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Knjaževac



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

June, 2020





Municipality of Knjaževac - 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

Currency and indicative exchange rate

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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. Knjaževac is a relatively less-developed municipality in South-East Serbia, with about 30,000 inhabitants spread over a large and partly mountainous area. Its main industry is agriculture, and there is also some light manufacturing and a major ski resort. More than four-fifths of annual municipal revenue accrues from the municipality's share of nationally collected taxes and from central government transfers, with the remainder coming from local property and other taxes, from the exploitation of municipal property, from charges for goods and services and from the sale of assets. This repeat PEFA assessment reflects the situation in 2018, and is based on data for the three years 2015-17. Where applicable the cut-off date is end-December 2018. Where appropriate it takes into account changes since the previous 2014 assessment which was based on 2011-13 data, using the then current (2011) PEFA criteria; the new assessment uses the revised (2016) criteria, and thus provides a baseline against which future changes in public financial management can be measured.

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, which is Not Applicable because there are no government units subordinate to the Knjaževac municipality.

A. Integrated analysis of PFM performance

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

1. Reliability of the Budget

3. About half of central government funding for Knjaževac takes the form of budget transfers, with a further third coming from the municipality's share of income and other CG taxes. Total actual CG transfers (including income tax share) were close to or even above budget in all three years 2015-17 (-3.7 per cent, -0.2 per cent and +11.0 per cent respectively). Own revenue fell far short of budget in all three years (actual revenues were 40.1 per cent, 48.0 per cent, and 58.9 per cent of budget for the three years respectively), mainly because of completely unrealistic forecasts of property tax revenue. Because of this actual expenditure fell 19.3 per cent below budget in 2015, 15.4 per cent below in 2016, and 7.9 per cent below in 2017 (Score D for PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in 2016 (5.1 per cent) but much higher variances in 2015 and 2017 (17.6 per cent and 19.2 per cent respectively) (Score D for PI-2.1). Variances by economic classification were also substantial: 17.7 per cent, 15.3 per cent, and 11.4 per cent for the three years 2015-17 (Score D for PI-2.2). No expenditure was charged to contingency during 2015-17.

2. Transparency of public finances

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

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

3. Management of assets and liabilities

5. Full financial reports are published for the municipality's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the municipality, have been published (PI-10). Investment is planned within the framework of the municipal development strategy 2009-20, and progress is regularly monitored and reported (PI-11). MOEs are effectively monitored, as are the municipality's holdings of nonfinancial assets, but the asset register is incomplete and valuations are lacking. Asset disposals were insignificant (PI-12). Knjaževac currently has no outstanding borrowing (PI-13).

4. Policy-based fiscal strategy and budgeting

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

5. Predictability and control in budget execution

7. 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 municipality's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the municipal administration (including indirect budget beneficiaries) appears satisfactory, but there are doubts about the completeness of information and the extent to which procurement is subject to competition (PI-24). Internal control arrangements are stretched because of the fall in staff numbers, while internal audit is not yet fully operational (PI-26).

6. Accounting and reporting

8. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory, and annual financial statements comply fully with national standards (PIs 28 and 29).

7. External scrutiny and audit

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

commercial audit firm, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Knjaževac was not audited by the SAI for 2015-17, so there are no significant audit findings to take into account in this report. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been no involvement of the Assembly in audit follow-up (PI-31).

B. Effectiveness of the internal control framework

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

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

12. The main risks faced by Knjaževac are that revenue from the municipality's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure best value. A continued focus on maximising local revenues will be important in sustaining the services which are the responsibility of the municipality.

13. Internal controls in the municipal administration appear to work satisfactorily, but internal audit is not fully operational. There has been no recent external audit by the SAI. Monitoring the performance of service delivery is still in process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018.

C. PFM strengths and weaknesses

Aggregate financial discipline

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

Strategic allocation of resources

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

Efficient use of resources for service delivery

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

Performance changes since 2015

17. Knjazevac in common with other SNGs faced a more difficult fiscal climate in 2015-17 than in 2011-13, so there were no improvements in the scores concerning budget reliability. There was progress in other areas: new commitment controls were introduced, a start was made in installing internal audit, consolidated reports were made about the operations of municipal enterprises, and tax administration procedures were substantially improved. The property tax base was considerably enlarged, offering the prospect of additional revenues in the future. Aggregate financial discipline has been maintained despite the difficulties encountered, and a start has been made on performance reporting which should contribute to the efficiency of service delivery. A deliberate approach has been adopted to public investment planning which should contribute to the strategic allocation of resources. But the absence of progress in medium-term fiscal planning, the limited advance in internal audit and the absence of regular external audit are all negative factors in relation to the strategic allocation of resources and the efficiency of service delivery. A bare comparison of Indicator and Dimension scores risks being misleading because of inconsistencies in the application of the criteria as between the 2015 and 2019 assessments.

Approach to PFM reform

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

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.

Table 1: Summary of scores

PFM Performance Indicator		Scoring method	Dimension score				Overall score
			1	2	3	4	
Pillar 1	Budget reliability						
HLG-1	Transfers from Central Government	M1	A	NA	A		A
PI-1	Aggregate expenditure out-turn	M1	D				D
PI-2	Expenditure composition out-turn	M1	D	D	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	D	C	C	B	C
PI-12	Public asset management	M2	B	D	D		D+
PI-13	Debt management	M2	NA	A	NA		A
Pillar 4	Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	NA	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	B	C	D		C
PI-18	Legislative scrutiny of budgets	M1	C	A	A	A	C+
Pillar 5	Predictability and control in budget execution						
PI-19	Revenue administration	M2	A	A	B	D	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	C	B+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	B	A	A	A	B+
PI-24	Procurement	M2	D	D	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	D	B	C	C	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	A	NA	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	D	NA	NA	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), consultant with extensive PFM experience including as member of the Council of the Serbian SAI.

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organisation

- Oversight Team — Co-Chairs: Irene Frei and Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF); Members: Ljubiša Stojanović (City of Vranje), Mirjana Drndarević (City of Užice), Duško Šarošković (City of Sremska Mitrovica), Slobodan Janković (Paraćin Municipality), Vesna Pavlović (Osečina Municipality), Ankica Marković (Knjaževac Municipality), 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): July 1, 2020.
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF2), Darko Komnenić (Ministry of Finance), Milovan Filimonovic (UNDP), Ankica Markovic (Knjazevac Municipality)
- Reviewers who provided comments: Ana Jolović and Georgios Chatzigiagkou, RELOF [July 2, 2020] and Thomas Stauffer, SECO [July 21, 2020].

1.3 Assessment methodology

6. The assessment covers the cities Sremska Mitrovica, Užice and Vranje, and the municipalities Paraćin, Knjazevac and Osečina, and includes all their subordinate institutions. It also covers, to the extent required by the PEFA criteria, the utility and other companies owned by the six SNGs through which a substantial proportion of public services are provided¹. It uses the revised methodology and criteria issued by the PEFA Secretariat in 2016, and to provide a measure of changes since the previous

¹ According to the Law on Local Self-Government the City has more than 100.000 inhabitants, while the municipality has minimum of 10.000 inhabitants. The powers of a city and a municipality are the same, except that the President of a city Council has the title Mayor, and a city may have one or more subordinate municipalities.

assessments in 2014-15 also applies the 2011 PEFA criteria to the evidence collected. The assessments were preceded by a capacity building workshop for the SNGs concerned held in May 2018.

7. Evidence for the assessment was collected during the second half of 2018; thus, the last completed financial year considered is 2017, with actual practice reviewed as during 2018. Where the three most recent years are considered, these are 2015-17. Visits to the SNGs to collect evidence were made in two stages in August/September (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. 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.²

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

² 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
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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. Legal and Regulatory Arrangements for PFM

11. **The Law on Local Self-Government**³ 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 corporatized 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 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

³ Law on Local Self-Government (*Official Gazette of the Republic of Serbia*, Nos. 129/2007, 83/2014, 101/2016, and 47/2018).

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 materialise⁴. 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-government⁵. 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 Law⁶. 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 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).

⁴ 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

⁵ *ibid*

⁶ Public Procurement Law (*Official Gazette of the Republic of Serbia*, Nos. 124/2012, 14/2015 i 68/2015)

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 Law⁷, 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 Law⁸ prevents local authorities from issuing guarantees. This piece of legislation stipulates that borrowing decisions are made by the appropriate body of the local government. Local authorities may borrow in Serbia or abroad. Short-term borrowing is permitted only to finance temporary liquidity issues, whilst capital projects require long-term borrowing. The legal framework imposes some restrictions on borrowing by local governments: short-term borrowing to overcome current liquidity constraints may not exceed 5 per cent of aggregate local revenue for the preceding year; local authorities may not incur short-term debt to finance capital investments; total long-term debt may not exceed 50 per cent of total current revenue in previous year, excepting where the repayment period for such long-term borrowing is greater than five years; aggregate costs associated with long-term capital borrowing may not exceed 15 per cent of aggregate local revenue for the preceding year, excepting where two-thirds of the current revenue surplus amount to more than 15 per cent of such aggregate revenue. Under Serbian Law, the central government (through the Ministry of Finance) is able to grant or withhold permission for borrowing by local authorities and so exercises control over this process.

19. Local authorities have not been fully **autonomous in terms of their hiring practices** since the recent entry into effect of the Law on the Manner of Determining the Maximum Number of Employees in the Public Sector⁹. 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.

City/municipality background information

2.5 General information

⁷ 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)

⁸ Public Debt Law (*Official Gazette of the Republic of Serbia*, Nos. 61/2005, 107/2009, 78/2011 i 68/2015)

⁹ 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)

20. The municipality of Knjaževac is located in the eastern part of Serbia, along the border with the Republic of Bulgaria and is part of the Timočka Krajina. It covers an area of 1,202 km² and is the fourth largest in the Republic of Serbia. Most of the land is mountainous, and the municipality contains a major ski resort (Stara Planina). Knjaževac is connected with other parts of the country by road and rail. It is 60 km from Niš and 280 km from Belgrade. Agriculture is the main industry, followed by food processing, textiles, and footwear production. The municipality is in the third category in terms of its relative development (the fourth category being the least developed). The municipality covers 86 settlements, of which 85 are rural settlements. In 2011 there were 31,491 inhabitants. According to the latest projections (from the Devinfo database) in 2016, there were about 30,000 inhabitants. The average population density of the municipality is 25 inhabitants per km². Economic data (see Table 2.14 below) show that incomes were increasing moderately in 2015-18, while unemployment fell significantly.

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the municipality's share of national taxes and general transfers from central government, together with its own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of municipal property. As a less developed municipality, Knjaževac is relatively more dependent on general transfers from central government whose distribution should compensate in part for lower receipts of income tax. Property tax provides a lower proportion of total revenues than in more economically advanced authorities, but nonetheless offers the most immediate scope for increasing municipal revenues through more effective enforcement. Table 2.8 below shows the overall fiscal balance for each of the years 2015-17. Table 2.9 provides details of revenue, and Tables 2.10 and 2.11 show functional and economic analyses of expenditure. Revenue figures in all cases exclude the proceeds of new loans, and expenditure figures in all cases exclude capital repayments.

Table 2.8: Fiscal Balance 2015-17

RSD thousands

	2015	2016	2017
Total revenue	767,661	773,152	868,730
Total expenditure	767,311	757,925	816,683
Fiscal balance	+350	+15,227	+52,047

Source: Knjaževac Finance Dept.

Table 2.9: Municipal revenues 2015-17

RSD thousands

	2015	2016	2017
Income tax	207,872	216,277	223,909
Other CG taxes	7,630	6,971	8,616
Central Govt. transfers	443,248	435,416	505,474
Total from CG	655,750	658,664	737,999
Property tax	43,473	42,533	56,310
Tax on goods & servs.	23,007	25,891	32,022
Trade name fee	10,515	9,469	11,199
Property income	14,385	7,436	11,170
Sales revenue	7,027	7,358	8,571
Administrative fees	3,888	4,334	3,838
Fines and penalties	2,399	3,206	2,814
Other revenue	4,717	14,261	4,654
Asset sales	-	-	153
Total revenue	767,661	773,152	868,730

Source: Knjaževac Finance Dept.

22. Table 2.9 shows the very heavy dependence of Knjaževac on revenues from central government, which in 2017 amounted to 82.6 per cent of the total, with 56.3 per cent accruing in the form of transfers and the remaining 26.3 per cent from shared central government taxes. Property tax, the largest element in locally determined revenues, whose yield increased significantly during the period, still provided only 6.2 per cent of the total in 2017.

Table 2.10: Functional analysis of expenditure 2015-17

RSD thousands

	2015	2016	2017
Genl. Public Services	165,143	157,828	167,295
Public order, etc	3,265	2,801	3,094
Economic Affairs	171,356	225,734	154,068
Environ. protection	55,245	33,389	48,155
Housing, amenities	93,307	45,792	111,039
Health	-	-	-
Culture, sport, recr.	115,779	112,439	138,170
Education	119,501	121,717	135,952
Social protection	43,634	58,225	58,910
Total expenditure	767,230	757,925	816,683

Source: Knjaževac Finance Dept.

23. Table 2.10 shows that for the most part the pattern of expenditure is stable from year to year, with changes mainly reflecting changes in investment spending. Interest expenditure is excluded from this analysis.

Table 2.11: Economic breakdown of expenditure 2015-17

RSD thousands

	2015	2016	2017
Employment costs	177,875	170,049	157,027
Goods & services	269,898	247,473	300,593
Interest payments	81	-	-
Subsidies	44,317	47,672	69,290
Transfers to comm.Cs.	75,099	61,287	76,876
Social benefits	37,527	53,210	53,933
Other expenditure	70,451	78,785	75,397
Capital expenditure	92,063	99,449	83,567
Total expenditure	767,311	757,925	816,683

Source: Knjaževac Finance Dept.

24. Table 2.11 shows the impact of the freeze on recruitments, with employment costs falling each year.

2.7 Municipal organisation

25. The Municipality has 72 local communities. A local community has the status of a legal entity with rights and duties established by its statute and the founding decision. Local communities are established to meet the needs and interests of the local population in urban settlements and rural areas. They have the status of indirect budget users. In accordance with Article 2 of the Budget System Law, the direct beneficiaries of the budget are the Municipal Assembly, Mayor, Municipal Council, Municipal Administration and Municipal Attorney. The other indirect budget beneficiaries are: Pre-school institution "Bajka"; National Library "Njegoš"; Homeland Museum, Cultural Center, Tourism Organization, Regional Center for Vocational Training and Local Communities (see table 2.12 below).

All expenditure by these institutions, including any amount financed from payments by users, is included in financial reports; payments by users are included in reports of municipal revenues. The Tourism Organisation was integrated into the third municipal utility company as from 1 June 2018.

26. The municipality owns three public utility companies. PUC Standard performs all tasks related to maintenance of public areas, parking, water and drainage and other public utilities. PUC Toplana deals with heating, and the third company covers enterprise development, urban planning and construction on behalf of the Municipality. The urban planning company depends largely on revenues from the local budget, which account for more than 90% of its revenues (see table 2.13 below). The organisation of these bodies as public corporations is required by central government policy and legislation (under the Company Law and Public Enterprise Law). It would be contrary to national requirements for their operations to be integrated into municipal financial reports as PI-6 implicitly envisages. The municipal enterprises are accordingly incorporated under Company Law and registered in the Serbian Business Register. Their financial statements are in the same format as in the case of any other company. They apply International Financial Reporting Standards and accrual accounting, while the municipalities apply cash base accounting.

Representative body

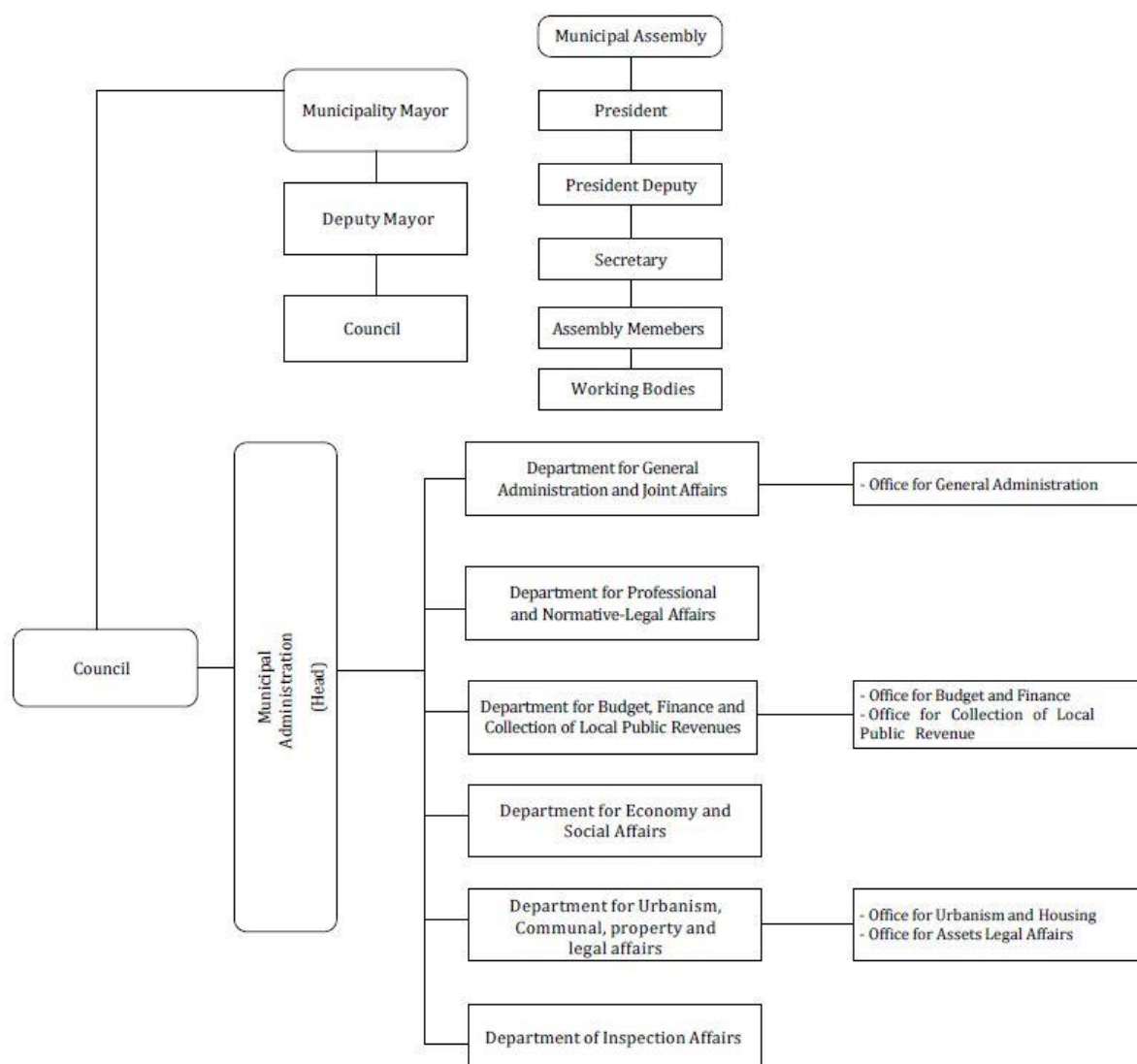
27. The Municipal Assembly has ultimate responsibility for the functions of local government in Knjaževac. The Assembly has 40 members elected for four-year terms on party lists. It adopts the Statute of the municipality and its own Rules of Procedure, approves the annual budget and the subsequent final account, and determines the rates of municipal revenues, as well as the method and criteria for determining the amount of local taxes and fees. It adopts the municipal development programme, including urban planning and land use. The Assembly has ultimate authority over the activities and staffing of the services, public enterprises, institutions and organisations established in accordance with the Statute of the Municipality. It elects its own Speaker, Deputy Speaker and Secretary, and appoints the President (Mayor) of the Municipality, the deputy President, and the members of the municipal Council. It may establish permanent and interim working bodies to consider issues within its competence.

Management

28. The activities of Knjaževac municipality are managed by the President (Mayor) and the municipal Council. The President represents the municipality, prepares proposals for decision by the Assembly, supervises the execution of the budget, and ensures the control of budgetary funds. Within the limits set by central government, the President controls the staffing structure and numbers employed in the municipal administration and the indirect budget beneficiary organisations. He/she directs the work of the municipal administration, manages the exploitation and use of municipal property and other assets (subject in some cases to the consent of the Property Directorate of the Republic of Serbia), and informs the public about the work of the municipality. Apart from the President of the Municipality and his deputy the Municipal Council has 7 members. The Council proposes the statute, budget and other decisions and acts to be adopted by the Assembly and supervises their execution. It may decide on provisional financing in case the Assembly fails to adopt the budget before the beginning of the fiscal year.

Chart 1: Inner organisation of Municipality Knjaževac

Chart 1: Municipality Knjaževac internal organisation



Municipal administration and administrative departments

29. The municipal administration consists of six Departments: The Department for General Administration and Joint Affairs, the Department for Professional and Normative-Legal Affairs of, the Department for Budget, Finance and Collection of Local Public Revenues, the Department for Economy and Social Affairs, the Department for Urbanism, Communal, property and legal affairs and the Department of Inspection Affairs. The Cabinet of the President of the Municipality operates as a separate organizational unit. The total approved complement is 67 posts, made up of 3 political appointees, 53 permanent staff positions, 10 employees on fixed-term contracts and 15 part time employees. There are 69 employees other than political appointees in 2018, down from 103 in 2013.

Table 2.12: Knjaževac municipality: Public institution/ indirect budgetary users (2017)

	Public institution/ indirect budgetary users	Indirect budget user	Functions	% of ownership	No. of employees	Assets Value (RSD)
1	Dom kulture "Knjaževac"	Cultural center	Culture	100	11	13.263.000
2	Zavičajni muzej	Museum	Museum	100	9	7.662.000
3	Narodna biblioteka "Njegoš"	Library "Njegoš"	Local Library	100	9	15.235.000
4	Turistička organizacija Opštine	Tourist office	Tourism	100	3	1.231.000
5	Regionalni centar za stručno usavršavanje	Regional centre for professional education	Professional education	100	1	346.000
6	Predškolska ustanova "Bajka"	Kindergarten "Fairy tales"	preschool education	100	93	27.248.000

Table 2.13: Local Utility companies in the Knjaževac municipality, 2018

	Public companies owned by the municipality	% of ownership	No. of employees	Assets value	Total own revenue (total revenue less transfers from city budget)	Transfer from local budget	Total revenues	% of budget generated revenues
1	PUC "Standard"*	100	154	204.111.000	151.234.537	64.626.463	215.861.000	30
2	PUC "Toplana"***	100	11	126.817.000	59.524.000	5.563.107	65.087.107	9
3	PE Preduzeće za razvoj, urbanizam i izgradnju opštine***	100	22	55.682.000	829.460	25.921.540	26.751.000	97

*Supply of drinking water, treatment and disposal of atmospheric and wastewater, municipal waste management, maintenance of cleanliness on public surfaces and maintenance of public green areas, management of cemeteries and burial and funeral activities, management of local market, construction of communal facilities, installation, repair and maintenance of installations, management of public parks, public lighting, maintenance of streets and roads in the city and rural settlements on the territory of the municipality, production of flowers, wholesale of metal products.

**Production and supply of heating

***Architectural activity/Urban planning and construction

Table 2.14: Key Economic Indicators for Knjaževac municipality

Economic Indicator	Value			
	2015	2016	2017	2018
Number of Companies	275	292	302	305
Number of companies with net profit	129	140	144	139
Total number of employed	6,241	6,085	6,280	6,423
Total number of unemployed	3,712	3,558	3,182	2,849
Average net income (in RSD)	31,165	31,879	33,296	37,490

Source: www.apr.gov.rs

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. Municipalities receive 74 per cent of personal income tax paid by their residents (the share was reduced from 77 per cent from the beginning of 2017). Amounts are paid throughout the year as funds are received by central government. General transfers are based on a formula designed to enable comparable levels of service to be provided throughout the country and may be spent at the municipality's discretion; they are paid monthly in 12 equal instalments. 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 below shows Knjaževac receipts from central government for the period 2015-17.

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, etc	247,500	207,872	241,240	216,227	206,540	223,909
Shared non-tax revenue	9,000	7,630	9,000	6,971	11,600	8,616
CG General transfers	409,681	409,681	409,681	423,681	409,681	429,681
CG targeted transfers	-	16,091	-	10,321	-	74,854
Total transfers	409,681	425,772	409,681	434,002	409,681	504,535
Other grants	18,000	17,476	-	1,414	37,000	939
Total receipts from CG	684,181	658,750	659,921	658,614	664,821	737,999
Out-turn as % of budget		96.3%		99.8%		111.0%

Source: Knjaževac Finance Dept.

Since actual total receipts were more than 95 per cent of budget in all three years, the score is A.

HLG-1.2 Earmarked grants out-turn

As noted above, municipalities must bid after the beginning of each fiscal year for new targeted grants from CG Ministries. If they are successful, the budget Law permits the additional amounts to be spent without any need for a budget revision. Knjaževac allowed nothing in its 2015-17 original budgets for targeted transfers. Since there is no satisfactory basis for measuring differences between budget and out-turn, this dimension is Not Applicable.

HLG-1.3 Timeliness of transfers from central government

Funds are received from central government in a steady and predictable stream through the year. General transfers are paid monthly in 12 equal instalments, 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. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
HLG-1 (M1)	A	
1.1 Transfers from Central Govt (CG)	A	Actual receipts were more than 95% of budget in all 3 years.
1.2 Conditional transfers out-turn	NA	SNGs have very little information about targeted transfers at time of budget enactment.
1.3 Timeliness of transfers from CG	A	Funds are received in a steady and predictable stream.

PI-1 Aggregate expenditure out-turn

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

Table 3.2: Budgeted and actual total expenditure 2015-17

RSD thousands

	2015		2016		2017	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Current expenditure	763,780	675,248	761,224	658,476	808,993	733,116
Capital expenditure	186,795	92,063	137,163	99,449	77,826	83,567
Total expenditure	950,575	767,311	898,387	757,925	886,819	816,683
Out-turn as % of budget		80.7%		84.4%		92.1%
Less interest paid	170	81	-	-	-	-
Expenditure excl. interest	950,405	767,230	898,387	757,925	886,819	816,683
Out-turn as % of budget		80.7%		84.4%		92.1%

Since the out-turn was below 85% of budget in two of the three years 2015-17, score is D. In 2015 the D score resulted from expenditure falling more than 15% below budget in two of the three years 2011-13. The exclusion of interest payments required by the 2011 criteria makes no difference.

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 are all classified as General Public Services in the data provided by the municipality. Detailed

calculations are shown in Annex 5 below. The calculated variances were 17.6 per cent, 5.1 per cent, and 19.2 per cent for the three years 2015-17 respectively. There is no clear pattern to the sources of variance: nearly half that for 2015 is attributable to the relative reduction in the share spent on Economic Affairs, while in 2017 the shares of general public services and health (where planned expenditure was not executed) fell while the shares attributable to most other functions increased. Because the variances exceeded 15 per cent in two of the three years 2015-17, the score is D.

2.2 Expenditure composition out-turn by economic type

The detailed calculations are shown in Annex 5 below. Expenditure on interest payments is included but expenditure from contingency funds is excluded. The calculated variances are 17.7 per cent, 15.3 per cent, and 11.4 per cent respectively for the three years 2015-17. As for Dimension 2.1 there is no very clear pattern to the variances. Nearly half the 2015 variance results from the reduction in the relative share of capital investment, while in 2016 the relative increase in employment costs and the relative reduction in the share absorbed by goods and services together account for about two thirds of the variance. In 2017 there were reductions in the shares of “other expenditure” and expenditure on goods and services while the shares of most other categories increased. Because the variance exceeded 15 per cent in two of the three years 2015-17, the score is D.

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 reserves of 18 million RSD, 15 million RSD and 12 million RSD were included in each of the three years 2015-17, no expenditure was charged to the reserve in any of the three years. 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 was more than 15% in two of the three years 2015-17
2.2 Expenditure composition by economic classification	D	Variance was more than 15% in two of the three years 2015-17
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 original budget and actual out-turn, while the second looks at changes in the mix of revenue in the same way as PI-2 measures the variance of expenditure. Only revenue which is under the control of the municipality is taken into consideration; its share of tax revenue collected by central government and transfers from central government are covered in HLG-1 above.

3.1 Aggregate revenue out-turn

As is shown in Annex 5 below, own revenue fell far short of budget in each of the three years 2015-17. Property tax revenues and receipts from administrative fees were grossly overestimated each year, with the result that receipts as a proportion of budget amounted to only 40.1 per cent, 48.0 per cent and 58.9 per cent for the three years respectively. The review team understand that the budget figures for property tax receipts reflected hopes that substantial amounts would be collected following the resolution of lengthy bankruptcy proceedings. In the event these hopes were

disappointed, and the municipality now approaches this issue much more cautiously. The score is therefore D.

3.2 Revenue composition out-turn

The detailed calculations are shown in Annex 5 below. The calculated variances were 56.5 per cent, 61.5 per cent, and 53.3 per cent respectively for the three years 2015-17. As noted above the most significant elements in the variance were the gross overestimates of property tax revenue in 2015 and 2016, and administrative fees in all three years. Because the variance exceeded 15 per cent in all three years, the score is D.

Indicator/Dimension	2018 Score	Justification for 2018 score
PI-3 (M2)	D	
3.1 Aggregate revenue out-turn	D	Actual revenue was below 59% of budget in all 3 years 2015-17.
3.2 Revenue composition variance	D	Variance exceeded 50% in all 3 years 2015-17.

Pillar 2: Transparency of public finances

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

PI-4 Budget formulation, execution and reporting

Knjaževac 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 (the classification is identical, but the format is not). This is in compliance with the Rulebook on Classification¹⁰, 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

The score for this Indicator depends on how many of four basic and eight additional elements of information are provided to the municipal Assembly alongside the budget proposals. Any score above D requires at least three of the four basic elements to be provided.

¹⁰ Rulebook on Classification (*Official Gazette of the Republic of Serbia*, Nos. 6/2016, 49/2016, 107/2016, 46/2017, 114/2017, 20/2018, 36/2018, 93/2018, 104/2018, 14/2019, 33/2019, 68/2019 and 84/2019)

Basic elements:

1. Forecast of fiscal deficit/surplus: Yes
2. Previous year's budget out-turn in the same format as budget proposal (i.e., 2016 for 2018 proposed budget): although the 2016 budget execution will have been published some months before, it is not included in budget documentation: No
3. Current year's budget (i.e., 2017 for 2018 budget proposal): Yes
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: Not Applicable, since there are no debts
6. Macroeconomic assumptions: guidance from CG probably does not include interest rates and exchange rate, and LGs are not in a position to make independent forecasts, so NA
7. Debt stock: Yes (There are no debts)
8. Financial assets: No
9. Summary information on fiscal risks, including contingent liabilities: although there are no guarantees or PPPs there are municipally owned enterprises (MOEs) which could pose risks. Since there is no report about them: No
10. Explanation of budget implications of new decisions about revenue and expenditure: Yes
11. Documentation on medium-term fiscal forecasts: No
12. Quantification of tax expenditure: NA – LGs have no discretion to grant tax exemptions.

The information is available at the official municipal website
<http://www.knjazevac.rs/index.php/budzet>.

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

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

All expenditure under the direct control of the municipality, including that financed from own revenue collected by indirect budget beneficiaries (kindergarten schools and cultural organisations) is included in the municipal budget. (The main health and education services which typically collect significant revenues from users, are the responsibility of the central government.) Score A.

6.2 Revenue outside financial reports

All municipal revenue, including that collected by indirect budget beneficiaries is included in the city budget. Score A.

6.3 Financial reports of extrabudgetary units

There are no extra-budgetary units. (The three municipally-owned enterprises are considered in PI-10.1 below.) Score Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-6 (M2)	A	
6.1 Expenditure outside financial reports	A	All expenditure under the direct control of the municipality is included in budgets and financial reports.
6.2 Revenue outside financial reports	A	All municipal revenue is included in budgets and financial reports.
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

PI-7 Transfers to subnational governments

Since the activities of the Community Councils are fully controlled by the municipal Administration, and integrated into the municipal budget, score for this Indicator and its two dimensions covering respectively the system for allocating transfers and the timeliness of information on transfers to subordinate governments is NA.

Indicator/Dimension	Score	Justification for 2018 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 introduction of Programme Budgeting in 2015, budget proposals include objectives to be achieved by each programme, which are at best in terms of outputs rather than outcomes. Thus, all information is published annually on programme objectives, key performance indicators and outputs to be produced. MoF instructions defined 17 programmes within which all SNG expenditure by all budget users must be fitted. These do not always correspond to local circumstances, so there remains much scope for improving the system. Meanwhile, 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. For the reasons stated in 8.1 above, these reports were of variable quality, and have not yet been published. Score D.

8.3 Resources received by service delivery units

Indirect budget beneficiaries' (kindergarten schools, library, cultural institutions) resources (both funds provided by the municipality and any income from user charges) are fully reported in annual financial reports produced by each institution. The national Treasury system where all transactions are recorded makes it possible to identify all resources received by each institution. Each institution makes an annual report to the Finance Department. Score A.

8.4 Performance evaluation for service delivery

There have been no 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	Reports to MoF were made 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 and cultural institutions providing public services.
8.4 Performance evaluation for service delivery	D	There have been no evaluations.

PI-9 Public access to fiscal information

The score for this Indicator depends on how many of five basic and four additional elements are made available to the general public.

Basic information

1. Annual budget proposal documentation: published immediately on municipal website <http://www.knjazevac.rs/index.php/budzet> – Yes
2. Enacted budget: published immediately on municipal website – Yes
3. In-year budget execution reports: only summary reports are published monthly although there is detailed publication at half year and 9 months – No, <http://knjazevac.rs/index.php/budzet>
4. Annual budget execution report: published by 30 June – Yes, <http://knjazevac.rs/index.php/budzet>
5. Audited annual financial report: budget execution report includes auditor's report in years when the municipality is not audited by the State Audit Institution (SAI). If there were an audit by SAI, audited report would be available within 12 months of year-end and on the official SAI website – Yes <http://knjazevac.rs/index.php/budzet>

Additional elements

6. Prebudget statement: not issued – No
7. Other external audit reports: there are none – NA
8. Summary of budget proposal – Yes, Citizens' Guide to proposals issued for public consultation on municipal website indicated above.
9. Macroeconomic forecasts: not relevant at LG level – NA

Information on fees, charges and taxes belonging to the municipality, and information about services provided by the municipality may be substituted for elements 7 and 9. Both are provided on the municipal website indicated above (<http://www.knjazevac.rs/index.php/baza-propisa> and <http://www.knjazevac.rs/index.php/usluge/tabela-usluga>).

Since four basic elements 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

Knjaževac's three MOEs make quarterly and annual reports to the municipality. The Assembly formally approves their budgets and annual financial statements each year which like all other documents submitted to the Assembly are available to the general public. The Assembly formally approves their audited annual financial statements each year. Consolidated quarterly and annual reports are submitted by the municipality to the Ministry of Economy, but no consolidated overview has been published. Since audited financial statements in the format prescribed for public corporations are published on the Serbian Business Register (apr.gov.rs) by the end of June each year for all three MOEs, but there is still no published overview, the score is B.

10.2 Monitoring of subnational governments

NA to Knjaževac. (see PI-7 above)

10.3 Contingent liabilities and other fiscal risks

There are no guarantees or PPPs. Possible fiscal risks from the operation of MOEs are considered in 10.1 above. Since Knjazevac has no explicit contingent liabilities on which this dimension focuses, the 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	There are no subordinate governments in Knjaževac.
10.3 Contingent liabilities and other fiscal risks	NA	Knjazevac has 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. Otherwise, there are no applicable national guidelines for the assessment of projects, nor any independent assessment of projects. Only two major projects (as defined by the PEFA criteria) have been in course of execution in Knjazevac during the period of this assessment: the creation of Lake Jesava, and the reconstruction of local roads, each costing 0.8-1.0m Euro, or about 10 per cent of annual expenditure. In view of their size, they are being implemented over several years. Small projects within the scope of municipal responsibilities for infrastructure and the environment do not readily lend themselves to analysis of the costs and benefits: in many cases they are a response to perceived public need. Public investment plans, including the two major projects, for the period 2018-20 have recently (October 2018) been reviewed

by reference to their contribution to the town’s development strategy 2009-20, and a Committee established by the Administration to appraise each project. However, no economic analysis had being performed at the time of the major investments’ approval. Score D.

11.2 Investment project selection

A public investment programme has recently been prepared for the first time, with projects grouped into three categories: (1) projects fully prepared, with finance already available; (2) fully prepared projects dependent on the availability of external finance; (3) high priority projects not yet fully prepared. There are no published or unpublished standard criteria for project selection, but selection approved by the city Council on the proposal of the administration, following public consultation. Score C.

11.3 Investment project costing

The capital costs of investment projects in the budget year and the two following years are included in budget documentation. The full capital costs are given where projects extend beyond 3-year time horizon. Score C.

11.4 Investment project monitoring

The total cost and physical progress of projects are monitored by the municipal administration (Department for Urbanism, Communal Property and Legal Affairs, and department for Budget, Finance and Collection of Local Public Revenues) on a monthly basis. An annual infrastructure development report is prepared for the Assembly and published each spring. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-11 (M2)	C	
11.1 Economic analysis of investment proposals	D	Projects are appraised by a Committee set up by the Administration, taking into account their contribution to the municipal sustainable development strategy. However, at the time of investments approval no economic analysis was done.
11.2 Investment project prioritisation	C	A public investment programme has been prepared. Projects are prioritised by the municipal administration, following public consultation.
11.3 Investment project costing	C	Amounts to be spent on each project over the next three years are included in budget documentation, with the full capital costs given where projects extend beyond the three year time horizon.
11.4 Investment project monitoring	B	The costs and physical progress of projects are regularly monitored by the municipal administration, and an annual progress report is published about the development of the municipal infrastructure.

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

There is quarterly monitoring of MOEs, and annual financial reports are published covering most of their operations, including balance sheet valuations at historical costs (but not fair or market value). The municipality keeps close track of its bank balances and other current financial assets. Score B.

12.2 Nonfinancial assets monitoring

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

12.3 Transparency of asset disposal

Sales of municipal property require the agreement of the central government Property Directorate and are subject to competitive bids. Assembly must approve sales and results of tender. Budgets and financial reports include aggregate figures for receipts from asset sales, but details of transactions are not published. Total receipts from asset sales in 2015-17 were about 1,300 Euro. Since a C score requires at least disclosure of original purchase cost and disposal value in each case, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-12 (M2)	D+	
12.1 Financial asset monitoring	B	Financial reports of most MOEs are published annually, with assets valued at historic cost.
12.2 Nonfinancial asset monitoring	D	The register of municipal assets is incomplete.
12.3 Transparency of asset disposal	D	Details of individual transactions are not published.

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

Knjaževac has no outstanding debts, so dimension is Not Applicable.

13.2 Approval of debt and guarantees

The main documented policies and procedures that provide guidance for authorization to borrow and issue new debt, as well as for undertaking other debt-related transactions are Budget System Law, Public Debt Law and City's announced policy. The municipality's policy is that borrowing should be undertaken only to finance investments. Under the Public Debt Law, the approval of the municipal Assembly must be obtained before consent for borrowing is sought by the municipal Finance Department from the Minister of Finance. The Ministry will issue the opinion within fifteen days from the day when the request for opinion has been submitted. Management of municipal debt is the responsibility of the Finance Department. Article 36 of the Public Debt Law limits an SNG's total outstanding borrowing to 50 per cent of the previous year's revenue. SNGs are forbidden to give guarantees (although any borrowing by municipal MOEs requires the approval of the Assembly). Score A.

13.3 Debt management strategy

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-13 (M2)	A	
13.1 Recording and reporting of debt and guarantees	NA	There are no outstanding debts.

13.2 Approval of debt and guarantees	A	All borrowing requires approval by MoF and municipal Assembly.
13.3 Debt management strategy	NA	There are no debts.

Pillar 4: Policy-based fiscal strategy and budgeting

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

PI-14 Macroeconomic and fiscal forecasting (M2)

14.1 Macroeconomic forecasts

Since the municipality relies on central government forecasts, dimension is NA.

14.2 Fiscal forecasts

Budget documentation covers the details of revenue and expenditure for the budget year only, with no forecasts for the two subsequent years, besides the investments. Knjaževac has been unable to employ the additional staff required to undertake medium-term fiscal planning. Score D.

14.3 Macrofiscal sensitivity analysis

In the absence of any forecasts beyond the year immediately ahead, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-14 (M2)	D	
14.1 Macroeconomic forecasts	NA	The municipality relies on 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 medium-term forecasts to serve as a basis for such analysis.

PI-15 Fiscal strategy (M2)

15.1 Fiscal impact of policy proposals

Budget documentation includes the impact of all revenue and expenditure decisions on the figures for the budget year only. The annual budget sets out the municipal administration's proposals on changes to local tax rates, proposed investments and other initiatives concerning expenditures. Score C.

15.2 Fiscal strategy adoption

Knjaževac does not have a medium-term fiscal strategy. Score: D

15.3 Reporting on fiscal outcomes

In the absence of a fiscal strategy this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
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PI-15 (M2)	D+	
15.1 Fiscal impact of policy proposals	C	Budget documentation includes fiscal impact of all changes in revenue and expenditure for the budget year only.
15.2 Fiscal strategy adoption	D	Knjaževac 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

The budget as presented provides estimates of expenditure for the budget year only. Score D.

16.2 Medium-term expenditure ceilings

Since there are no medium-term budgets, there is no question of setting medium-term expenditure ceilings. Score NA.

16.3 Alignment of strategic plans and medium-term budgets

Some budget expenditures reflect municipal strategic plans, such as Rural Development Strategy and Sustainable Development Strategy (see PI-11.1 above) which cover all budget users. 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	There are no medium-term Budgets.
16.3 Alignment of strategic plans and medium-term budgets	C	Some expenditures in annual budgets reflect elements in municipal strategic plans.
16.4 Consistency of budgets with previous year's estimates	NA	There are no expenditure projections against which to measure deviations.

PI-17 Budget preparation process (M2)

17.1 Budget calendar

There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the municipality. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September, and initial responses are made accordingly by budget users. MoF Guidance on economic assumptions about overall GDP growth, inflation and public service pay should be received by August 1. But in practice this has been provided much later – for 2018 budget on 10 November. The municipality's budget circular has been issued on time, using the previous year's assumptions. When MoF Guidance is finally received, budget users have to adjust their figures within a short timescale, but the necessary changes were limited to adjustments to pay costs. Since budget users have 4 weeks to provide their submissions after receipt of the circular, score is B.

17.2 Guidance on budget preparation

A budget circular for the year immediately ahead, which contains budget ceilings (including ceilings for administrative and functional areas) is issued by the Finance Department to all budget users without any prior formal discussion with the Council. The ceilings are officially reviewed and approved by the Council only after the estimates have been completed in every detail. Given that the Council is nevertheless in a position to make substantive changes, the score is C.

17.3 Budget submission to the Assembly

The budget proposals have been submitted to the Assembly for the last three budgets on 8 December 2015, 13 December 2016, and 12 December 2017. Since the Assembly has only a very few days to consider the proposals, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-17 (M2)	C	
17.1 Budget calendar	B	Although the final MoF Guidance is not received in the required timescale, Budget users are able to complete most of their work on the basis of interim instructions given within the specified timescale.
17.2 Guidance on budget preparation	C	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 the details of revenue and expenditure for the year ahead. There was no discussion of possible increases in 2018 expenditure financed by borrowing. No attention has been paid to the medium term, and the discussions have been concluded within 2-5 days during the last three years. The legislature does not review fiscal policies. Score C.

18.2 Legislative procedures for budget scrutiny

There are standard procedures adopted and followed by the Assembly which include study by a specialised Committee before the plenary discussion. The Committee can ask for additional explanations/information to be provided. In addition, the Committee issues an opinion. In the case of a negative opinion, the draft budget is returned to the administration to prepare a new, improved draft. This is all part of the established negotiation process. Public hearings are held immediately before the budget proposals are submitted to the Assembly. Score A.

18.3 Timing of budget approval

The Assembly has approved the budget before the start of the year for the last 3 budgets. Dates were 15 December 2015, 20 December 2016, and 19 December 2017 respectively for 2016, 2017 and 2018 budgets. Score A.

18.4 Rules for budget adjustments by the executive

Under Article 61 of the Budget System Law reallocations of up to 10% of the amounts for each programme can be made subject to approval by the Council. Larger reallocations or reallocations between programmes require a supplementary budget. These limits are respected. The Assembly has not imposed any further restrictions on the Council's freedom to reallocate appropriations beyond those in the Budget System Law. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-18 (M1)	C+	
18.1 Scope of budget scrutiny	C	The Assembly's consideration has been restricted to revenue and expenditure for the year immediately ahead.
18.2 Legislative procedures for budget scrutiny	A	There are standard procedures, including public hearings on the proposals before they are submitted to the Assembly.
18.3 Timing of budget approval	A	The Assembly approved the budget before the beginning of the next year for each of the budgets for 2016-18.
18.4 Rules for budget adjustment 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)

About two-thirds of Knjaževac's own revenue 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 municipal own 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 municipal ordinances.

19.1 Rights and obligations for revenue measures

Full information is provided by the municipal Tax Department 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 municipality, but business taxpayers must self-assess using instructions provided. There are public announcements reminding people of their obligation to pay property and other local taxes, and reminders are sent. Notifications to domestic taxpayers and instructions to businesses make clear that if the municipality's response to a complaint is not accepted, it may be taken to MoF Regional Office. Score A.

19.2 Revenue risk management

The Tax Department which collects most (more than 75 per cent) of the municipality's own revenues (other than property income and revenues from the sale of goods and services) uses a systematic approach to revenue risks. Non-registration of properties is addressed by a continuous effort to increase the number of taxpayers through aerial surveys and cross-referencing of data in different registries (e.g. business and bank account registries). There are now 9,200 individual taxpayers and 180 businesses, with some 5,000 further individuals whose property is below the property tax threshold nonetheless liable to the environmental charge. The number of zones for property valuation in the municipality was increased from four to eight in 2016, resulting in an increase in taxable values of 30 per cent. New collection procedures have been adopted in April 2018, following the Assembly's

agreement to an action plan in December 2017 including a revenue target. To ensure complete and accurate reporting of information in declarations, the self-assessment returns of the business tax payers who account for about 30 per cent of annual assessments (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 A.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. The effort to identify additional taxpayers, the requirement to provide a tax clearance certificate to participate in public procurement, and the willingness to negotiate the rescheduling of payments are part of such a programme. A major initiative was undertaken in 2017 to collect as much as possible of outstanding tax arrears, and as noted in 19.2 above the Assembly approved an action plan to improve compliance in December 2017. The staff assigned to inspection and enforcement prioritise the collection of larger amounts of arrears, and undertake a programme of site visits to check the consistency of tax returns with the actual properties as well as with the information in the property register. 160 on site inspections were planned and implemented in 2018, as per annual plan document. However, more staff are needed to make tax collection fully effective. Score B.

19.4 Revenue arrears monitoring

In common with other SNGs, Knjaževac inherited a substantial amount of arrears when the municipality became responsible for property tax collection in 2009. Much of these were attributed 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 are shown in Table 3.6 below.

Table 3.6: Movements in revenue arrears

RSD thousands

	Arrears at 1.1.16	2016 Assessments	2016 Collections	Arrears at 1.1.17	2017 Assessments	2017 Collections	Arrears at 1.1.18
Property tax							
Principal	74,321	52,451	42,533	80,840	60,393	56,310	88,776
Interest	65,363			68,535			76,722
Total	139,684	52,451	42,533	149,375	60,393	56,310	165,497
Environment contribution							
Principal	16,311	20,426	12,069	21,940	15,219	15,866	34,809
Interest	7,006			8,488			10,895
Total	23,317	20,426	12,069	30,427	15,219	15,866	45,704
Trade name display fee							
Principal	24,470	8,391	9,469	31,854	9,130	11,199	30,412
Interest	17,367			19,274			22,446
Total	41,837	8,391	9,469	51,129	9,130	11,199	52,858
Public space usage charge							
Principal	45,752	1,490	3,409	46,278	3,182	4,493	44,125
Interest	53,814			55,121			58,839
Total	99,566	1,490	3,409	101,399	3,182	4,493	102,964
Overall							
Principal	160,855	81,269	67,480	180,912	87,924	87,868	198,123

Interest	143,550			151,418			168,901
Total	304,404	81,269	67,480	332,330	87,924	87,868	367,023

Source: Knjaževac Finance Dept.

As the Table shows, there are very substantial outstanding arrears, with accrued interest accounting for more than 45 per cent of total debts. The municipality recognises that much of this is in reality uncollectable, but debts are not written off in order to maintain the municipality's claims in bankruptcy proceedings. It should be noted that 2017 collections almost reached the amount budgeted. Since the amount outstanding was more than four times annual collections, 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 taxpayers of their obligations.
19.2 Revenue risk management	A	Identification of taxpayers and collection of amounts owed is efficient.
19.3 Revenue audit and investigation	B	There is a compliance improvement plan covering the majority of revenues, and an ongoing programme of physical checks.
19.4 Revenue arrears monitoring	D	Although there is evidence of some success in collecting outstanding debts, arrears at end-2017 were more than 400 per cent of 2017 collections.

PI-20 Accounting for revenue (M1)

20.1 Information on revenue collections

Almost all revenue (other than tax shares and transfers from MoF) accruing directly to the municipality is collected by the Tax Department. All revenue whether collected by the municipal Tax Department or received by other municipal Departments 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 municipality's account in the TSA. Score A.

20.3 Revenue accounts reconciliation

A full monthly reconciliation between municipal and Treasury records is made, within four weeks of month-end, of assessments, collections, arrears and payments into TSA. Individual taxpayer accounts are updated by the Tax Department 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 is made to the Council and MoF.
20.2 Transfer of revenue collections	A	All revenue is paid the same day into the municipality's account in the TSA.
20.3 Revenue accounts reconciliation	A	There is a complete monthly reconciliation of assessments, collections, arrears and payments into TSA, and individual 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 quarterly in the light of experience of actual cash inflows and outflows. Score B.

21.3 Information on commitment ceilings

The financial reserves enable the Finance Department to assure budget users within a month of budget enactment that all approved budgetary allocations for the year may be committed at any time. The Budget department sends quarterly payment 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. At the beginning of 2017 reserves were 51.8m RSD, and at the beginning of 2018 103.9m RSD. At the time of the assessment (September 2018) the municipality had financial reserves of 127m RSD, or about 15 per cent of annual expenditure. Score A.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly several times a year (6 in 2018) with full transparency. (A revised budget is not needed for the spending of targeted transfers not notified before the beginning of each fiscal year, but Knjaževac does not take advantage of this.) Score C reflecting the relatively high number of budget revisions.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-21 (M2)	B+	
21.1 Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2 Cash forecasting and monitoring	B	Cash flow forecast is prepared at the beginning of the year, and updated quarterly.
21.3 Information on commitment ceilings	A	Budget users are able to commit their whole annual allocations at any time.
21.4 Significance of in-year budget adjustments	C	Revised budgets are approved by the Assembly 4 or more times 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/>). Knjaževac had no arrears during the period 2015-18. Score A.

22.2 Expenditure arrears monitoring

Contractors and suppliers register their invoices directly with the Central Register of Invoices, which monitors the timing of payments, and suspends transfers of tax revenue if invoices are not paid within the stipulated period. Municipalities are thus automatically notified of any arrears. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-22 (M1)	A	
22.1 Stock of expenditure arrears	A	Knjaževac has no expenditure 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

Central government sets an overall ceiling for municipal employees, including those in MOEs. Only the 72 employees in the administration and 126 in the kindergartens and other municipal institutions are paid from the municipal budget on the basis of staff lists approved by the Council President. 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 payroll unless authorised by HR management at senior level. Operation of the payroll is supervised by the Head of Finance and it is reconciled monthly 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. 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 staff records of all municipalities are subject to external inspection annually organised by central government, in order to check whether their posts have all been authorised, to confirm that all employees hold the required qualifications, whether staff are actually working, and whether salaries have been correctly assessed dependent on qualifications and length of service of the staff. 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 the payroll are updated monthly, and retroactive adjustments are almost unknown.
23.3 Internal control of payroll	A	Authority to change 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 municipal administration and indirect budget beneficiaries are stated to be complete and accurate. It seems surprising that no works contracts were concluded in 2016, as against 14 in 2017. The average annual value of 2016 and 2017 contracts (130m. RSD) corresponds to about 30 per cent of average annual budget expenditure in those years on goods and services and capital investment (400m RSD). Payments to MOEs were about 90m RSD per year, and are presumably excluded from procurement statistics. Even taking this into account, there remains a large disparity between the value of procurement contracts and total expenditure on goods, services and capital investment. Knjazevac had only commercial audit; there were no external audit reports on accuracy of the procurement records. Since it is doubtful whether records cover more than half of total procurement, the score is D.

24.2 Procurement methods

Procurement in 2016 and 2017 directly financed from the municipal budget is summarised in Table 3.7 below. Only two contracts whose value was less than one per cent of total procurement were placed through direct approaches to a single supplier. Low value procurements were all advertised on the municipal website and the central government Public Procurement Portal. However, the disparity between recorded expenditure on goods, services and capital expenditure, and the recorded value of contracts means that it is doubtful whether more than 60 per cent of expenditure on contracts was subject to competition. Score: D

Table 3.7: Procurement contracts 2016-17

RSD thousands

	Goods (Number of contracts)	Services (Number of contracts)	Works (Number of contracts)	Total (number of contracts)
2016				
Open procedure	31,000 (2)	-	-	31,000 (2)
Low value procurement	8,854 (6)	14,323 (17)	-	23,177 (23)
Single source	-	871 (1)	-	871(1)
Total	39,854 (8)	15,194 (18)		55,048 (26)
2017				
Open procedure	36,500 (2)	41,133 (2)	75,788 (4)	153,421 (8)
Low value procurement	11,350 (11)	18,389 (13)	9,306 (9)	39,045 (33)
Single source		976(1)		976 (1)
Restricted tender			9,345 (1)	9,345 (1)
Total	47,850 (13)	60,497 (16)	94,439 (14)	202,786 (43)

Source: Knjaževac Dept of Finance

24.3 Public access to procurement information

5 of 6 key elements of information are accessible (legal and regulatory framework, city procurement plans, bidding opportunities, contract awards, data on resolution of procurement complaints). 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 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 access to the administrative court).

Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-24 (M2)	D+	
24.1 Procurement monitoring	D	The recorded value of contracts corresponds to less than half total municipal expenditure on goods, services and capital investment.
24.2 Procurement methods	D	There is no assurance that more than 60 per cent of expenditure on goods, services and capital expenditure is subject to competition.
24.3 Public access to procurement information	D	Five of the six elements of information are published, but not annual procurement statistics. But it is doubtful whether information about procurement plans, bidding opportunities and contract awards is complete.
24.4 Procurement complaints management	A	The complaints 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 municipal Decision on the Organisation of the Municipal Administration.

The attention paid to the need to ensure segregation of duties is demonstrated by the fact that following an internal audit of contract procedures in 2017 responsibilities for entering into commitments and making payments were clearly separated. Score A.

25.2 Effectiveness of expenditure commitment controls

As explained in PI-22.1 above, new IT software introduced since 2015 requires all contracts to be registered with the Treasury on signature. They would be rejected if they were not within the budgetary provision for the institution concerned. This ensures that no order is placed unless there is specific budgetary provision and cash available. Score A.

25.3 Compliance with payment rules and procedures

All payments are made through the Treasury, which 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. 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	Responsibilities have been redefined following an internal audit.
25.2 Effectiveness of expenditure commitment controls	A	The new IT 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)

IA operated to some extent in 2017 with some assistance from RELOF. A tourism inspector was seconded and is currently undergoing training. An audit plan was prepared, and the official concerned undertook several audits of different town operations. But coverage was well under 50 per cent of expenditure. IA is considered not to be formally operational in 2018 because the official concerned has not been able to finish her training and undertake the two mentored audits she needs for certification. However, some advisory work is continuing in 2018. Score D.

26.2 Nature of audits and standards applied

Audits have been directed at the performance of systems (procurement and nursery education in 2017, and budget planning and execution in 2018) and the adequacy of internal controls. Score B.

26.3 Implementation of internal audits and reporting

The two planned audits in the 2017 programme were completed, as were the two audits planned for 2018, with reports distributed to the President (Mayor), the audited entity and the Finance Department. Score C.

26.4 Response to internal audits

Although there is not yet a systematic follow-up, action has been taken, as noted in 25.1 above, to implement some of the audit recommendations. Following the 2017 audits action was taken to clarify

the arrangements for ensuring segregation of duties, and to improve compliance of subordinate institutions with Public Procurement Law. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-26 (M1)	D+	
26.1 Coverage of internal audit	D	Coverage in 2017 was limited, and IA is not currently functioning.
26.2 Nature of audits and standards applied	B	Audit work in 2017 and 2018 was directed to the performance of systems in accordance with international standards.
26.3 Implementation of internal audits and reporting	C	Planned audits were completed, and reports distributed to Mayor, audited entity and Finance Department.
26.4 Response to internal audits	C	Some recommendations have been implemented.

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 transactions by the municipal administration and the 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 IT systems is controlled and supervised and gives rise to an audit trail on each occasion. The system does not allow retrospective alteration of data. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-27 (M2)	B	
27.1 Bank account reconciliation	A	All transactions included in the municipal budget are executed through the TSA with daily reconciliations between municipal and bank 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 of revenue and expenditure by functional, programme, administrative and economic classifications are submitted by the Finance Department to MoF by 15th of the next month, with full coverage of indirect budget beneficiaries, in accordance with the MoF Rulebook on reporting. (Since reports with the same detail as the original budget are published only after 6 and 9 months, score for PI-9 reduced to B on the ground that only four basic elements are available to the public.). Score A.

28.2 Timing of in-year budget reports

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

28.3 Accuracy of in-year budget reports

There are no material concerns about data accuracy. A detailed analysis of budget execution is produced 6-monthly, but commitments are not reported. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-28 (M1)	B+	
28.1 Coverage and comparability of reports	A	Detailed monthly reports are made to MoF on all 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. Exact comparison with the original budget is possible on the different classifications. But tangible assets are not covered. Score B.

29.2 Submission of reports for external audit

Legislation requires audited reports adopted by the city's Assembly to be submitted to MoF by 15 June. Reports include the balance sheet and financing as well as revenue and expenditure, and reconciliations should be provided between the different statements as well as notes on accounting policies. SAI decides by 15 April whether it will audit each SNG; if it does not decide to audit, SNG must appoint commercial auditors to carry out a financial audit within a very short space of time, in order to comply with required timetable, with financial statements submitted to auditors 4 months after

year-end. This has been the situation in 2015-17 when audit started during April each year and was submitted to the Assembly before 15 June. The precise date on which the 2017 audit was begun could not be established, but it will have been in the second half of April 2018. Score B.

29.3 Accounting standards

Annual financial statements are prepared in accordance with MoF Regulations issued in 2006. Knjazevac complied with the requirements of Article 79 of the Budget System Law in its financial report on 2017. Accounting standards applied to financial reports are consistent with all the country's legal framework's requirements. The financial reports are presented in the consistent format and follow the standards disclosed in *Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds*¹¹ and *Government Order on Budgetary Accounting*¹². Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-29 (M1)	B+	
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 normally submitted within four months of year-end.
29.3 Accounting standards	A	Reports are consistent from one year to the next and in line with national 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, for which the score is D. This has been the situation for each year 2015-17 (there has been no SAI audit since 2013). Score D.

30.2 Submission of audit reports to the legislature

¹¹ 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*

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

Commercial audit reports for 2015-17 were submitted to the Assembly within three months of the auditor receiving the draft financial statements (reports for all three years are submitted to commercial audit in the second half of April, while the audited reports were submitted to the Assembly on 5 July 2016, 15 June 2017, and 15 June 2018 respectively). Score A.

30.3 External audit follow-up

Where there is only a limited financial audit, which produces no recommendations, the question of follow-up does not arise, and this dimension is NA.

30.4 Supreme Audit Institution (SAI) independence

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-30 (M1)	D+	
30.1 Audit coverage and standards	D	Only limited financial audits were undertaken for 2015-17. There is no information about the audit of MOEs.
30.2 Submission of audit reports to the Assembly	A	The limited financial audit reports have been submitted to the Assembly within 2 months of the receipt of the financial statements by the auditor.
30.3 External audit follow-up	NA	Commercial audit reports for 2015-17 have not produced any recommendations requiring follow-up.
30.4 Supreme Audit Institution (SAI) independence	C	The President and Members of the SAI Council are appointed by the National Assembly, but the Government effectively controls the SAI budget.

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Audit reports are submitted to the Assembly with the annual financial statements. But unless there is an audit by the SAI, there is no scope for substantive scrutiny, as was the case for 2015-17, and the reports are formally approved by the Assembly within a very short time. PEFA Secretariat consider 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

No in-depth hearings have been held. The audit report was included in the execution report and as such was discussed at the Assembly meeting. Score D.

31.3 Recommendations on audit by the Assembly

Audit reports have not provided a basis for recommendations by the Assembly. Score NA.

31.4 Transparency of legislative scrutiny of audit reports

Since there is no substantive scrutiny, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-31 (M2)	D	
31.1 Timing of audit report scrutiny	D	There has been no substantive audit through which the Assembly could hold the administration to account
31.2 Hearings on audit findings	D	No hearings have been held.
31.3 Recommendations on audit by the Assembly	NA	Audit reports have not provided a basis for recommendations by the Assembly.
31.4 Transparency of legislative scrutiny of audit reports	NA	There has been no substantive scrutiny.

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 28 per cent of central government funding for Knjaževac comes through the municipality's share of income and other CG taxes. The largest element in total revenue is CG transfers, which account for about 57 per cent of the total. Actual CG transfers were above budget in all three years 2015-17 (+3.5 per cent, +6.1 per cent and +12.4 per cent respectively). Own revenue fell far short of budget in all three years (actual revenues were 40.1 per cent, 48.0 per cent, and 58.9 per cent of budget for the three years respectively), mainly because of completely unrealistic forecasts of property tax revenue. Because of this actual expenditure fell 19.3 per cent below budget in 2015, 15.6 per cent below in 2016, and 7.9 per cent below in 2017 (Score D for PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in 2016 (5.1 per cent), but much higher variances in 2015 (17.6 per cent) and 2017 (19.2 per cent) (Score D for PI-2.1). There is no clear pattern in these variances, or in the variances by economic classification (17.7 per cent, 15.3 per cent and 11.4 per cent for three years 2015-17 respectively) (Score D for PI-2.2). No expenditure was charged to contingency during 2015-17.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals needs supplementing in order to meet PEFA standards (Score D for PI-5). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (Score B for PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are published for the municipality's main utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the municipality, have been published (PI-10). Investment is planned within the framework of the municipal development strategy 2009-20, and progress is regularly monitored and reported (PI-11). MOEs are effectively monitored, as are the municipality's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals have been insignificant (PI-12). Knjaževac currently has no outstanding borrowing (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

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

4.1.5 Predictability and control in budget execution

6. 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 municipality's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the municipal administration (including indirect budget beneficiaries) appears satisfactory, but there is uncertainty about the completeness of information and the extent to which procurement is subject to competition (PI-24). Internal control arrangements are stretched because of the fall in staff numbers, while internal audit is not yet fully operational (PI-26).

4.1.6 Accounting and reporting

7. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory, but in-year reports cover only payments, not commitments (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, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Knjaževac was not audited by the SAI for 2015-17, so there are no significant audit findings to take into account in this report. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been no 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. The municipality has managed to maintain functioning services during 2015-18 despite the reduction of one third in staff numbers since 2013.

11. Apart from difficulties arising from inadequate staffing, the main risks faced by Knjaževac are that revenue from the municipality's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure best value. A continued focus on maximising local revenues will be important in sustaining the services which are the responsibility of the municipality.

12. Internal controls in the municipal administration appear to work satisfactorily, but internal audit is not fully operational. There has been no recent external audit by the SAI. Monitoring the performance of service delivery is still in process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018.

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

4.3.3 Efficient use of resources for service delivery

15. The presentation of all SNG (and central government) expenditure in terms of 17 programmes represents the first step towards results-oriented budgeting. However, it appears that the definition of the programmes may need to be reconsidered, so that they fit more readily into the responsibilities

and circumstances of SNGs. It should be recognised, moreover, that the services for which SNGs are responsible – local infrastructure, urban planning, recreational and cultural facilities - do not very readily lend themselves to measurement of the standard of services delivered. Analysis of the costs of standard operations (e.g., road maintenance, public lighting) may over time provide indications where greater efficiency could be achieved, although differences in local circumstances are likely to mean that comparisons of cost need to be treated cautiously.

4.4 Performance changes since 2015

16. Knjazevac together with other SNGs faced a more difficult fiscal climate during 2015-17 than in 2011-13, so there was no improvement in the scores concerning budget reliability. Nevertheless, aggregate financial discipline was maintained. Some progress was made in other areas: there were no longer any expenditure arrears, new commitment control procedures were introduced, a start was made in installing internal audit, consolidated reports were made about the operations of municipal enterprises, public investment planning and tax administration procedures were improved. These elements should all contribute to improvements in the efficiency of service delivery. The property tax base has been substantially enlarged, offering the prospect of additional revenues in the future. The absence of any medium-term fiscal planning indicates that there remains considerable scope for action to improve the strategic allocation of resources.

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, and the needs of subnational governments do not appear to have received much attention from central government in the context of PFM.

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. Knjaževac has made good

progress in tax administration, but staff limitations have prevented progress in other areas targeted by RELOF.

5.2 Institutional considerations

3. There remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Annex 1: Performance indicator summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level of Government (M1)	A	
1.1	Difference between planned and actual transfers	A	Actual transfers (including share of income tax) were 96.3%, 99.8% and 111.0% of budget for the three years 2015-17.
1.2	Conditional grant composition Variance	NA	Conditional transfers are not notified before budget is enacted.
1.3	In-year timeliness of transfers from central government (CG)	A	Transfers are paid in a steady and predictable stream.
PI-1	Aggregate expenditure out-turn	D	Out-turn was below 85% of budget in all three years
PI-2	Expenditure composition out-turn (M1)	D+	
2.1	Expenditure composition out-turn by function	D	Variance was more than 15% in two of the three years.
2.2	Expenditure composition by economic classification	D	Variance was more 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	Actual revenue was 40.1.9%, 48.0% and 58.9% of budget for the 3 years 2015-17.
3.2	Revenue composition out-turn	D	Revenue composition variance was 56.5%, 61.5% and 53.3% in the 3 years 2015-17.
PI-4	Budget classification	A	Consistent information is presented, broken down by administrative, economic, functional and programme classifications.
PI-5	Budget documentation	D	Only two of the basic elements are satisfied
PI-6	Operations outside financial reports (M2)	A	
6.1	Expenditure outside financial reports	A	All expenditure under the control of the municipality is included in budgets and financial reports.
6.2	Revenue outside financial reports	A	All revenue under the control of the municipality is included in budgets and financial reports.
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7	Transfers to lower tier governments	NA	Knjaževac 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, and each institution produces an annual financial report.

8.4	Performance evaluation for service delivery	D	There have been no independent evaluations.
PI-9	Public access to fiscal information	B	Four basic elements are satisfied, and three others.
PI-10	Fiscal risk reporting (M2)	B	
10.1	Monitoring of public corporations	B	Audited financial reports of the main MOEs are published by end-June
10.2	Monitoring of subordinate governments	NA	Knjaževac 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)	C	
11.1	Economic analysis of investment proposals	D	Projects are appraised by a specialised Committee by reference to their contribution to the municipal sustainable development strategy
11.2	Investment project prioritisation	C	Projects are prioritised by the municipal Council
11.3	Investment project costing	C	Projections of full capital costs of projects are included in budget documentation
11.4	Investment project monitoring	B	Progress is systematically monitored, and an annual progress report published about the development of the municipal infrastructure.
PI-12	Public asset management (M2)	D+	
12.1	Financial asset monitoring	B	Financial reports of the main MOEs 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	Information about disposals is not published
PI-13	Debt management (M2)	A	
13.1	Recording and reporting of debt and guarantees	NA	There are no outstanding debts
13.2	Approval of debt and guarantees	A	Incurrence of debt requires approval of both MoF and municipal Assembly.
13.3	Debt management strategy	NA	There are no debts requiring such a strategy.
PI-14	Macroeconomic and fiscal forecasting(M2)	D	
14.1	Macroeconomic forecasts	NA	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	Knjaževac has not adopted a fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	There is no fiscal strategy against which to measure progress.
PI-16	Medium-term perspective in expenditure budgeting (M2)	D+	
16.1	Medium-term expenditure estimates	D	No medium-term expenditure estimates have been produced.

16.2	Medium-term expenditure ceilings	NA	No medium-term Budgets have been Produced.
16.3	Alignment of strategic plans and medium-term budgets	C	Annual budgets reflect elements of strategic plans.
16.4	Consistency of budgets with previous year's estimates	NA	In the absence of medium-term budgets there is no basis of comparison.
PI-17	Budget preparation process (M2)	C	
17.1	Budget calendar	B	Although MoF guidance is not received at the time specified by regulations, budget users are able to prepare their submissions on the basis of interim instructions given within the required timescale.
17.2	Guidance on budget preparation	C	The Council does not consider the expenditure ceilings until the draft budget proposals have been completed.
17.3	Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before year-end.
PI-18	Legislative scrutiny of budgets (M1)	C+	
18.1	Scope of budget scrutiny	C	The Assembly's scrutiny is restricted to details of revenue and expenditure.
18.2	Legislative procedures for budget scrutiny	A	Proposals are reviewed by a specialised committee, having been the subject of public consultation before submission to the Assembly.
18.3	Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4	Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.
PI-19	Revenue administration (M2)	B	
19.1	Rights and obligations for revenue measures	A	A variety of different means are used to notify taxpayers of their obligations.
19.2	Revenue risk management	A	Identification of taxpayers and collection of amounts owed is efficient.
19.3	Revenue audit and investigation	B	There is a compliance improvement plan covering the majority of revenues, and an ongoing programme of physical checks.
19.4	Revenue arrears monitoring	D	Arrears were more than four times 2017 collections.
PI-20	Accounting for revenue (M1)	A	
20.1	Information on revenue collections	A	A monthly report of revenue broken down by type is made to MoF and municipal Council.
20.2	Transfer of revenue collections	A	All revenue is paid daily into the municipality's account in the TSA.
20.3	Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.
PI-21	Predictability of in-year resource allocation (M2)	B+	
21.1	Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year and updated quarterly.

21.3	Information on commitment ceilings	A	Budget users may commit their allocations in full at any time during the year.
21.4	Significance of in-year budget adjustments	C	Revised budgets are approved by the Assembly 4 or more times a year, with full transparency.
PI-22	Expenditure arrears (M1)	A	
22.1	Stock of expenditure arrears	A	There are no expenditure arrears
22.2	Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices are registered.
PI-23	Payroll controls (M1)	B+	
23.1	Integration of personnel records and the payroll	B	Payroll is only changed when authorised at high level by senior management.
23.2	Management of payroll changes	A	The payroll is updated monthly, and retroactive adjustments are very rare.
23.3	Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4	Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that all posts have been authorised and that all staff are paid correctly based on their qualifications, responsibilities and length of service.
PI-24	Procurement (M2)	D+	
24.1	Procurement monitoring	D	There are doubts about the completeness of information.
24.2	Procurement methods	D	It is doubtful whether more than 60% of procurement 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 it is doubtful whether data are complete.
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	Responsibilities have been redefined following an internal audit.
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 currently functioning.
26.2	Nature of audits and standards applied	B	Audit work in 2017 was directed towards the performance of systems in accordance with international standards.
26.3	Implementation of audits and reporting	C	Most planned audits were completed, and reports distributed to the Mayor, audited entity and Finance Department.
26.4	Response to internal audits	C	Some recommendations have been implemented.
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 functional, programme, administrative and economic classifications.
28.2	Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3	Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).
PI-29	Annual financial reports (M1)	B+	
29.1	Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement, but tangible assets are not covered.
29.2	Submission of reports for external audit	B	Reports are submitted within 4 months of year-end.
29.3	Accounting standards	A	Reports are consistent from one year to the next and in line with national requirements.
PI-30	External audit (M1)	D+	
30.1	Audit coverage and standards	D	Only limited financial audits were undertaken for 2015-17. There is no information about audits of MOEs.
30.2	Submission of audit reports to the Assembly	A	The limited financial audit reports have been submitted to the Assembly within 2 months of the receipt of the financial statements by the auditor.
30.3	External audit follow-up	NA	The commercial audit reports for 2015-17 have not required follow-up.
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	Score is D unless the Assembly insists on a substantive audit every year.
31.2	Hearings on audit findings	D	There have been no hearings.
31.3	Recommendations on audit by the Assembly	NA	There have been no findings on which recommendations could be based.
31.4	Transparency of Assembly's scrutiny of audit reports	NA	There has been no substantive discussion of, or hearings arising from, audit reports.

Annex 2: Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control throughout the organisation	The municipal administration is run by experienced staff who have maintained a well-functioning operation despite a large reduction in staff numbers. There is at present only a partially functioning internal audit. (PI-26)
1.2 Commitment to competence	The staff are well-qualified and competent.
1.3 The “tone at the top”	The head of the municipal administration gives an appropriate lead to the staff.
1.4 Organisation structure	The heads of the six municipal departments report to the Mayor through the head of the administration. (See Organisation chart in Chapter 2.)
1.5 Human resources policies and practices	The municipality’s scope for initiative is drastically limited by the central government controls over appointments and conditions of service, and by the current freeze on new appointments. (Chapter 2) Staff pay is well managed (PI-23).
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of property and other local taxes, and of failure to obtain 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	Knjaževac has avoided commitment to investment projects until the necessary finance has been assured (PI-11, PI-22).
2.5 Responses to risk	Tax assessment and collection have been strengthened (PI-19).
3. Control activities	
3.1 Authorisation and approval procedures	New arrangements as part of the municipality’s interface with the Treasury Single Account ensure that commitments are not undertaken unless financial provision for them has previously been shown to be available (PI-21, PI-25).
3.2 Segregation of duties	This has been reinforced following an internal audit report (PI-26).
3.3 Controls over access to resources and records	Segregation of duties has been reinforced (PI-25.1) so as to strengthen control over resources, and the budget, payment and accounting system includes controls over access to records (PI-27.4).
3.4 Verifications	Payroll and financial management systems include appropriate requirements for verifications before commitments are undertaken or payments made. (PI-23, PI-25)
3.5 Reconciliations	There are daily reconciliations of revenue and expenditure (PI-20, PI-27).
3.6 Reviews of operating performance	Reporting has only just been initiated, and results have not yet been published. There have been no external evaluations. (PI-8)
3.7 Reviews of operations, processes and activities	Systems reviews are undertaken when the municipality is subject to audit by the SAI. (PI-30)

3.8 Supervision	The structure of the administration provides appropriately for supervision (PIs 21, 23, 24, 25,27).
4. Information and communication	Reporting to MoF and the public on the performance of internal audit and internal controls has yet to be developed (PI-8, PI-25, PI-26).
5. Monitoring	
5.1 Ongoing monitoring	Monitoring of the implementation of public investment projects is regularly undertaken, and an annual report is published (PI-11). Expenditure is continuously tracked against budget (PI-28).
5.2 Evaluations	No significant action hitherto.
5.3 Management responses	Adequate responses are made to external and internal audit findings (PI-26, PI-30).

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	Ministry of Finance Republic of Serbia	Public financial management reform Programme 2016-20	2015	https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Financial%20Management%20Reform%20Program%202016-2010%20EN.PDF
	OECD	Serbia Profile	9/2016	https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf
2	IMF	Republic of Serbia: Request for a 30-Month Policy Coordination Instrument-Press Release; Staff Report; and Statement by the Executive Director for Serbia, IMF Country Report 18/237.	July 24, 2018	https://www.imf.org/en/Publications/CR/Issues/2018/07/23/Republic-of-Serbia-Request-for-a-30-Month-Policy-Coordination-Instrument-Press-Release-Staff-46118
3	IMF	Republic of Serbia: Eighth Review Under the Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia IMF Country Reports 17/397.	December 21, 2017	www.imf.org/en/Publications/CR/Issues/2017/12/21/Republic-of-Serbia-Eighth-Review-Under-the-Stand-By-Arrangement-Press-Release-Staff-Report-45506
4	EU COMMISSION	STAFF WORKING DOCUMENT Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2018 Communication on EU Enlargement Policy, Strasbourg.	April 17, 2018	https://ec.europa.eu/neighborhood-enlargement/sites/near/files/20180417-serbia-report.pdf
5	Ministry of Public Administration and Local Self-Government	Public Administration Reform Report	3/2018	http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf
6	Opština Knjaževac	Odluka o budžetu opštine Knjaževac za 2018	December 19, 2017	http://knjazevac.rs/Dokumenti/budzet2018.pdf
7	Opština Knjaževac	Obrazloženje odluke o budžetu za 2018. godinu		http://knjazevac.rs/Dokumenti/Obrazlozenje%20ODLUKE%202018.pdf
8	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2018. godinu (23.03.2018)	March 23, 2018	http://knjazevac.rs/Dokumenti/Rebalans%20I%202018.pdf
9	Opština Knjaževac	Obrazloženje odluke o izmenama i dopunama odluke o budžetu (23.03.2018)	March 23, 2018	http://knjazevac.rs/Dokumenti/OBRAZLOZENJE%20ri.pdf

10	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2018. godinu (13.04.2018)	April 13, 2018	http://knjazevac.rs/Dokumenti/Rebalans%20II%202018.pdf
11	Opština Knjaževac	Obrazloženje odluke o izmenama i dopunama odluke o budžetu (13.04.2018)	April 13, 2018	http://knjazevac.rs/Dokumenti/OBRAZLOZENJE%20rII.pdf
12	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2018. godinu (30.04.2018)	April 30, 2018	http://knjazevac.rs/Dokumenti/Rebalans%20III%202018.pdf
13	Opština Knjaževac	Obrazloženje odluke o izmenama i dopunama odluke o budžetu (30.04.2018)	April 30, 2018	http://knjazevac.rs/Dokumenti/OBRAZLOZENJE%20rIII.pdf
14	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2018. godinu (17.07.2018)	July 17, 2018	http://knjazevac.rs/Dokumenti/Rebalans%20IV%202018.pdf
15	Opština Knjaževac	Obrazloženje odluke o izmenama i dopunama odluke o budžetu (17.07.2018)	July 17, 2018	http://knjazevac.rs/Dokumenti/OBRAZLOZENJE%20rIV.pdf
16	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2018. godinu (27.11.2018)	November 27, 2018	http://knjazevac.rs/Dokumenti/Rebalans%20V%202018.pdf
17	Opština Knjaževac	Obrazloženje odluke o izmenama i dopunama odluke o budžetu (27.11.2018)	November 27, 2018	http://knjazevac.rs/Dokumenti/OBRAZLOZENJE%20rV.pdf
18	Opština Knjaževac	Odluka o budžetu opštine Knjaževac za 2017. Godinu	December 20, 2016	http://knjazevac.rs/Dokumenti/Budzet%20%202017.pdf
19	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2017. godinu (20.02.2017)	February 20, 2017	http://knjazevac.rs/Dokumenti/rebalans%20I%202017.pdf
20	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2017. godinu (26.04.2017)	April 26, 2017	http://knjazevac.rs/Dokumenti/ODLUKArebalansII.pdf
21	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2017. godinu (12.07.2017)	July 12, 2017	http://knjazevac.rs/Dokumenti/ODLUKArebalansIII.pdf
22	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2017. godinu (18.10.2017)	October 18, 2017	http://knjazevac.rs/Dokumenti/ODLUKArebalansIV.pdf
23	Opština Knjaževac	Odluka o budžetu opštine Knjaževac za 2016. Godinu		http://www.knjazevac.rs/index.php/budzet
24	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2016. godinu (12.02.2016)	February 12, 2016	http://knjazevac.rs/Dokumenti/ODLUKA%20rebalans%20I%202016.pdf
25	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2016. godinu (07.07.2016)	July 7, 2016	http://knjazevac.rs/Dokumenti/ODLUKA%20rebalans%20II%202016.pdf

26	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2016. godinu (07.11.2016)	November 7, 2016	http://knjazevac.rs/Dokumenti/Rebalans%20III%202016.pdf
27	Opština Knjaževac	Odluka o izmenama i dopunama odluke o budžetu opštine Knjaževac za 2016. godinu (29.11.2016)	November 29, 2016	http://knjazevac.rs/Dokumenti/Rebalans%20IV%202016.pdf
28	Opština Knjaževac	Odluka o završnom računu budžeta opštine Knjaževac za 2017. Godinu	June 15, 2018	http://knjazevac.rs/Dokumenti/Odluka%20o%20ZR%2017.pdf
29	Opština Knjaževac	Obrazloženje odluke o završnom računu budžeta opštine Knjaževac za 2017. godinu	December 20, 2016	http://knjazevac.rs/Dokumenti/Obrazlozenie%20zavrzni%202017.pdf
30	Opština Knjaževac	Obrazloženje odluke o završnom računu budžeta opštine Knjaževac za 2016. godinu	December 15, 2015	http://knjazevac.rs/Dokumenti/Obrazlozenie%20zavrzni%202016.pdf
31	Opština Knjaževac	Mišljenje ovlašćenog revizora za 2016.		http://www.knjazevac.rs/Dokumenti/Misljenje%20ovlascenog%20revizora%202016.pdf
32	Opština Knjaževac	Odluka o završnom računu budžeta opštine Knjaževac za 2016. godinu	June 15, 2017	http://knjazevac.rs/Dokumenti/Odluka%20o%20ZR%20202016.pdf
33	Opština Knjaževac	Mišljenje ovlašćenog revizora za 2017.		http://www.knjazevac.rs/Dokumenti/Misljenje_Opstine_Knjazevac_2017.pdf
34	Opština Knjaževac	Rešenje o utvrđivanju prosečnih cena kvadratnog metra nepokretnosti po zonama za utvrđivanje poreza na imovinu za 2016. Godinu na teritoriji opštine Knjaževac	November 30, 2015	http://www.knjazevac.rs/Dokumenti/Misljenje_Opstine_Knjazevac_2017.pdf
35	Opština Knjaževac	Rešenje o utvrđivanju prosečnih cena kvadratnog metra nepokretnosti po zonama za utvrđivanje poreza na imovinu za 2017. Godinu na teritoriji opštine Knjaževac	November 30, 2016	http://knjazevac.rs/Dokumenti/AKT%20PROSECNE%20CENE.pdf
36	Opština Knjaževac	Rešenje o utvrđivanju prosečnih cena kvadratnog metra nepokretnosti po zonama za utvrđivanje poreza na imovinu za 2018. Godinu na teritoriji opštine Knjaževac	November 29, 2017	http://knjazevac.rs/Dokumenti/AKT%20PROSECNE%20CENE17.pdf
37	Opština Knjaževac	Odluka o lokalnim administrativnim taksama	December 19, 2017	http://knjazevac.rs/Dokumenti/lok.admin.takse.pdf
38	Opština Knjaževac	Odluka o lokalnim komunalnim taksama	December 19, 2017	http://knjazevac.rs/Dokumenti/lok.kom.takse.pdf
39	Opština Knjaževac	Statut opštine Knjaževac	March 13, 2009	http://www.knjazevac.rs/Dokumenti/Statut%204-09.pdf
40	Opština Knjaževac	Pravilnik o sistematizaciji radnih mesta	April 1, 2019	http://www.knjazevac.rs/index.php/sistematizacija-radnih-mesta
41	Opština Knjaževac	Podaci o projektima		http://www.knjazevac.rs/index.php/projekti

42	Opština Knjaževac	Pravilnik o bližem uređivanju postupka javne nabavke unutar opštine Knjaževac	February 29, 2016	http://www.knjazevac.rs/Dokumenti/Pravilnik%20JN.pdf
43	Opština Knjaževac	Pravilnik o izmenama pravilnika o bližem uređivanju postupka javne nabavke unutar opštine Knjaževac	February 5, 2018	http://www.knjazevac.rs/Dokumenti/pravilnik_o_izmenama_pravilnika_jn.pdf
44	Opština Knjaževac	Pravilnik o ocenjivanju službenika u opštinskoj upravi Knjaževac	April 6, 2017	http://www.knjazevac.rs/Dokumenti/PRAVLNIK%20O%20OCENJIVANJU.pdf
45	Opština Knjaževac	Odluka o maksimalnom broju zaposlenih na neodređeno vreme u sistemu lokalne samouprave opštine Knjaževac za 2017. godinu	October 18, 2017	http://www.knjazevac.rs/Dokumenti/Odluka%20maks.br%20zap2017.pdf
46	Opština Knjaževac	Odluka o izmenama odluke o maksimalnom broju zaposlenih na neodređeno vreme u sistemu lokalne samouprave opštine Knjaževac za 2017. godinu	April 13, 2018	http://www.knjazevac.rs/Dokumenti/Odluka%20maks.br.zaposlenih%202017%20izmena.pdf
47	Opština Knjaževac	Kodeks ponašanja službenika i nameštenika u opštinskoj upravi Knjaževac	October 25, 2017	http://www.knjazevac.rs/Dokumenti/KODEKS%20PONASANJA%20ZAPOSLENIH.pdf

Annex 3B: List of people interviewed

	Name and Surname	Department	Position
1	Emilija Tasić	Finance department, head	head
2	Dragica Ivanović Jocić	Internal audit/inspection	auditor
3	Dragana Marinković	Office for budget, finance and treasury, chief	chief
4	Marko Ristić	Officer for public procurement	officer
5	Vesna Živković	Office for local revenue collection and inspectorate affairs, chief	chief
6	Ankica Marković	Office for budget finance and revenue collection/section for budget	officer
7	Marija Jelenković	Section for economy and social affairs, head	head
8	Zoran Đorđević	Section for Urbanism, housing and legal affairs, head	head

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 Knjaževac officials
5.1 Budget documentation	
PI-6. Central government operations outside financial reports	
6.1. Expenditure outside financial reports	Discussion with Knjaževac officials
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Discussion with Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac officials, municipal financial statements
12.2. Nonfinancial asset monitoring	
12.3. Transparency of asset disposal.	
PI-13. Debt management	Discussion with Knjaževac 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 Knjaževac officials
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	
15.1. Fiscal impact of policy proposals	Discussion with Knjaževac 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 Knjaževac 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 Knjaževac officials and specific information on relevant dates
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	
18.1. Scope of budget scrutiny	Discussion with Knjaževac officials and specific information on relevant dates
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	
19.1. Rights and obligations for revenue measures	Discussion with Knjaževac 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 Knjaževac officials
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	
21.1. Consolidation of cash balances	Discussion with Knjaževac officials
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	
22.1. Stock of expenditure arrears	Discussion with Knjaževac officials
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	
23.1. Integration of payroll and personnel records	Discussion with Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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 Knjaževac 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)
HLG-1 Predictability of transfers from higher level of government (M1)	NR	A		
HLG-1.1 Out-turn of transfers from HLG	A	A	Transfers (including income tax share) were close to budget in all three years.	No change
HLG-1.2 Variance between budget and out-turn for earmarked transfers	NR	NA	Earmarked transfers are decided during the budget year.	No underlying change
HLG-1.3 In-year timeliness of transfers	A	A	Transfers are made in a steady and predictable stream.	No change.
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1 Aggregate expenditure out-turn compared to original approved budget	D	D	Budget execution was below 85% in 2 of the 3 years 2015-17	No change
PI-2 Composition of expenditure out-turn compared to original approved budget (M1)	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 the 3 years 2015-17	Performance deterioration
(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	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	B	D	Own revenue fell far below budget.	Performance deterioration
PI-4 Stock and monitoring of expenditure payment arrears (M1)	C+	A		
(i) Stock of expenditure payment arrears and a recent change in the stock	C	A	There were no arrears 2015-17	Performance improvement

(ii)	Availability of data for monitoring the stock of expenditure payment arrears	A	A	Treasury system automatically checks arrears	No change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5 Classification of the budget		A	A	Budget formulation and execution is based on consistent administrative, economic and Programme classifications.	No change
PI-6 Comprehensiveness of information included in budget documentation		B	B	4 of 7 applicable benchmarks (2,4,7,9) satisfied: 1 & 3 are NA	No change
PI-7 Extent of unreported government operations (M1)		A	A		
(i)	Level of unreported government operations	A	A	There are no unreported operations	No change
(ii)	Income/expenditure information on donor-funded projects	A	A	Any income/expenditure associated with donor-funded projects would be included in budgets and out-turn statements, but actually there are none.	No change
PI-8 Transparency of inter-governmental fiscal relations (M2)		NA	NA		
(i)	Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	NA	NA	There are no subordinate governments	No change
(ii)	Timeliness and reliable information to SN Governments on their allocations	NA	NA	There are no subordinate governments	No change
(iii)	Extent of consolidation of fiscal data for general government according to sectoral categories	NA	NA	There are no subordinate governments	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities (M1)		C	A		
(i)	Extent of central government monitoring of autonomous entities and public enterprises	C	A	MOEs submit regular fiscal reports and audited annual reports, and a consolidated return is made to MoF	Performance improvement based on annual consolidated return

(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	B	A	5 of 6 benchmarks are satisfied	Performance improvement based on publication of annual financial reports following limited audit
C. BUDGET CYCLE					
<i>C(i) Policy-Based Budgeting</i>					
	PI-11 Orderliness and participation in the annual budget process (M2)	C	B		
(i)	Existence of, and adherence to, a fixed budget calendar	D	B	There is a fixed calendar which is generally respected.	Procedure more orderly
(ii)	Guidance on the preparation of budget submissions	D	C	Council reviews allocations only after detailed proposals prepared	2015 report considered the Council to be powerless
(iii)	Timely budget approval by the legislature	A	A	Budget always approved before beginning of next fiscal year	No change
	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)	D+	D+		
(i)	Multiyear fiscal forecasts and functional allocations	D	D	There are no multi-year fiscal forecasts	No change
(ii)	Scope and frequency of debt sustainability analysis	NA	NA	The municipality has no debts	No change
(iii)	Existence of costed sector strategies	B	C	Sector strategies cover only investment expenditure	Probably no underlying 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 (M2)	B+	B+		
(i)	Clarity and comprehensiveness of tax liabilities	A	A	Tax liabilities are clearly defined	No change
(ii)	Taxpayer access to information on tax liabilities and	A	A	Taxpayers have easy access to information	No change

	administrative procedures				
(iii)	Existence and functioning of a tax appeal mechanism	C	C	The tax appeal mechanism is not independent	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)		D+	B		
(i)	Controls in the taxpayer registration system	C	A	A considerable effort has been made to identify additional taxpayers, drawing on different sources of information.	Performance improvement
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	D	C	Penalties are substantial but a serious problem of arrears remains	Performance improvement
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	B	A programme of site visits has been established, but more staff are needed to make it fully effective	Performance improvement
PI-15 Effectiveness in collection of tax payments (M1)		D+	D+		
(i)	Collection ratio for gross tax arrears	D	D	High levels of arrears remain	No change
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All revenue is paid immediately in the municipality's Treasury account	No change
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	There are monthly reconciliations between assessments, collections, arrears records and receipts by the Treasury	No change
PI-16 Predictability in the availability of funds for commitment of expenditures (M1)		B+	C+		
(i)	Extent to which cash flows are forecasted and monitored	B	B	Cash flows are updated quarterly	No change
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	A	Budget users can commit their whole allocations at any time during the year	Previously quarterly ceilings were in force
(iii)	Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	C	There have been 4 or more budget revisions each year, with full transparency	Revisions have been more frequent than in 2011-13

PI-17 Recording and management of cash balances, debt and guarantees	A	A		
(i) Quality of debt data recording and reporting	A	NA	Debts if any were closely monitored and reconciled, but there are currently no debts	No underlying change
(ii) Extent of consolidation of the government's cash balances	A	A	Municipal cash balances are consolidated daily	No change
(iii) Systems for contracting loans and issuance of guarantees	B	B	The issue of debt is the responsibility of the Assembly, but there are no criteria or fiscal targets to govern the amounts	No change
PI-18 Effectiveness of payroll controls (M1)	C+	B+		
(i) Degree of integration and reconciliation between personnel records and payroll data	A	B	There are no automatic links but payroll is only changed when personnel record changes are notified at senior level	Absence of automatic links not considered in 2015
(ii) Timeliness of changes to personnel records and the payroll	A	A	Payroll is updated every month, and retroactive changes are very rare	No change
(iii) Internal controls of changes to personnel records and the payroll	A	A	Changes to personnel records and the payroll are restricted, and always leave an audit trail	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	A	There is a full annual inspection by central government to ensure that all posts are authorised, and all staff paid correctly	Inspection system not considered in 2015
PI-19 Competition, value for money and controls in procurement (M2)	A	C+		
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	Regulatory framework meets all 6 benchmarks	No change
(ii) Use of competitive procurement methods	A	D	Deviations from competition are in compliance with the law but it is doubtful whether data are complete.	Probably no underlying change. No detailed statistics in 2015 report.

(iii)	Public access to complete, reliable and timely procurement information	A	D	All 4 elements of information are available but it is doubtful whether data are complete	Probably no underlying change
(iv)	Existence of an independent administrative procurement complaints system	A	A	The appeal arrangements comply with all 7 criteria.	No change
PI-20 Effectiveness of internal controls for non-salary expenditure (M1)		C+	A		
(i)	Effectiveness of expenditure commitment controls	C	A	New commitment controls make it impossible to conclude contracts unless budgetary provision and cash are available	Performance improvement
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	A	Internal control procedures revised following internal audit review	Performance improvement
(iii)	Degree of compliance with rules for processing and recording transactions	B	A	Treasury procedures ensure that transactions are correctly processed and recorded	Performance improvement
PI-21 Effectiveness of internal audit (M1)		D	D+		
(i)	Coverage and quality of the internal audit function	D	D	A start has been made in installing internal audit, although it was not functioning in September 2018	Performance improvement
(ii)	Frequency and distribution of reports	D	C	A number of reports were produced in 2017 and distributed to those concerned	Performance improvement
(iii)	Extent of management response to internal audit function.	NA	C	Action was taken in response to some reports	Performance improvement
C(iii) Accounting, Recording and Reporting					
PI-22 Timeliness and regularity of accounts reconciliation (M2)		A	A		
(i)	Regularity of bank reconciliation	A	A	Municipal and bank records reconciled daily	No change
(ii)	Regularity and clearance of suspense accounts and advances	A	B	There are no suspense accounts. Advances to contractors reconciled at least annually	No underlying change: advances to contractors not considered in 2015

PI-23 Availability of information on resources received by service delivery units	A	A	Resources received by service delivery institutions are recorded and institutions prepare annual financial reports	No change
PI-24 Quality and timeliness of in-year budget reports (M1)	C+	C+		
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Reports are comparable with budget but only payments, not commitments are reported	No change
(ii) Timeliness of the issue of reports	A	A	Reports are produced monthly 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 (M1)	A	A		
(i) Completeness of the financial statements	A	A	Statements include full information on revenue, expenditure and financial assets/liabilities	No change
(ii) Timeliness of submissions of the financial statements	A	A	Statements are submitted for audit within 6 months of year-end	No change
(iii) Accounting standards used	A	A	National standards are consistently applied	No change
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit (M1)	D+	D+		
(i) Scope/nature of audit performed (including adherence to auditing standards)	A	D	There were no substantive audits during 2015-17	Limited nature of commercial audits not considered in 2015
(ii) Timeliness of submission of audit reports to the Legislature	B	A	Audit reports have been submitted within 3 months of receipt of statements by the auditors	No underlying change
(iii) Evidence of follow up on audit recommendations	D	NA	There have been no recommendations	No underlying change
PI-27 Legislative scrutiny of the annual budget law (M1)	D+	D+		
(i) Scope of the legislature scrutiny	C	C	Assembly's review covers details of revenue and expenditure but only	No change

			after finalisation of detailed proposals		
(ii)	Extent to which the legislature's procedures are well established and respected	A	A	The Assembly's procedures are well-established	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 clear rules limiting changes by the administration which are respected	No underlying change: 2015 report judged that there was room for significant changes without Assembly approval
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	D	No hearings have been held	No change
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	D	NA	Since there have been no hearings the question of recommendations does not arise.	No underlying 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	177970	165143	146,442.7	18,700.3	18,700.3	12.8%
Public order & safety	3000	3265	2,468.6	796.4	796.4	32.3%
				-		
Economic affairs	281546	171356	231,670.3	60,314.3	60,314.3	26.0%
Environment protection	48630	55245	40,015.2	15,229.8	15,229.8	38.1%
Housing	122,192	93307	100,545.8	-7,238.8	7,238.8	7.2%
Sport, recreation, culture	125893	115779	103,591.1	12,187.9	12,187.9	11.8%
Health	0	0	0.0	0.0	0.0	0.0
Education	136150	119501	112,031.1	7,469.9	7,469.9	6.7%
Social protection	37024	43634	30,465.2	13,168.8	13,168.8	43.2%
Defense	0	0	0.0	0.0	0.0	0.0
allocated expenditure	932405	767230	767,230.0	0.0	135,106.1	
interests	170	81				
contingency	18000	0				
total expenditure	<u>950575</u>	<u>767311</u>				
aggregate outturn (PI-1)						80.7%
composition (PI-2) variance						17.6%
contingency share of budget						0.0%

Data for year =		2016				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	166240	157828	142,630.0	15,198.0	15,198.0	0.106556
Public order and safety	1740	2801	1,492.9	1,308.1	1,308.1	0.876241
Economic affairs	262474	225734	225,196.4	537.6	537.6	0.002387
Environment protection	44200	33389	37,922.5	-4,533.5	4,533.5	0.119548
				-		
Housing	70000	45792	60,058.3	14,266.3	14,266.3	0.237541
Health	0	0	0.0	0.0	0.0	0.0
Sport, recreation, culture	129710	112439	111,288.1	1,150.9	1,150.9	0.010342
Education	140495	121717	120,541.4	1,175.6	1,175.6	0.009753
Social protection	68528	58225	58,795.4	-570.4	570.4	0.009701
Defense	0	0	0.0	0.0	0.0	0.0
allocated expenditure	883387	757925	757,925.0	0.0	38,740.5	
interests	0	0				
contingency	15000	0				
total expenditure	<u>898387</u>	<u>757925</u>				
aggregate outturn (PI-1)						84.4%
composition (PI-2) variance						5.1%
contingency share of budget						0.0%

Data for year =		2017				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
				-		
General public services	220447	167295	205,797.2	38,502.2	38,502.2	0.187088
Public order and safety	4586	3094	4,281.2	-1,187.2	1,187.2	0.277312

Economic affairs	169464	154068	158,202.3	-4,134.3	4,134.3	0.026133
Environment protection	47500	48155	44,343.4	3,811.6	3,811.6	0.085957
Housing	88608	111039	82,719.6	28,319.4	28,319.4	0.342355
Health	37000	0	34,541.2	34,541.2	34,541.2	1
Sport, recreation, culture	123276	138170	115,083.7	23,086.3	23,086.3	0.200604
Education	133858	135952	124,962.5	10,989.5	10,989.5	0.087943
Social protection	50080	58910	46,751.9	12,158.1	12,158.1	0.260055
Defense	0	0	0.0	0.0	0.0	0.0
allocated expenditure	874819	816,683.0	816,683.0	0.0	156,729.8	
interests	0	0.0				
contingency	12000	0				
total expenditure	886819	816683				
aggregate outturn (PI-1)						92.1%
composition (PI-2) variance						19.2%
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	80.7%	17.6%	
2016	84.4%	5.1%	0.0%
2017	92.1%	19.2%	

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	193980	177875	159,604.3	18,270.7	18,270.7	11.4%
Use of goods and services	335764	269898	276,262.4	-6,364.4	6,364.4	2.3%
Capital investment	186795	92063	153,692.6	61,629.6	61,629.6	40.1%
Interest	170	81	139.9	-58.9	58.9	42.1%
Subsidies	42720	44317	35,149.5	9,167.5	9,167.5	26.1%
Transfers/Grants	82513	75099	67,890.7	7,208.3	7,208.3	10.6%
Social benefits	29255	37527	24,070.6	13,456.4	13,456.4	55.9%
Other expenses	61378	70451	50,501.0	19,950.0	19,950.0	39.5%
Total expenditure	932575	767311	767,311.0	0.0	136,105.7	
composition variance						17.7%

Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	154026	170049	132,150.6	37,898.4	37,898.4	28.7%
Use of goods and services	330821	247473	283,836.5	36,363.5	36,363.5	12.8%
Capital investment	137163	99449	117,682.6	18,233.6	18,233.6	15.5%
Interest	0	0	0.0	0.0	0.0	0.0
Subsidies	49800	47672	42,727.2	4,944.8	4,944.8	11.6%
Transfers/Grants	75581	61,287	64,846.7	-3,559.7	3,559.7	5.5%
Social benefits	60807	53210	52,171.0	1,039.0	1,039.0	2.0%

Other expenses	75189	78785	64,510.4	14,274.6	14,274.6	22.1%
Total expenditure	<u>883387</u>	<u>757925</u>	757,925.0	0.0	116,313.6	
composition variance						15.3%
Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	167232	157027	156,118.6	908.4	908.4	0.6%
Use of goods and services	343021	300593	320,225.6	19,632.6	19,632.6	6.1%
Capital investment	77826	83567	72,654.1	10,912.9	10,912.9	15.0%
Interest	0	0	0.0	0.0	0.0	0.0
Subsidies	58000	69290	54,145.6	15,144.4	15,144.4	28.0%
Transfers/Grants	73696	76876	68,798.5	8,077.5	8,077.5	11.7%
Social benefits	45600	53933	42,569.7	11,363.3	11,363.3	26.7%
Other expenses	109444	75397	102,170.9	26,773.9	26,773.9	26.2%
Total expenditure	<u>874819</u>	<u>816683</u>	816,683.0	0.0	92,813.0	
composition variance						11.4%

Results Matrix

year	composition variance
2015	17.7%
2016	15.3%
2017	11.4%

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	176024	43473	70,586.8	-27,113.8	27,113.8	38.4%
Vehicle, environmental charges, etc	24260	23007	9,728.4	13,278.6	13,278.6	136.5%
Trade name fee	12000	10515	4,812.1	5,702.9	5,702.9	118.5%
Property income	23900	14385	9,584.1	4,800.9	4,800.9	50.1%
Sales of goods and services	13200	7027	5,293.3	1,733.7	1,733.7	32.8%
Fines, penalties and forfeits	2600	2399	1,042.6	1,356.4	1,356.4	130.1%
Administrative fees	17600	3388	7,057.7	-3,669.7	3,669.7	52.0%
Other revenue	2010	4717	806.0	3,911.0	3,911.0	485.2%
Asset sales	0	0	0.0	0.0	0.0	0.0
Total revenue	<u>271594</u>	<u>108911</u>	108,911.0	0.0	61,567.0	
overall variance						40.1%
composition variance						56.5%
Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent

Tax revenues						
Taxes on property	145000	42533	69,614.8	-27,081.8	27,081.8	38.9%
Vehicle, environmental charges, etc	24260	25891	11,647.3	14,243.7	14,243.7	122.3%
Trade name fee	12000	9469	5,761.2	3,707.8	3,707.8	64.4%
Property income	23900	7436	11,474.4	-4,038.4	4,038.4	35.2%
Sales of goods and services	10950	7358	5,257.1	2,100.9	2,100.9	40.0%
Fines, penalties and forfeits	2700	3206	1,296.3	1,909.7	1,909.7	147.3%
Administrative fees	17500	4334	8,401.8	-4,067.8	4,067.8	48.4%
Other revenue	2156	14261	1,035.1	13,225.9	13,225.9	1277.7%
Asset sales	0	0	0.0	0.0	0.0	0.0
Total revenue	238466	114488	114,488.0	0.0	70,376.0	
overall variance						48.0%
composition variance						61.5%

Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	75000	56310	44,166.3	12,143.7	12,143.7	27.5%
Vehicle, environmental charges, etc	30070	32022	17,707.7	14,314.3	14,314.3	80.8%
Trade name fee	15000	11199	8,833.3	2,365.7	2,365.7	26.8%
Other revenue						
Property income	17110	11170	10,075.8	1,094.2	1,094.2	10.9%
Sales of goods and services	10010	8571	5,894.7	2,676.3	2,676.3	45.4%
Fines, penalties and forfeits	7000	2814	4,122.2	-1,308.2	1,308.2	31.7%
Administrative fees	35020	3838	20,622.7	-16,784.7	16,784.7	81.4%
Other revenue	4035	4654	2,376.1	2,277.9	2,277.9	95.9%
Asset sales	28753	153	16,932.2	-16,779.2	16,779.2	99.1%
Total revenue	221998	130731	130,731.0	0.0	69,744.1	
overall variance						58.9%
composition variance						53.3%

Results Matrix		
year	total revenue deviation	composition variance
2015	40.1%	56.5%
2016	48.0%	61.5%
2017	58.9%	53.3%