are fitted within the overall requirement for a balanced budget. Budget

documentation includes the estimate of fiscal impact of all new decisions on revenue and expenditure in the budget year only. Score C.

15.2 Fiscal strategy adoption

The City does not have a medium-term fiscal strategy. 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 includes estimate of fiscal impact of all changes in revenue and expenditure for the budget year only. |
| 15.2 Fiscal strategy adoption | D | The city does not have a medium-term fiscal strategy. |
| 15.3 Reporting on fiscal outcomes | NA | There is no strategy against which to report outcomes. |

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

16.1 Medium-term expenditure estimates

Budget beneficiaries provide the city Finance Department with projections of their expenditure for three years ahead, but these have not been included in budget documentation. The budget as presented provides estimates of expenditure for the budget year only. Score D.

16.2 Medium-term expenditure ceilings

No medium-term estimates are included in budget documentation. Score NA.

16.3 Alignment of strategic plans and medium-term budgets

The city's Strategic Development Plan is particularly concerned with the attraction of inward investment (see Chapter 2, paragraph 20). As explained in PI-11.2 above, larger investment projects are selected taking into account their contribution to the city's development. The larger investment projects current at the time of the assessment fall into the functional categories Economic Affairs, Education, and Sport, Recreation and Culture, which together account for well over half of the city's expenditure. Score C.

16.4 Consistency of budgets with previous year's estimates

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

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|---|
| PI-16 (M2) | D+ | |
| 16.1 Medium-term expenditure estimates | D | The annual budget presents figures for the budget year only. |
| 16.2 Medium-term expenditure ceilings | NA | No medium-term estimates have been published. |
| 16.3 Alignment of strategic plans and medium-term budgets | C | Elements in annual budget plans reflect aspects of the city's development strategy. |

| | | |
|--|----|--|
| 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 city. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September. 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 21 November. The City budget circular has thus been formally issued on time, using the previous year's assumptions, but budget users do not submit figures until MoF Guidance is eventually received some time in November. Budget users must then produce their figures within a very short timescale. Score C.

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. Score C.

17.3 Budget submission to the Assembly

The budget proposals were submitted to the Assembly on 11 December 2015, 9 December 2016, and 8 December 2017 for 2016, 2017 and 2018 budgets respectively. Since the Assembly has less than one month each year to consider the proposals, score is D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-17 (M2) | D+ | |
| 17.1 Budget calendar | C | A clear annual budget calendar exists but it gives budget users less than a month to prepare their submissions. |
| 17.2 Guidance on budget preparation | C | Budget proposals are reviewed by the Council only after they have been completed by the Administration. |
| 17.3 Budget submission to the Assembly | D | Budget proposals have been submitted to the Assembly less than a month before year-end for the last three budgets. |

PI-18 Legislative scrutiny of budgets (M1)

18.1 Scope of budget scrutiny

The Assembly's discussions cover fiscal policies and aggregates as well as details of revenue and expenditure for the year ahead. The city's Head of Budget and Local Economic Development explains the fiscal background to the proposals, including the possible needs for cost reductions or borrowing. But no attention is paid to the medium term. Score B.

18.2 Legislative procedures for budget scrutiny

There are standard procedures determined by the Budget System Law and followed by the Assembly, which includes a study by a specialised Committee appointed by the Assembly whose report is considered by the Assembly alongside the Council's proposals. The Committee may discuss possible changes to the proposals with the administration before reporting to the Assembly. If the Committee

disagrees with the proposals, they are referred back to the Administration. But there have been no public consultations, although these will now be required in future. Score B.

18.3 Timing of budget approval

The Assembly approved the three most recent budgets on 23 December 2015, 20 December 2016, and 20 December 2017, respectively. Score A.

18.4 Rules for budget adjustments by the executive

Virements of up to 10% of the amounts for each activity within a programme can be made subject to approval by the Council. Larger reallocations or reallocations between programmes require a supplementary budget. These limits are respected. The city's annual budget Ordinances do not contain any further limitations of the Council's authority to approve virements. Budget revisions by the Assembly have been made only once or twice a year. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-18(M1) | B+ | |
| 18.1 Scope of budget scrutiny | B | Assembly reviews fiscal aggregates and revenue and expenditure details for the year ahead only. |
| 18.2 Legislative procedures for budget scrutiny | B | Assembly has well-established procedures, including the study by a specialised committee. |
| 18.3 Timing of budget approval | A | The budget has been approved before the beginning of the next fiscal year in each of the last three years. |
| 18.4 Rules for budget adjustments by the executive | A | There are clear rules limiting the extent to which the Council can make budget adjustments without the approval of the Assembly. |

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)

Approaching half the annual revenue under the city's control accrues from property taxes, environmental charges, fees for the use of public space and fees for the display of business names (see PI-3 above). The largest elements in the remainder of the city's revenue derive from property rents, etc. and sales of goods and services. These other revenue streams do not give rise to issues covered in this PI concerning the provision of information to taxpayers, the identification of taxpayers or the need for audit, investigation and enforcement measures. Accordingly, the assessment here covers only those revenue streams which are determined by city ordinances.

19.1 Rights and obligations for revenue measures

Full information is 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 are notified by the city, but business taxpayers must self-assess using the instructions provided. There are public announcements on radio and television reminding people of their obligation to pay property and other taxes, and reminders are also sent. Taxpayers can access the

amounts they owe on the city's website. There are not many complaints against property tax assessments. Notifications to domestic taxpayers and instructions to businesses make clear that if the city's response to a complaint is not accepted, it may be taken to MoF Regional Office (a procedure which is not fully independent and transparent). Score A.

19.2 Revenue risk management

The Tax Department collects 40 per cent of the city's own revenues, which fall to be considered in the context of this Indicator uses a systematic approach to major revenue risks. Non-registration of property is addressed through a continuous effort to increase the number of taxpayers through aerial surveys and cross-referencing with other registers. Thus, the number of domestic taxpayers has been increased from 24,623 in 2011 to 42,908 in 2017. To ensure complete and accurate reporting of information in declarations, the 350 business taxpayers who accounted for about a third of assessments in 2017 are all examined in some detail. Timely declaration and payment are encouraged by the provision that full payment by 31 December of amounts owed for the year entitles a taxpayer to a 10 per cent reduction in payments for the following year. Score B.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. The city has provided the assessors with a document that includes a risk assessment, measures to counter the risks, and a monthly schedule of actions to be undertaken, including audits and investigations. 200 individual assessments are audited every year, with emphasis on business taxpayers. All planned audits and investigations are completed by the local tax office, which collects the revenues in question. The two staff members assigned to enforcement prioritise the collection of larger amounts of arrears. Score B.

19.4 Revenue arrears monitoring

In common with other SNGs, Sremska Mitrovica inherited a substantial amount of arrears when the city became responsible for property tax collection in 2009. Much of these were attributable to failed businesses and deceased property owners. Unpaid property and other taxes accrue interest as long as they are outstanding. A partial waiver of interest charges may be allowed when a taxpayer makes and complies with a payment rescheduling arrangement, but failure to comply results in the full restoration of the interest liability. Movements in tax arrears since the beginning of 2016 are shown in table 3.6 below.

Table 3.6 Tax collections and arrears, 2016-17

RSD thousands

| | Arrears at 1.1.16 | Assessments 2016 | Collections 2016 | Arrears at 1.1.17 | Assessments 2017 | Collections 2017 | Arrears at 1.1.18 |
|--|----------------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
| Property tax | | | | | | | |
| Businesses | 224,356 | 94,482 | 117,997 | 180,177 | 91,222 | 68,084 | 271,963 |
| Individuals | 288,121 | 139,918 | 149,273 | 268,952 | 156,409 | 136,081 | 299,890 |
| Trade name display charge | 63,126 | 33,340 | 34,315 | 95,025 | 35,509 | 41,981 | 94,626 |
| Overall total | 575,604 | 267,740 | 301,585 | 544,155 | 283,140 | 246,145 | 666,479 |

Source: Sremska Mitrovica Dept. of Finance

For a score above D the stock of revenue arrears must not exceed 40 per cent of collections in the previous year, and those over 12 months old must be less than 75 per cent of total arrears. As the figures show, collections exceeded assessments in 2016, as a result of an enforcement campaign, and arrears of property tax fell. But the overall amounts owed have subsequently continued to increase

because of compound interest on old debts. The persistence of total amounts outstanding is an indication that only relatively small amounts of arrears at the beginning of each year are collected during that year, although exact information on this point is not available. A large proportion of the arrears must be considered uncollectable, but they cannot readily be written off because of the City's need to maintain its claims against insolvent businesses, which may eventually be turned into equity stakes. Since the arrears at the end of 2017 were 271 per cent of collections during the year, score is D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-19 (M2) | B | |
| 19.1 Rights and obligations for revenue measures | A | A variety of different means are used to notify revenue payers of their obligations. |
| 19.2 Revenue risk management | B | There is a continuing effort to minimise revenue risks arising from local property taxes. |
| 19.3 Revenue audit and investigation | B | There is a compliance improvement plan covering the majority of revenues, and audit plans are implemented. |
| 19.4 Revenue arrears monitoring | D | Arrears at the end of 2017 were 271 per cent of 2017 collections. |

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

Full monthly reconciliation is made within 4 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 by the Finance Department to the Council and MoF. |
| 20.2 Transfer of revenue collections | A | All revenue is paid the same day into the city's account in the Treasury Single Account. |
| 20.3 Revenue accounts reconciliation | A | There is a complete monthly reconciliation of assessments, collections, arrears and payments into TSA, and individual taxpayer accounts are updated as revenue is 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 monthly in the light of experience of actual cash inflows and outflows. Score A.

21.3 Information on commitment ceilings

The Budget department sends quarterly commitment ceilings to the budget users (one quarter in advance), which allow relatively more expenditure in the second half of the year. The IT system allows full control of the budgetary users' expenditures against those ceilings. Score B.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly once or twice a year with full transparency. (A revised budget is not needed for the spending of targeted transfers not notified before the beginning of each fiscal year.) There was only one budget revision in 2017. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|--|
| PI-21 (M2) | A | |
| 21.1 Consolidation of cash balances | A | Cash balances are all held in the TSA. |
| 21.2 Cash forecasting and monitoring | A | Cash forecasts are updated monthly. |
| 21.3 Information on commitment ceilings | B | Budget users receive quarterly expenditure allocations. |
| 21.4 Significance of in-year budget adjustments | A | Revised budgets are approved by the Assembly once or twice a year, with full transparency. |

PI-22 Expenditure arrears (M1)

22.1 Stock of expenditure arrears

The Law on Amendments to the Law on Terms of Settlement of the Financial Obligations in Commercial Transactions ("Off. Gazette of the Republic of Serbia", no. 113/2017) introduced a new concept – Central Register of Invoices, which represents the system (database) established and maintained by the central Treasury Administration (under the Ministry of Finance), where the invoices and other requests for payment issued by the suppliers in commercial transactions between public sector entities and business entities are registered. The Law prescribes that suppliers must register their invoices in the database (<https://crf.trezor.gov.rs/>). As explained in 22.2 below, the flow of income tax revenues is interrupted if invoices are not paid within 45 days. In addition, the Ministry of Finance daily publishes the list of all budgetary users, LGs included, that have arrears with the amount of the arrears (<https://www.mfin.gov.rs/tip-dokumenta/pregled-iz-rino/>). The city had no arrears during the period 2015-17. Score A.

22.2 Expenditure arrears monitoring

Contractors and suppliers register their invoices directly with the Central Register of Invoices, which suspends transfers of tax revenue if invoices are not paid within the stipulated period of 45 days. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---------------------|------------|------------------------------|
| PI-22 (M1) | A | |

| | | |
|-------------------------------------|---|---|
| 22.1 Stock of expenditure arrears | A | There are no arrears. |
| 22.2 Expenditure arrears monitoring | A | This is done automatically through the TSA with which all invoices have to be registered. |

PI-23 Payroll controls (M1)

23.1 Integration of payroll and personnel records

The central government sets an overall ceiling for the number of city employees. The 580 staff in the city Administration and the indirect budget beneficiary institutions are paid from the city budget on the basis of approved staff lists. Personnel and payroll records are not directly linked, but all changes in personnel records (such as hiring or promotion) are subject to close control, and no changes are made to the Administration payroll unless authorised by HR management at senior level, which specifically controls the salaries to be paid. Indirect budget beneficiaries are responsible for their own staff management and for instructing the Finance Department about changes to their payrolls. Operation of the payroll for both direct and indirect budget beneficiaries is supervised by the Head of Finance and it is reconciled monthly by reference to changes since the previous month. Score B.

23.2 Management of payroll changes

Payroll is updated monthly in the light of any changes in relevant personnel records. Required changes are in time for the following month's payment. The Finance Department, which manages the payroll, confirmed that retroactive adjustments are very rare and far below 3 per cent of the annual payroll. Score A.

23.3 Internal control of payroll

As explained in 23.1 above, there is close hierarchical supervision of changes to personnel and payroll records. Access to the payroll software system is closely controlled so as to ensure the integrity of the data, and there is always an audit trail. Score A.

23.4 Payroll audit

The personnel records of all the Province's SNGs are subject to external inspection every year organised by Vojvodina Province, to confirm that all employees hold the required qualifications, that their pay is correctly assessed in accordance with their grade and length of service, and that all posts are authorised by central government. A recent internal control report recommended that all staff should sign their own payslips to provide greater assurance that funds are reaching their intended recipients. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|--|
| PI-23 (M1) | B+ | |
| 23.1 Integration of payroll and personnel records | B | There is no automatic link between personnel records and the payroll, but the payroll is changed only when authorised by staff managers. |
| 23.2 Management of payroll changes | A | Personnel records and payroll are updated monthly, and retroactive adjustments are almost unknown. |
| 23.3 Internal control of payroll | A | Authority to change personnel records and the payroll is restricted, and always produces an audit trail. |

| | | |
|--------------------|---|---|
| 23.4 Payroll audit | A | There is regular inspection of the personnel records of all employees to confirm that all posts are approved and that all employees are paid correctly. |
|--------------------|---|---|

PI-24 Procurement (M2)

24.1 Procurement monitoring

Records covering the city Administration are stated to be complete and accurate. But they do not extend to procurement by indirect budget beneficiaries. The recorded value of contracts in this database corresponds to only about a third of annual expenditure on goods and services and capital investment (see PI-2 above). Since it is doubtful whether a majority of procurement is covered by the database, score is D.

24.2 Procurement methods

Procurement in 2016 and 2017 directly financed from the city budget is summarised in Table 3.7 below. Very few contracts were placed through direct approaches to a single supplier. Low value procurements were all advertised on the city website and the central government Public Procurement Portal.

Table 3.7: Procurement contracts 2016-17

RSD thousands

| | Goods (Number of contracts) | Services (Number of contracts) | Works (Number of contracts) |
|-----------------------|--------------------------------|-----------------------------------|--------------------------------|
| 2016 | | | |
| Open procedure | 75,804 (1) | 408,973 (3) | - |
| Low value procurement | 14,371 (17) | 32,524 (19) | 2,187 (1) |
| Single source | - | 1,665 (3) | - |
| Total | 90,175 (18) | 443,162 (25) | 2,187 (1) |
| 2017 | | | |
| Open procedure | 53,589 (5) | 26,909 (3) | 345,374 (13) |
| Low value procurement | 20,982 (19) | 36,751 (20) | 14,849 (7) |
| Single source | - | 3,344 (3) | - |
| Total | 74,570 (24) | 67,004 (26) | 360,223(20) |

Source: Sremska Mitrovica Dept. of Finance

Although practically all contracts in the database are placed through competitive procedures, the absence of assurance that at least 60 per cent of expenditure on goods and services and on capital investment is subject to competition results in the score D.

24.3 Public access to procurement information

5 of 6 key elements of information are in principle accessible to the general public (legal and regulatory framework, city procurement plans, bidding opportunities, contract awards, data on resolution of procurement complaints). Procurement plans, bidding opportunities and contract awards are all published on the Public Procurement Portal without delay, while the results of any procurement complaints are published by the Republican Commission (see 24.4 below). But as explained in 24.1 above, it is doubtful whether information about procurement plans, bidding opportunities and contract awards is complete.

There is no publication of annual procurement statistics. Score D.

24.4 Procurement complaints management

The Republican Commission which judges complaints satisfies all 6 criteria:

(1) The members of the Commission have no involvement in procurement transactions or the award of contracts.

(2) The fees required, although high enough to discourage frivolous complaints (60,000 RSD for contracts in the range 0.4m. – 3m.RSD, 120,000 RSD for contracts up to 120m. RSD, and 0.1 per cent for the largest contracts), are not such as to prohibit access to the appeals process.

(3) The Commission follows clearly defined processes which are publicly available.

(4) The Commission has the authority to suspend the procurement process.

(5) The Commission issues decisions within a specified timeframe.

(6) The Commission's decisions are binding on all parties (without precluding subsequent appeals to the administrative court).

Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|--|
| PI-24 (M2) | D+ | |
| 24.1 Procurement monitoring | D | Data appear to cover less than 50% of procurement. |
| 24.2 Procurement methods | D | It is not clear that more than 60% of procurement is subject to competition. |
| 24.3 Public access to procurement information | D | Five of six elements of information are published, but not annual procurement statistics. But it is doubtful whether the information about procurement plans, bidding opportunities and contract awards is complete. |
| 24.4 Procurement complaints management | A | The complaint system meets all six criteria. |

PI-25 Internal controls on nonsalary expenditure (M2)

25.1 Segregation of duties

The MoF Rulebooks on the Organisation and Systemisation of Workplaces and on Accounts and Budgetary Accounting prescribe appropriate arrangements for ensuring segregation of duties. Effect is given to this through the city Decision on the Organisation of the City Administration. The SAI report on 2017 found no problems in this area. In addition, expenditure commitment controls are ensured as a part of the Financial and Management Control system introduced in the City of Sremska Mitrovica and confirmed by SAI audit. The FMC system includes processes and procedures set up to segregate authorisation, recording, custody of assets and reconciliation or audit, as well as a Risk Register and Risk Management Strategy. Score A.

25.2 Effectiveness of expenditure commitment controls

New IT software introduced since 2015 controls for expenditures against budgetary provision for the institution concerned, i.e., expenditures would be rejected if they were not within the budgetary provision for the institution concerned. This ensures that no order is placed by the city Administration and indirect budget beneficiaries unless there is the specific budgetary provision and cash available. Score A.

25.3 Compliance with payment rules and procedures

The Treasury system will only make payments if the orders are in the correct form supported by two signatures and documentary evidence of the justification for each payment. The 2017 audit did not identify any difficulties in this area. Thus, all Payments are properly authorised and justified, without any exceptions. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|---|
| PI-25 (M2) | A | |
| 25.1 Segregation of duties | A | Appropriate segregation is ensured by the city's standing instructions. |
| 25.2 Effectiveness of expenditure commitment controls | A | The new controls prevent commitments from being undertaken unless budgetary provision and cash are available. |
| 25.3 Compliance with payment rules and procedures | A | All payments are properly authorised and justified. |

PI-26 Internal audit (M1)

26.1 Coverage of internal audit (IA)

Sremska Mitrovica intends to establish IA in 2020 if it receives permission for hiring from the central level and RELOF assistance are available. Score D.

26.2 Nature of audits and standards applied

Since IA is not yet operative, this dimension is Not Applicable.

26.3 Implementation of internal audits and reporting

Since there are no reports, this dimension is Not Applicable.

26.4 Response to internal audits

This dimension is also Not Applicable.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|------------------------------|
| PI-26 (M1) | D | |
| 26.1 Coverage of internal audit | D | IA is not yet operational. |
| 26.2 Nature of audits and standards applied | NA | There is no IA. |
| 26.3 Implementation of internal audits and reporting | NA | There is no IA |
| 26.4 Response to internal audits | NA | There is no IA |

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 city transactions, including those of indirect budget beneficiaries, take place through the TSA with daily reconciliations with city records. Score 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 City makes no advances. Advances to contractors are cleared at each stage of the contract and reconciled at year end. 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 the city's IT systems interacting with the national Treasury is controlled and supervised and gives rise to an audit trail on each occasion. The systems do not allow retrospective alteration of data. Score B.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|--|
| PI-27 (M2) | B | |
| 27.1 Bank account reconciliations | A | All transactions included in the city budget are executed through the TSA with daily reconciliations between bank and city records. |
| 27.2 Suspense accounts | NA | There are no suspense accounts. |
| 27.3 Advance accounts | C | Advances to contractors are cleared in accordance with contractual arrangements, and outstanding amounts are reconciled at year-end. |
| 27.4 Financial data integrity processes | B | Access and changes to records are restricted and recorded and give rise to 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 are produced and published on the economic classification, with full coverage of indirect budget beneficiaries. Reports with the same detail as the original budget are produced and published after 6 and 9 months. Monthly reports with full detail on economic, administrative, functional and programme classifications are sent to MoF within 15 days of month-end in accordance with the MoF Rulebook on reporting. Score A.

28.2 Timing of in-year budget reports

Reports are produced by the city Finance Department within 15 days of month-end and submitted to the Mayor. The 6-month and 9-month reports are also prepared by the City Finance Department and submitted to the City Council and Assembly. 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 produced 6-monthly, but commitments are not reported. Score B.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---------------------|------------|------------------------------|
|---------------------|------------|------------------------------|

| score | | |
|--|----|--|
| PI-28 (M1) | B+ | |
| 28.1 Coverage and comparability of reports | A | Detailed monthly reports are made to MoF on economic and functional classifications. |
| 28.2 Timing of in-year budget reports | A | Reports are sent to MoF within 15 days of month-end. |
| 28.3 Accuracy of in-year budget reports | B | Reports cover payments only, and not commitments |

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. 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 1 June to be submitted to MoF by 15 June. Sremska Mitrovica met this timetable for the 2015 and 2016 reports, which were audited by commercial auditors. 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 decides not 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 timetable. For 2017 when the city was audited by the SAI, the audit began on 13 February on the basis of budget execution figures. The full financial report, including the balance sheet and cash flow reconciliation, was provided before the end of April. Since auditors must have the full report available before the end of May, whether the audit is undertaken by the SAI or by commercial auditors, Score is B.

29.3 Accounting standards

Annual financial statements are prepared in accordance with MoF Regulations issued in 2006. Sremska Mitrovica 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 a consistent format and follow the standards disclosed in the *Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds*⁹ and *Government Order on Budgetary Accounting*¹⁰. Score A.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---------------------|------------|------------------------------|
| PI-29 (M1) | B+ | |

⁹ 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*

¹⁰ Government Order on Budgetary Accounting, Republic Serbia's Official Gazette Nos. 125/2003 and 12/2006.

| | | |
|---|---|---|
| 29.1 Completeness of annual financial reports | B | Reports contain full information about 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 available within 5 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. |

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 pays little attention to the functioning of systems or compliance with legal requirements. However, Sremska Mitrovica's 2017 financial statements were audited by the SAI according to ISSAI standards. This included examinations of the functioning of systems and control risks and did not find problems of major importance. Sremska Mitrovica accepted all recommendations and responded accordingly.

The SAI also audited the City's gas distribution company, whose audited report was adopted by the City Assembly. It did not audit the other COEs. 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

Commercial audit reports for 2015 and 2016 were submitted to the Assembly before 15 June together with the annual financial report, within three months of the auditor receiving the draft financial statements. For 2017 publication of the report, taking into account the initial responses of the City Administration to the draft, took place on 17 October 2018, within six months of the SAI's receipt of the complete draft financial statements. Score B.

30.3 External audit follow-up

The commercial audits of 2015 and 2016 did not give rise to any findings requiring follow-up. The SAI's audit of 2017 recommended the introduction of a risk strategy, and some book-keeping corrections, all of which were accepted by the City Administration. This formal written response to the 2017 audit systematically addressed the audit findings, and shows clearly that effective action is taken in response to them, although resource limitations may delay the implementation of some recommendations. Score A.

30.4 Supreme Audit Institution (SAI) independence

Under the SAI Law (as amended in 2010), the President and Council Members of the SAI are appointed by the National Assembly for terms of five years, renewable once, on a proposal by the appropriate Parliamentary Committee (Article 19). The SAI operates independently of the Executive, and has full access to records, documentation and information. The SAI is independent in the execution of its own budget, which is put forward to the Government by the National Assembly (Article 51), but it appears that the Government ultimately controls the amount of the SAI budget. Score C.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|---|------------|---|
| PI-30 (M1) | D+ | |
| 30.1 Audit coverage and standards | D | Audit by the SAI meets international standards, but only one of three years 2015-17 has been subject to substantive audit. |
| 30.2 Submission of audit reports to the legislature | B | The SAI report on 2017 was submitted to the city Assembly within 6 months of the receipt of the financial statements by the auditor. (The commercial audit reports on the two previous years were submitted within 3 months.) |
| 30.3 External audit follow-up | A | There is clear evidence of a substantial response by the city to the SAI report on 2017. |
| 30.4 SAI independence | C | The President and Members of the SAI Council are appointed by the National Assembly, and the SAI is independent of the executive in the conduct of its work. But its budget is ultimately controlled by MoF. |

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Commercial financial audit reports are submitted to the City 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 15 June. In practice, the City Assembly's involvement is essentially formal, and there is no substantive discussion. This was the case in 2015 and 2016. By contrast, in the case of the SAI report on 2017 the City Assembly was actively involved in considering the decisions required to give effect to the audit recommendations. PEFA Fieldguide states that unless the Assembly insists on a substantive audit every year, it is not holding the Administration to account, resulting in the score D.

31.2 Hearings on audit findings

The commercial audits of 2015 and 2016 did not give rise to any findings which could be the subject of hearings. A hearing was held by the Assembly in May 2019 about the SAI findings on 2017, following more detailed review by the Budget and Finance Committee. Score C.

31.3 Recommendations on audit by the Assembly

The Assembly has not addressed any recommendations to the Council based on audit reports. Score D.

31.4 Transparency of legislative scrutiny of audit reports

Discussion of the SAI report on 2017 was open to the public via TV and internet broadcast, but there were no substantive hearings in relation to the commercial audit reports on 2015 and 2016. No record was published of the discussion of the report on 2017. Score D.

| Indicator/Dimension | 2018 score | Justification for 2018 score |
|--|------------|--|
| PI-31 (M2) | D | |
| 31.1 Timing of audit report scrutiny | D | Score is D unless a substantive audit is undertaken covering more than 50% of expenditure during the 3 years 2015-17 |
| 31.2 Hearings on audit findings | C | A hearing was held to consider the SAI findings on 2017. |
| 31.3 Recommendations on audit by the Assembly | D | No recommendations have been issued. |
| 31.4 Transparency of legislative scrutiny of audit reports | D | The Assembly's discussion of the 2017 report was open to the public but no record of the discussion was published. |

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 three-quarters of central government funding for Sremska Mitrovica comes (via the Vojvodina Province) through the city's share of income and other CG taxes, where the yield was overestimated by 8-12 per cent when budgets were prepared (HLG-1.1). CG transfers were overestimated by about 30 per cent in 2015 and 5 per cent in 2017, and underestimated by 22 per cent in 2016; this situation reflects the absence of reliable information about targeted transfers at the time budgets were prepared. The city's own revenues were also substantially overestimated in all three years, leading overall to actual expenditure falling far short of budget in each of the years 2015-17 (PI-1 and PI-3.1). The functional breakdown of expenditure inevitably showed considerable variance (as measured by the PEFA criteria) because of the wide divergences between budget and out-turn on some but not all functions (PI-2.1), although actual expenditure on housing, recreation and culture, and education was relatively stable across the three years. The measured variance by economic classification very substantially results from the large differences between budget and out-turn in capital investment expenditure (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 could be improved by giving more of the context with summary comparisons covering the preceding, current and budget years on all three classifications (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 is satisfactory (PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are published for the City's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment is planned within the framework of the City's sustainable development strategy 2010-20, and progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the City's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Debts are relatively unimportant (interest paid in 2017 was 0.5 per cent of expenditure in 2017) and are fully reconciled and reported, but there is no debt management strategy (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

5. Apart from public investment, which the City seeks to plan over a medium-term horizon, Sremska Mitrovica has not yet published any medium-term fiscal forecasts or expenditure projections (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. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. 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 City'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 budget users are given quarterly ceilings for expenditure commitment (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 City Administration appears satisfactory, but the information is lacking about procurement by the indirect budget beneficiaries, and it is not clear that more than 60 per cent of procurement is subject to competition (PI-24). Internal control arrangements work satisfactorily (PI-25), but as yet there is no internal audit (it is hoped that internal audit will be established in 2020) (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 meet all national requirements, although they do not contain all the information required to comply with cash-based International Public Sector Accounting Standards (IPSAS) (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 (SAI) every three or four years. In other years a limited financial audit is undertaken by a commercial audit firm. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, but other audits have not given rise to significant findings. The resources available to the SAI are controlled and

restricted by the Government (PI-30). There has been limited 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. Following the 2017 audit by the SAI a risk strategy was adopted by the city.

11. The main risks faced by Sremska Mitrovica are that revenue from the city's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure the best value. The assessment of PI-24 indicates that procurement needs to be more competitive. A continued focus on maximising local revenues will be important in sustaining the services which are the responsibility of the city.

12. Internal controls in the City Administration appear to work satisfactorily (PIs 21,22,23,25), but there is no internal audit (PI-26). External audit by the SAI, most recently for 2017, has not found serious problems in the City's financial management, which has benefitted from the stability of experienced staff in the finance function. Monitoring the performance of service delivery (PI-8) 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.

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 actual and own revenue during 2015-17, with capital investment falling far below amounts originally envisaged.

4.3.2 Strategic allocation of resources

14. Sremska Mitrovica has so far made only limited progress in terms of medium-term budgetary planning. Allocations to the main functions – Education, Housing, Culture – are reasonably stable from one year to the next, although public investment planning is adversely impacted by 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.

4.4 Performance changes since 2015

16. Performance in relation to most indicators has been little changed. The greater divergences between budget and out-turn (PIs 1-3) in 2015-17 than were seen in 2011-13 are probably a reflection of the more difficult fiscal climate for SNGs, with reductions in central government funding. Public investment planning has been developed, reporting by city enterprises has been improved, and the property tax base has been substantially increased. Commitment controls have been improved. But at the time of the assessment Sremska Mitrovica had not yet made much progress in terms of medium-term fiscal planning and the establishment of 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.

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. However, even without a committed local PFM reform, many reforms carried out centrally equally affect SNGs.

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. Sremska Mitrovica has made progress in tax administration and investment planning, but there remains much scope for improvements in 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) | D+ | |
| 1.1 | Difference between planned and actual transfers | C | Transfers were more than 85% of budget in two of the three years 2015-17. |
| 1.2 | Conditional grant composition variance | NA | Conditional transfers are not notified before budget is enacted. City included speculative figures in its budgets, and the out-turns were very different. |
| 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 | D | Out-turn was below 85% of budget in two of the three years 2015-17. |
| PI-2 | Expenditure composition out-turn (M1) | D+ | |
| 2.1 | Expenditure composition out-turn by function | D | Variance exceeded 15% in two of three years 2015-17. |
| 2.2 | Expenditure composition by economic classification | C | Variance was less than 15% 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 fell below 92% of budget in all three years |
| 3.2 | Revenue composition out-turn | D | Variance of revenue composition exceeded 15% in all 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 one of the basic elements is satisfied |
| PI-6 | Operations outside financial reports (M2) | A | |
| 6.1 | Expenditure outside financial reports | A | All expenditure of the city is reported and published. |
| 6.2 | Revenue outside financial reports | A | All revenue of the city is reported and published. |
| 6.3 | Financial reports of extra-budgetary units | NA | There are no extra-budgetary units. |
| PI-7 | Transfers to lower tier governments | NA | Sremska Mitrovica 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 | B | Four of five basic elements are satisfied, and three others. |

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| PI-10 | Fiscal risk reporting (M2) | B | |
| 10.1 | Monitoring of public corporations | B | COEs' audited financial reports are published by end-June |
| 10.2 | Monitoring of subordinate governments | NA | Sremska Mitrovica has no subordinate governments |
| 10.3 | Contingent liabilities and other fiscal risks | NA | The City has no explicit contingent liabilities |
| PI-11 | Public investment management (M2) | B+ | |
| 11.1 | Economic analysis of investment proposals | C | Investment is planned within the framework of the city's development strategy, but the economic analyses of major projects are not published. |
| 11.2 | Investment project prioritisation | A | All major projects are prioritised by the city Administration by reference to their contribution to the city's social and economic development objectives. |
| 11.3 | Investment project costing | B | Projections of full capital costs of projects are included in budget documentation, together with all expenditure, capital and current, during the budget year and the two following years |
| 11.4 | Investment project monitoring | A | Progress is systematically monitored according to standard procedures by the city General Affairs and Property Department, and information about project execution is published monthly and annually on the city website |
| PI-12 | Public asset management (M2) | D+ | |
| 12.1 | Financial asset monitoring | B | Financial reports of all COEs are published annually, with assets valued at historic cost. |
| 12.2 | Nonfinancial asset monitoring | D | The register is incomplete. |
| 12.3 | Transparency of asset disposal | D | Prices realised and identity of purchasers are not published. |
| PI-13 | Debt management (M2) | B | |
| 13.1 | Recording and reporting of debt and guarantees | A | Records of 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 | D | No debt management strategy has been published. |
| 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 | Sremska Mitrovica 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. |

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| 16.2 | Medium-term expenditure ceilings | NA | No medium-term budgets have been published. |
| 16.3 | Alignment of strategic plans and medium-term budgets | C | Annual budgets reflect priorities in the city development strategy. |
| 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) | D+ | |
| 17.1 | Budget calendar | C | Budget users have less than a month to prepare final budget submissions. |
| 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) | B+ | |
| 18.1 | Scope of budget scrutiny | B | The Assembly's scrutiny covers fiscal policies and aggregates as well as details of revenue and expenditure for the year ahead. |
| 18.2 | Legislative procedures for budget scrutiny | B | Proposals are reviewed by a specialised committee, but there has hitherto been no public consultation. |
| 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) | B | |
| 19.1 | Rights and obligations for revenue measures | A | A variety of different means are used to notify revenue payers of their obligations. |
| 19.2 | Revenue risk management | B | There is a continuing effort to minimise revenue risks arising from local property taxes. |
| 19.3 | Revenue audit and investigation | B | There is a compliance improvement plan covering the majority of revenues, and audit plans are implemented. |
| 19.4 | Revenue arrears monitoring | D | Revenue arrears at end-2017 were 178% 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 city Council. |
| 20.2 | Transfer of revenue collections | A | All revenue is paid daily into the city'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) | A | |
| 21.1 | Consolidation of cash balances | A | Cash balances are all held in the TSA and consolidated daily. |
| 21.2 | Cash forecasting and monitoring | A | A cash flow forecast is prepared at the beginning of the year, and updated monthly. |
| 21.3 | Information on commitment ceilings | B | Budget users receive quarterly expenditure allocations. |
| 21.4 | Significance of in-year budget adjustments | A | Revised budgets are approved by the Assembly once or twice a year, with full transparency. |
| PI-22 | Expenditure arrears (M1) | A | |
| 22.1 | Stock of expenditure arrears | A | There are no expenditure arrears |

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| 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 | Procurement data correspond to less than half total expenditure on goods, services and capital investment. |
| 24.2 | Procurement methods | D | It is doubtful whether more than 60% of procurement expenditure 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. But there are doubts about the completeness of information. |
| 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 segregation is ensured by the city's standing instructions. |
| 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 | A | There are no exceptions requiring justification. |
| 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 in accordance with contractual terms, and reconciled 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 administrative, functional, programme 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). |

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| 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 5 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 | Substantive audit covered only one of three years 2015-17. |
| 30.2 | Submission of audit reports to the Assembly | B | The audit report for 2017 was submitted to the Assembly within 6 months of the receipt of the financial statements by the SAI. |
| 30.3 | External audit follow-up | A | The Administration 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 (M2) | D | |
| 31.1 | Timing of audit report scrutiny | D | Less than half of total expenditure during 2015-17 was subject to substantive audit. |
| 31.2 | Hearings on audit findings | C | A hearing was held to consider the SAI report on 2017. |
| 31.3 | Recommendations on audit by the Assembly | D | No recommendations have been issued. |
| 31.4 | Transparency of Assembly's scrutiny of audit reports | D | The Assembly's hearing on 2017 was open to the public, but no report of the discussion was published. |

Annex 2: Summary of observations on the Internal Control Framework

| Internal control components and elements | Summary of observations |
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| 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 City Administration is run by experienced staff who maintain 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 Mayor gives an appropriate lead to the staff. |
| 1.4 Organisation structure | The heads of the seven main city departments report to the Mayor (See Organisation chart in Chapter 2). |
| 1.5 Human resources policies and practices | The City’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 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). |
| 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 | Sremska Mitrovica has avoided commitment to investment projects until the necessary finance has been assured (PI-11, PI-22). A risk strategy was adopted in response to the SAI report on 2017 (PI-30). |
| 2.5 Responses to risk | Sremska Mitrovica has developed and improved its tax assessment and collection operations (PI-19). |
| 3. Control activities | |
| 3.1 Authorisation and approval procedures | New arrangements as part of the City’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 | Segregation of duties appears to work adequately (PI-25). |

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| 3.3 Controls over access to resources and records | The budget, payment and accounting systems include 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 City is subject to audit by the SAI, as recently in respect of 2017 financial statements (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 annual report is made to central government and the City Assembly (PI-11). Monitoring of procurement by indirect budget beneficiaries and City-Owned Enterprises could be strengthened (PI-24). Expenditure is continuously tracked against budget (PI-28). |
| 5.2 Evaluations | No significant action hitherto. |
| 5.3 Management responses | An appropriate response was made to the SAI audit of 2017. |

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

| No | Institution | Document title | Date | Link (where available) |
|----|---|---|-------------------|---|
| 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 |
| 2 | OECD | Serbia Profile | 9/2016 | https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf |
| 3 | 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 |
| 4 | 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 |
| 5 | 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 |
| 6 | 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 |
| 7 | Republic of Serbia | Constitution of the Republic of Serbia, (RS Official Gazette, No. 83/2006) | 11/2006 | https://www.srbija.gov.rs/tekst/330326/ustav.php |
| 8 | Republic of Serbia | Law on Local Self-Government, (Official Gazette of RS, No. 129/2007, 83/2014 and 01/2016) | 6/2018 | http://mduls.gov.rs/wp-content/uploads/ZAKON-O-LOKALNOJ-SAMOUPRAVI.pdf |
| 9 | The City of Sremska Mitrovica | Statut grada Sremska Mitrovica | August 17, 2012 | http://www.sremskamitrovica.rs/admin_area/kcfi |

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| | | | | nder/upload/files/StatutGrada.pdf) |
| 10 | The City of Sremska Mitrovica | Odluka o budžetu grada Sremska Mitrovica za 2018. godinu | December 20, 2017 | http://www.sremskamitrovica.rs/admin_area/kcfinder/upload/files/OdlukaOBudzetuZa2018..pdf |
| 11 | The City of Sremska Mitrovica | Odluka o određivanju zona i najopremljenije zone na teritoriji grada Sremska Mitrovica | November 29, 2017 | http://www.sremskamitrovica.rs/kategorija.php?cat_id=67 |
| 12 | The City of Sremska Mitrovica | Odluka o visini stope poreza na imovinu na teritoriji grada Sremska Mitrovica | November 22, 2018 | http://www.sremskamitrovica.rs/kategorija.php?cat_id=67 |
| 13 | The City of Sremska Mitrovica | Odluka o koeficijentima za utvrđivanje poreza na imovinu za nepokretnosti obveznika koji vode poslovne knjige na teritoriji grada Sremska Mitrovica | November 29, 2017 | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=113 |
| 14 | The City of Sremska Mitrovica | Odluka o rebalansu budžeta grada Sremska Mitrovica za 2017. godinu | September 29, 2017 | http://www.sremskamitrovica.rs/Documents/09102017070533.pdf |
| 15 | The City of Sremska Mitrovica | Izveštaj o izvršenju odluke o budžetu grada Sremska Mitrovica za period 01.01. - 30.06. 2017. godine | 7/2017 | http://www.sremskamitrovica.rs/Documents/05092017055514.pdf |
| 16 | The City of Sremska Mitrovica | Odluka o rebalansu budžeta grada Sremska Mitrovica za 2017. godinu | May 31, 2017 | http://www.sremskamitrovica.rs/Documents/05092017055624.pdf |
| 17 | The City of Sremska Mitrovica | Odluka o završnom računu budžeta grada Sremska Mitrovica za 2016. godinu | May 31, 2017 | http://www.sremskamitrovica.rs/Documents/05092017055858.pdf |
| 18 | The City of Sremska Mitrovica | Strateški plan razvoja kulture grada Sremska Mitrovica 2017-2022. godina | 9/2017 | http://www.sremskamitrovica.rs/admin_area/kcfinder/upload/files/StrateškiPlanRazvojaKulture%281%29.pdf |
| 19 | The City of Sremska Mitrovica | Strategija održivog razvoja Grada Sremska Mitrovica 2010-2020. godine | 2009 | http://www.sremskamitrovica.rs/admin_area/kcfinder/upload/files/Strategija-odrzivog-razvoja.pdf |
| 20 | The City of Sremska Mitrovica | Strategija razvoja socijalne zaštite 2014 – 2019. godine | | http://www.sremskamitrovica.rs/kategorija.php?cat_id=68 |
| 21 | The City of Sremska Mitrovica | Grafički prikaz organizacije lokalne jedinice u 2018. | | |
| 22 | The City of Sremska Mitrovica | Javne nabavke Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=74 |
| 23 | The City of Sremska Mitrovica | Funkcionalna klasifikacija rashoda Grada Sremske Mitrovice 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 24 | The City of Sremska Mitrovica | Administrativna/organizacijska klasifikacija/ rashoda po korisnicima Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |

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| 25 | The City of Sremska Mitrovica | Programska klasifikacija rashoda Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 26 | The City of Sremska Mitrovica | Prihodi po ekonomskoj klasifikaciji Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 27 | The City of Sremska Mitrovica | Rashodi po ekonomskoj klasifikaciji Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 28 | The City of Sremska Mitrovica | Autonomni budžetski prihodi/fiskalna autonomija Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 29 | The City of Sremska Mitrovica | Stanje budžetske rezerve Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 30 | The City of Sremska Mitrovica | Odobranja i amandmani na budžet Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 31 | The City of Sremska Mitrovica | Potraživanja za porezne prihode Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 32 | The City of Sremska Mitrovica | Potraživanja za neporezne prihode Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 33 | The City of Sremska Mitrovica | Broj poreznih obveznika i obveznika sa dugom Grada Sremske Mitrovice a od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 34 | The City of Sremska Mitrovica | Broj obveznika neporeznih prihoda i broj onih sa dugom po svakom od neporeznih prihoda Grada Sremske Mitrovice od 2015. do 2017. | | http://www.sremskamitrovica.rs/kategorija_lat.php?cat_id=67 |
| 35 | The City of Sremska Mitrovica | Zavisnost finansiranja javnih i komunalnih preduzeća od sredstava iz budžeta u 2017. | | |
| 36 | The City of Sremska Mitrovica | Indirektni budžetski korisnici, broj zaposlenih i vrednost imovine Grada Sremske Mitrovice od 2015. do 2017. | | |
| 37 | The City of Sremska Mitrovica | Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća Grada Sremske Mitrovice od 2015. do 2017. | | |
| 38 | The City of Sremska Mitrovica | Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća - dostavljeni opštini/gradu, učestalost objava Grada Sremske Mitrovice od 2015. do 2017. | | |

Annex 3B: List of people interviewed

| | Name and surname | Department/section | Position |
|----|--------------------|---|---|
| 1 | Marija Đonlić | City department for budget and local economic development | Head of the Budget Department |
| 2 | Jelena Popović | Professional office of the assembly | Secretary |
| 3 | Vera Nikolić | City department for administrative, joint affairs and assets | Head of City Council affairs |
| 4 | Ljuba Roljić | City department for budget and local economic development, officer for revenue collection | Head of Tax Administration |
| 5 | Duško Šarošković | City department for budget and local economic development, | Head of Department |
| 6 | Snežana Miloradić | City department for budget and local economic development | Associate for direct Budget Beneficiaries Monitoring |
| 7 | Slađana Nagradić | City department for budget and local economic development | Associate in Department for Budget and Local Economic Development |
| 8 | Uroš Veselinović | City department for administrative, joint affairs and assets | Deputy Head |
| 9 | Snežana Biserčić | City department for budget and local economic development | Associate for Municipal Enterprises and Indirect Budget Beneficiaries |
| 10 | Miloš Mišković | Assembly | Assembly Secretary |
| 11 | Branko Jakovljević | Mayors cabinet | Deputy Mayor |
| 12 | Miroslav Jokić | City department for administrative, joint affairs and assets | Head |
| 13 | Mirko Ratić | City department for administrative, joint affairs and assets | Finance Associate |
| 14 | Maja Kovačević | City department for administrative, joint affairs and assets | Legal Associate |
| 15 | Andrea Pašić | City department for administrative, joint affairs and assets | Associate for City Council affairs |

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 Sremska Mitrovica officials |
| 5.1 Budget documentation | |
| PI-6. Central government operations outside financial reports | |
| 6.1. Expenditure outside financial reports | Discussion with Sremska Mitrovica officials |
| 6.2. Revenue outside financial reports | |
| 6.3. Financial reports of extra-budgetary units | |
| PI-7. Transfers to subnational governments | Discussion with Sremska Mitrovica 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 | |
| 8.1. Performance plans for service delivery | Budget documentation and discussion with Sremska Mitrovica officials |
| 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 Sremska Mitrovica 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 Sremska Mitrovica officials |
| 10.2. Monitoring of sub-national government | |
| 10.3. Contingent liabilities and other fiscal risks | |
| PI-11. Public investment management | |
| 11.1. Economic analysis of investment proposals | Discussion with Sremska Mitrovica officials and further information supplied by the municipality |
| 11.2. Investment project selection | |
| 11.3. Investment project costing | |
| 11.4. Investment project monitoring | |
| PI-12. Public asset management | |
| 12.1. Financial asset monitoring | Discussion with Sremska Mitrovica officials, municipal financial statements |
| 12.2. Nonfinancial asset monitoring | |
| 12.3. Transparency of asset disposal. | |
| PI-13. Debt management | Discussion with Sremska Mitrovica 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 Sremska Mitrovica officials |
| 14.2. Fiscal forecasts | |
| 14.3. Macro-fiscal sensitivity analysis | |
| PI-15. Fiscal strategy | |
| 15.1. Fiscal impact of policy proposals | Discussion with Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 | |
| 18.2. Legislative procedures for budget scrutiny | Discussion with Sremska Mitrovica officials and specific information on relevant dates |
| 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 Sremska Mitrovica 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 Sremska Mitrovica 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 | |
| 21.2. Cash forecasting and monitoring | Discussion with Sremska Mitrovica officials |
| 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 Sremska Mitrovica officials |
| 22.2. Expenditure arrears monitoring | |
| PI-23. Payroll controls | |
| 23.1. Integration of payroll and personnel records | Discussion with Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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 Sremska Mitrovica 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.

| 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 | | | | |
| HLG-1 Predictability of transfers from higher level of government (M1) | NR | D+ | | |
| HLG-1.1 Deviation between budget and out-turn for total transfers | A | C | Transfers were more than 85% of budget in 2 of 3 years | Transfers exceeded budget in 2 of 3 years 2011-13 |
| HLG-1.2 Variance between budget and out-turn for earmarked transfers | NR | NA | SNGs have little information about targeted transfers when budgets are set. Out-turns were markedly different from figures included in original budgets. No breakdown of targeted transfers in the original budget, nor in execution reports. | Probably no underlying change |
| HLG-1.3 In-year timeliness of transfers | A | A | Transfers are paid in a steady and predictable stream | No change |
| PI-1 Aggregate expenditure out-turn compared to original approved budget | D | D | Out-turn was below 85% of budget in 2 of 3 years | No change |
| PI-2 Composition of expenditure out-turn compared to original approved budget | C+ | D+ | | |
| (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items | C | D | Variance exceeded 15% in 2 of 3 years | Variance exceeded 15% in only one of 3 years 2011-13 |
| (ii) The average amount of expenditure actually charged to the contingency vote over the last three years. | A | A | No expenditure was charged to contingency reserves | No change |

| | | | | |
|---|----|----|---|--|
| PI-3 Aggregate revenue out-turn compared to original approved budget | C | D | Revenue fell below 92% of budget in all 3 years | Revenue was between 92% and 116% of budget in 2 of 3 years 2011-13 |
| PI-4 Stock and monitoring of expenditure payment arrears | A | A | | |
| (i) Stock of expenditure payment arrears and a recent change in the stock | A | A | There were no arrears | No change |
| (ii) Availability of data for monitoring the stock of expenditure payment arrears | A | A | The Treasury system holds full information about the age of any arrears | No change |
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency | | | | |
| PI-5 Classification of the budget | A | A | Classification meets full requirements | No change |
| PI-6 Comprehensiveness of information included in budget documentation | B | B | Documentation meets 4 of 8 applicable benchmarks | No change |
| PI-7 Extent of unreported government operations | A | A | | |
| (i) Level of unreported government operations | A | A | All operations are included in fiscal reports | No change |
| (ii) Income/expenditure information on donor-funded projects | A | A | Any donor-funded projects are fully integrated into fiscal reports | No change |
| PI-8 Transparency of inter-governmental fiscal relations | NA | NA | There are no subordinate governments | No change |
| PI-9 Oversight of aggregate fiscal risk from other public sector entities | C | A | | |
| (i) Extent of central government monitoring of autonomous entities and public enterprises | C | A | COEs make quarterly and annual reports to city, which are consolidated into an annual report to the Ministry of Economy | Performance improvement based on provision of consolidated annual report |
| (ii) Extent of central government monitoring of SN government's fiscal position | NA | NA | There are no subordinate governments | No change |
| PI-10 Public access to key fiscal information | A | A | All 6 benchmarks satisfied | No change |
| C. BUDGET CYCLE | | | | |
| <i>C(i) Policy-Based Budgeting</i> | | | | |
| PI-11 Orderliness and participation in the annual budget process | C+ | C+ | | |
| (i) Existence of, and adherence to, a fixed budget calendar | C | C | An annual budget calendar exists but Departments have | No change |

| | | | | | |
|---|---|----|---|---|---|
| | | | only a short time to complete their submissions | | |
| (ii) | Guidance on the preparation of budget submissions | D | D | The Council reviews proposals only at the point of submission to the Assembly | No change |
| (iii) | Timely budget approval by the legislature | A | A | The budget was approved by the Assembly before the beginning of the budget year for all 3 years | No change |
| PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting | | D+ | D+ | | |
| (i) | Multiyear fiscal forecasts and functional allocations | D | D | There are no multi-year forecasts | No change |
| (ii) | Scope and frequency of debt sustainability analysis | NA | NA | Total debt remains far below the limits set by Budget Code | No change |
| (iii) | Existence of costed sector strategies | C | C | Investment is planned within the framework of the city's development strategy. As in 2015 there are costed sector strategies, but they are not anchored in a medium-term framework. | No change |
| (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 | B+ | | |
| (i) | Clarity and comprehensiveness of tax liabilities | A | A | Tax liabilities are clearly defined in legislation | No change |
| (ii) | Taxpayer access to information on tax liabilities and administrative procedures | B | A | Information is readily available about tax liabilities and administrative procedures | Probably some improvement as property tax system now more fully established |
| (iii) | Existence and functioning of a tax appeal mechanism | C | C | Appeal mechanism not fully independent | No change |
| PI-14 Effectiveness of measures for taxpayer registration and tax assessment | | D+ | B | | |

| | | | | | |
|--|---|----|----|--|---|
| (i) | Controls in the taxpayer registration system | B | A | Taxpayers are registered in a complete database with some links to other databases | Performance improvement as property tax system more fully developed |
| (ii) | Effectiveness of penalties for non-compliance with registration and declaration obligations | D | C | Penalties are significant and enforcement has improved, but arrears remain substantial | Performance improvement as property tax system more fully developed |
| (iii) | Planning and monitoring of tax audit and fraud investigation programs | D | B | Business taxpayers who are required to self-assess are subject to a planned audit programme | Performance improvement as property tax system more fully developed |
| PI-15 Effectiveness in collection of tax payments | | D+ | D+ | | |
| (i) | Collection ratio for gross tax arrears | D | D | Arrears were 271% 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 directly into Treasury | No change |
| (iii) | Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury | A | A | There is a full monthly reconciliation of assessments collections, arrears and payments into Treasury | No change |
| PI-16 Predictability in the availability of funds for commitment of expenditures | | B+ | B+ | | |
| (i) | Extent to which cash flows are forecasted and monitored | A | A | Cash flow forecast is updated monthly | No change |
| (ii) | Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure | B | B | Budget users receive quarterly allocations | No change |
| (iii) | Frequency and transparency of adjustments to budget allocations above the level of management of MDAs | A | A | Revised budgets are approved by Assembly once or twice a year | No change |
| PI-17 Recording and management of cash balances, debt and guarantees | | A | A | | |
| (i) | Quality of debt data recording and reporting | A | A | Records are complete and there is full monthly reconciliation of amounts outstanding, interest paid and principal repaid | No change |

| | | | | | |
|--|--|----|----|---|---|
| (ii) | Extent of consolidation of the government's cash balances | A | A | All balances are consolidated in the city's account at the Treasury | No change |
| (iii) | Systems for contracting loans and issuance of guarantees | B | B | Loans are approved by the city Assembly, but amounts are not set by reference to transparent criteria and fiscal targets | No change |
| PI-18 Effectiveness of payroll controls | | C+ | B+ | | |
| (i) | Degree of integration and reconciliation between personnel records and payroll data | A | B | There are no automatic links between personnel records and the payroll, but payroll is only changed when authorised by staff managers | No change A score in 2015 ignored absence of direct link between personnel records and payroll |
| (ii) | Timeliness of changes to personnel records and the payroll | A | A | Personnel records and payroll updated monthly | No change |
| (iii) | Internal controls of changes to personnel records and the payroll | A | A | Authority to change personnel records and payroll is restricted and changes always leave audit trail | No change |
| (iv) | Existence of payroll audits to identify control weaknesses and/or ghost workers | C | A | There are regular annual inspections to check that all posts are approved, and all employees paid correctly | No underlying change: annual inspections not taken into account in 2015 |
| PI-19 Competition, value for money and controls in procurement | | A | C+ | | |
| (i) | Transparency, comprehensiveness and competition in the legal and regulatory framework. | A | A | The legal framework meets all 6 requirements | No change |
| (ii) | Use of competitive procurement methods | A | D | Absence of competition is justified by reference to law in all cases but it is doubtful whether data are complete | Probably No underlying change: total value of procurement contracts was little more than 10% of total expenditure |
| (iii) | Public access to complete, reliable and timely procurement information | A | D | All 4 elements are available to general public but it is | Probably No underlying change (as for PI-19(ii) above) |

| | | | | | |
|---|--|----|------------------------------------|---|--|
| | | | doubtful whether data are complete | | |
| (iv) | Existence of an independent administrative procurement complaints system | A | A | Appeals body meets all 7 benchmarks | No change |
| PI-20 Effectiveness of internal controls for non-salary expenditure | | C+ | A | | |
| (i) | Effectiveness of expenditure commitment controls | C | A | New system since 2015 ensures that no orders are placed unless budgetary provision and cash are available | Performance improvements |
| (ii) | Comprehensiveness, relevance and understanding of other internal control rules/procedures. | A | A | Internal controls are generally understood and observed | No change |
| (iii) | Degree of compliance with rules for processing and recording transactions | A | A | All payments are correctly processed and recorded | No change |
| PI-21 Effectiveness of internal audit | | D | D | | |
| (i) | Coverage and quality of the internal audit function | D | D | There is no internal audit | No change |
| (ii) | Frequency and distribution of reports | D | NA | There is no internal audit | No change |
| (iii) | Extent of management response to internal audit function. | NA | NA | There is no internal audit | No change |
| <i>C(iii) Accounting, Recording and Reporting</i> | | | | | |
| PI-22 Timeliness and regularity of accounts reconciliation | | A | B | | |
| (i) | Regularity of bank reconciliation | A | A | All transactions included in city budget are executed through the Treasury, with daily reconciliation between bank and city records | No change |
| (ii) | Regularity and clearance of suspense accounts and advances | A | C | Advances to contractors are cleared in accordance with contracts and outstanding amounts reconciled at year-end | No underlying change: advances to contractors not taken into account in 2015 |
| PI-23 Availability of information on resources received by service delivery units | | A | A | Full information available from Treasury about | No change |

| | | | | |
|---|----|----|---|--|
| | | | resources received by service delivery units | |
| PI-24 Quality and timeliness of in-year budget reports | C+ | C+ | | |
| (i) Scope of reports in terms of coverage and compatibility with budget estimates | C | C | Reports are fully comparable with budget estimates but only payments, not commitments are reported | No change |
| (ii) Timeliness of the issue of reports | A | A | Reports are produced within 15 days of month-end | No change |
| (iii) Quality of information | A | A | There are no doubts about the quality of information | No change |
| PI-25 Quality and timeliness of annual financial statements | A | A | | |
| (i) Completeness of the financial statements | A | A | Financial statements include full information on revenue, expenditure, financial assets and liabilities | No change |
| (ii) Timeliness of submissions of the financial statements | A | A | Statements are available for audit within 6 months of year-end | No change |
| (iii) Accounting standards used | A | A | Statements comply with national standards set out in MoF Regulations | No change |
| <i>C(iv) External Scrutiny and Audit</i> | | | | |
| PI-26 Scope, nature and follow-up of external audit | A | D+ | | |
| (i) Scope/nature of audit performed (including adherence to auditing standards) | A | D | A full audit was undertaken for only one of the 3 years 2015-17 | No underlying change: the limited nature of most audits was not taken into consideration in 2015 |
| (ii) Timeliness of submission of audit reports to the Legislature | A | C | Report on 2017 submitted to Assembly within (months of receipt of Statements by auditor | No change: 2015 report based on rapid submission of commercial auditor's limited reports |
| (iii) Evidence of follow up on audit recommendations | A | A | The city administration responds substantively to audit recommendations | No change |

| | | | | |
|---|----|----|--|--|
| PI-27 Legislative scrutiny of the annual budget law | D+ | D+ | | |
| (i) Scope of the legislature scrutiny | C | C | The Assembly's review covers details of revenue and expenditure, but only at a stage when detailed proposals have been finalised | No change |
| (ii) Extent to which the legislature's procedures are well established and respected | A | A | Assembly has well-established procedures including study by a specialised Committee | No change |
| (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 only a few days to consider the proposals | No change |
| (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature | B | A | There are strict limits to the extent of reallocation without submission to the Assembly | No underlying change: 2015 assessors judged that significant reallocations by the administration were possible |
| PI-28 Legislative scrutiny of external audit reports | D+ | D+ | | |
| (i) Timeliness of examination of audit reports by the legislature | A | D | The Assembly has not insisted on a substantive audit every year | No underlying change: 2015 assessors gave credit for formal responses to limited commercial audits |
| (ii) Extent of hearing on key findings undertaken by the legislature | D | C | A hearing was held to consider the SAI report on 2017 | Performance improvement |
| (iii) Issuance of recommended actions by the legislature and implementation by the executive | D | D | The Assembly has made no recommendations | No change |

Annex 5: Calculations for PI-1, PI-2 and PI-3

| Data for year = | | 2015 | | | | |
|-----------------------------------|----------------|----------------|-----------------|-----------|--------------------|---------|
| administrative or functional head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| General public services | 236424 | 249050 | 179,059.5 | 69,990.5 | 69,990.5 | 39.1% |
| Public order & safety | 4099 | 3850 | 3,104.4 | 745.6 | 745.6 | 24.0% |
| | | | | - | | |
| Economic affairs | 804472 | 499988 | 609,279.7 | 109,291.7 | 109,291.7 | 17.9% |
| | | | | - | | |
| Environment protection | 296857 | 86978 | 224,829.4 | 137,851.4 | 137,851.4 | 61.3% |
| Housing | 521155 | 399589 | 394,705.1 | 4,883.9 | 4,883.9 | 1.2% |
| Sport, recreation, culture | 539187 | 479887 | 408,361.9 | 71,525.1 | 71,525.1 | 17.5% |
| Health | 25051 | 22328 | 18,972.8 | 3,355.2 | 3,355.2 | 17.7% |
| Education | 507251 | 472409 | 384,174.7 | 88,234.3 | 88,234.3 | 23.0% |
| Social protection | 97309 | 82107 | 73,698.5 | 8,408.5 | 8,408.5 | 11.4% |
| | | | 2,296,186. | | | |
| allocated expenditure | 3031805 | 2296186 | 0 | 0.0 | 494,286.3 | |
| interests | 3500 | 44 | | | | |
| contingency | 32500 | 0 | | | | |
| total expenditure | <u>3067805</u> | <u>2296230</u> | | | | |
| aggregate outturn (PI-1) | | | | | | 74.8% |
| composition (PI-2) variance | | | | | | 21.5% |
| contingency share of budget | | | | | | 0.0% |

Table 3

| Data for year = | | 2016 | | | | |
|-----------------------------------|----------------|----------------|-----------------|-----------|--------------------|-----------|
| administrative or functional head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| | | | | | | 0.1749357 |
| General public services | 263895 | 255638 | 217,576.2 | 38,061.8 | 38,061.8 | 54 |
| | | | | | | 0.3265359 |
| Public order and safety | 3938 | 4307 | 3,246.8 | 1,060.2 | 1,060.2 | 69 |
| | | | | | | 0.0560561 |
| Economic affairs | 783608 | 609853 | 646,069.1 | -36,216.1 | 36,216.1 | 23 |
| | | | | - | | 0.6429148 |
| Environment protection | 301855 | 88869 | 248,873.4 | 160,004.4 | 160,004.4 | 5 |
| | | | | | | 0.0907878 |
| Housing | 467431 | 420376 | 385,387.5 | 34,988.5 | 34,988.5 | 01 |
| | | | | | | 0.0875758 |
| Health | 22303 | 16778 | 18,388.4 | -1,610.4 | 1,610.4 | 41 |
| | | | | | | 0.2461208 |
| Sport, recreation, culture | 476576 | 489635 | 392,927.4 | 96,707.6 | 96,707.6 | 34 |
| | | | | | | 0.0721161 |
| Education | 537671 | 475268 | 443,299.0 | 31,969.0 | 31,969.0 | 34 |
| | | | | | | 0.0573125 |
| Social protection | 104887 | 81521 | 86,477.2 | -4,956.2 | 4,956.2 | 94 |
| | | | 2,442,245. | | | |
| allocated expenditure | 2962164 | 2442245 | 0 | 0.0 | 405,574.3 | |
| interests | 14000 | 7345 | | | | |
| contingency | 25000 | 0 | | | | |
| total expenditure | <u>3001164</u> | <u>2449590</u> | | | | |
| aggregate outturn (PI-1) | | | | | | 81.6% |
| composition (PI-2) variance | | | | | | 16.6% |

Table 4

| administrative or functional head | Data for year = 2017 | | adjusted budget | deviation | absolute deviation | percent |
|-----------------------------------|----------------------|----------------|-----------------|-----------|--------------------|-----------|
| | budget | actual | | | | |
| General public services | 298302 | 277199 | 260,388.9 | 16,810.1 | 16,810.1 | 0.0645575 |
| Public order and safety | 4552 | 4718 | 3,973.5 | 744.5 | 744.5 | 0.1873789 |
| Economic affairs | 598303 | 470405 | 522,260.9 | -51,855.9 | 51,855.9 | 0.0992912 |
| Environment protection | 243744 | 144039 | 212,765.0 | -68,726.0 | 68,726.0 | 0.3230137 |
| Housing | 434304 | 364125 | 379,105.6 | -14,980.6 | 14,980.6 | 0.0395155 |
| Health | 16376 | 65989 | 14,294.7 | 51,694.3 | 51,694.3 | 0.0395155 |
| Sport, recreation, culture | 484894 | 485765 | 423,265.8 | 62,499.2 | 62,499.2 | 0.1476595 |
| Education | 467074 | 412724 | 407,710.6 | 5,013.4 | 5,013.4 | 0.0122963 |
| Social protection | 101128 | 87076 | 88,275.0 | -1,199.0 | 1,199.0 | 0.0135826 |
| | | 2,312,04 | 2,312,040. | | | |
| allocated expenditure | 2648677 | 0.0 | 0 | 0.0 | 273,523.1 | |
| interests | 12600 | 12,837.0 | | | | |
| contingency | 25000 | 0 | | | | |
| total expenditure | <u>2686277</u> | <u>2324877</u> | | | | |
| aggregate outturn (PI-1) | | | | | | 86.5% |
| composition (PI-2) variance | | | | | | 11.8% |
| contingency share of budget | | | | | | 0.0% |

Results Matrix

| year | for PI-1.1 total exp. Outturn | for PI-2.1 composition variance | for PI-2.3 contingency share |
|------|-------------------------------------|------------------------------------|---------------------------------|
| 2015 | 74.8% | 21.5% | |
| 2016 | 81.6% | 16.6% | 0.0% |
| 2017 | 86.5% | 11.8% | |

| Data for year = 2015 | | | | | | |
|---------------------------|----------------|----------------|--------------------|------------|-----------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Compensation of employees | 426310 | 417294 | 322,506.4 | 94,787.6 | 94,787.6 | 29.4% |
| Use of goods and services | 981611 | 849903 | 742,595.4 | 107,307.6 | 107,307.6 | 14.5% |
| Capital investment | 991930 | 365182 | 750,401.8 | -385,219.8 | 385,219.8 | 51.3% |
| Interest | 3500 | 44 | 2,647.8 | -2,603.8 | 2,603.8 | 98.3% |
| Subsidies | 103700 | 91628 | 78,449.8 | 13,178.2 | 13,178.2 | 16.8% |
| Transfers/Grants | 290454 | 286456 | 219,730.4 | 66,725.6 | 66,725.6 | 30.4% |
| Social benefits | 68452 | 67242 | 51,784.4 | 15,457.6 | 15,457.6 | 29.8% |
| Other expenses | 169348 | 218480 | 128,112.9 | 90,367.1 | 90,367.1 | 70.5% |
| Total expenditure | 3035305 | 2296229 | 2,296,229.0 | 0.0 | 775,647.2 | |
| composition variance | | | | | | 33.8% |

Table 3

| Data for year = 2016 | | | | | | |
|---------------------------|----------------|----------------|--------------------|------------|-----------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Compensation of employees | 419323 | 419832 | 345,132.1 | 74,699.9 | 74,699.9 | 21.6% |
| Use of goods and services | 997429 | 783636 | 820,953.8 | -37,317.8 | 37,317.8 | 4.5% |
| Capital investment | 961255 | 657056 | 791,180.1 | -134,124.1 | 134,124.1 | 17.0% |
| Interest | 14000 | 7345 | 11,523.0 | -4,178.0 | 4,178.0 | 36.3% |
| Subsidies | 68000 | 55671 | 55,968.8 | -297.8 | 297.8 | 0.5% |
| Transfers/Grants | 273458 | 251563 | 225,075.0 | 26,488.0 | 26,488.0 | 11.8% |
| Social benefits | 80505 | 60976 | 66,261.2 | -5,285.2 | 5,285.2 | 8.0% |
| Other expenses | 162194 | 213512 | 133,497.0 | 80,015.0 | 80,015.0 | 59.9% |
| Total expenditure | 2976164 | 2449591 | 2,449,591.0 | 0.0 | 362,405.6 | |
| composition variance | | | | | | 14.8% |

Table 4

| Data for year = 2017 | | | | | | |
|-----------------------------------|----------------|----------------|--------------------|------------|-----------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Compensation of employees | 424179 | 419826 | 370,560.3 | 49,265.7 | 49,265.7 | 13.3% |
| Use of goods and services | 1020601 | 903194 | 891,591.1 | 11,602.9 | 11,602.9 | 1.3% |
| Capital investment | 685368 | 465177 | 598,733.5 | -133,556.5 | 133,556.5 | 22.3% |
| Interest | 12600 | 12837 | 11,007.3 | 1,829.7 | 1,829.7 | 16.6% |
| Subsidies | 57750 | 93897 | 50,450.1 | 43,446.9 | 43,446.9 | 86.1% |
| Transfers to subordinate councils | 250588 | 237617 | 218,912.2 | 18,704.8 | 18,704.8 | 8.5% |
| Social benefits | 63407 | 47578 | 55,392.0 | -7,814.0 | 7,814.0 | 14.1% |
| Other expenses | 146784 | 144750 | 128,229.6 | 16,520.4 | 16,520.4 | 12.9% |
| Total expenditure | 2661277 | 2324876 | 2,324,876.0 | 0.0 | 282,740.9 | |

Results Matrix

| | |
|------|----------------------|
| year | composition variance |
| 2015 | 33.8% |
| 2016 | 14.8% |
| 2017 | 12.2% |

| Data for year = 2016 | | | | | | |
|-------------------------------|----------------|---------------|------------------|------------|--------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Tax revenues | | | | | | |
| Taxes on property | 312100 | 328011 | 234,949.7 | 93,061.3 | 93,061.3 | 39.6% |
| Taxes on goods and services | 38960 | 38693 | 29,329.2 | 9,363.8 | 9,363.8 | 31.9% |
| | | | 0.0 | 0.0 | 0.0 | 0.0 |
| Other local taxes | 45000 | 34315 | 33,876.1 | 438.9 | 438.9 | 1.3% |
| Property income | 115000 | 143235 | 86,572.3 | 56,662.7 | 56,662.7 | 65.5% |
| Sales of goods and services | 393291 | 102899 | 296,070.5 | -193,171.5 | 193,171.5 | 65.2% |
| Fines, penalties and forfeits | 15600 | 16363 | 11,743.7 | 4,619.3 | 4,619.3 | 39.3% |
| Refunds | | 22 | 0.0 | 22.0 | 22.0 | 0.0 |
| Other revenue | 85459 | 95015 | 64,333.8 | 30,681.2 | 30,681.2 | 47.7% |
| Asset sales | 12890 | 8026 | 9,703.6 | -1,677.6 | 1,677.6 | 17.3% |
| Total revenue | 1018300 | 766579 | 766,579.0 | 0.0 | 389,698.3 | |
| overall variance | | | | | | 75.3% |
| composition variance | | | | | | 50.8% |

Table 4

| Data for year = 2017 | | | | | | |
|-------------------------------|----------------|---------------|------------------|------------|--------------------|---------|
| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
| Tax revenues | | | | | | |
| Taxes on property | 467000 | 297621 | 325,071.7 | -27,450.7 | 27,450.7 | 8.4% |
| Taxes on goods and services | 41620 | 41670 | 28,971.1 | 12,698.9 | 12,698.9 | 43.8% |
| | | | 0.0 | 0.0 | 0.0 | 0.0 |
| Other local taxes | 60000 | 41981 | 41,765.1 | 215.9 | 215.9 | 0.5% |
| Property income | 168800 | 124272 | 117,499.1 | 6,772.9 | 6,772.9 | 5.8% |
| Sales of goods and services | 224701 | 216604 | 156,411.0 | 60,193.0 | 60,193.0 | 38.5% |
| Fines, penalties and forfeits | 18900 | 15113 | 13,156.0 | 1,957.0 | 1,957.0 | 14.9% |
| Refunds | 300 | 316 | 208.8 | 107.2 | 107.2 | 51.3% |
| Other revenue | 46000 | 30506 | 32,019.9 | -1,513.9 | 1,513.9 | 4.7% |
| Asset sales | 95825 | 13722 | 66,702.3 | -52,980.3 | 52,980.3 | 79.4% |
| Total revenue | 1123146 | 781805 | 781,805.0 | 0.0 | 163,889.8 | |
| overall variance | | | | | | 69.6% |
| composition variance | | | | | | 21.0% |

Table 2

| Data for year = 2015 | | | | | | |
|----------------------|--|--|--|--|--|--|
|----------------------|--|--|--|--|--|--|

| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|-------------------------------|---------------|---------------|--------------------|------------|-----------------------|---------|
| Tax revenues | | | | | | |
| Taxes on property | 296010 | 269453 | 225,134.2 | 44,318.8 | 44,318.8 | 19.7% |
| Taxes on goods and services | 40510 | 37072 | 30,810.4 | 6,261.6 | 6,261.6 | 20.3% |
| | | | 0.0 | 0.0 | 0.0 | 0.0 |
| Other local taxes | 32000 | 37575 | 24,338.0 | 13,237.0 | 13,237.0 | 54.4% |
| Property income | 134000 | 116066 | 101,915.4 | 14,150.6 | 14,150.6 | 13.9% |
| Sales of goods and services | 312637 | 176762 | 237,780.1 | -61,018.1 | 61,018.1 | 25.7% |
| Fines, penalties and forfeits | 16200 | 14489 | 12,321.1 | 2,167.9 | 2,167.9 | 17.6% |
| Refunds | 16493 | 409 | 12,544.0 | -12,135.0 | 12,135.0 | 96.7% |
| Other revenue | 101081 | 70324 | 76,878.5 | -6,554.5 | 6,554.5 | 8.5% |
| Asset sales | 11300 | 8166 | 8,594.4 | -428.4 | 428.4 | 5.0% |
| Total revenue | 960231 | 730316 | 730,316.0 | 0.0 | 160,271.7 | |
| overall variance | | | | | | 76.1% |
| composition variance | | | | | | 21.9% |

Results Matrix

| year | total revenue deviation | composition variance |
|------|----------------------------|----------------------|
| 2015 | 76.1% | 21,9% |
| 2016 | 75.3% | 50.8% |
| 2017 | 69.6% | 21.0% |