



City of Koprivnica, Croatia

Report on Public Expenditure and Financial Accountability (PEFA)

(July 28th, 2014)

Table of Content

ABBREVIATIONS	4
PREFACE	5
SUMMARY ASSESSMENT	6
i) INTEGRATED ASSESSMENT OF PFM PERFORMANCE	6
ii) IMPLICATIONS FOR BUDGETARY OUTCOME	9
iii) PROSPECT FOR REFORMS	10
1. INTRODUCTION	14
2. CITY BACKGROUND INFORMATION	18
2.1 ECONOMIC CONTEXT	18
2.2 CENTRAL AND LOCAL GOVERNMENT FINANCE.....	19
2.3 DESCRIPTION OF THE LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM.....	25
SECTION 3: EVALUATION OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS	31
SUBSECTION 3.1: BUDGET CREDIBILITY	33
SUBSECTION 3.2: COMPREHENSIVENESS AND TRANSPARENCY	39
SUBSECTION 3.3: POLICY-BASED BUDGETING	48
SUBSECTION 3.4: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION	52
SUBSECTION 3.5: ACCOUNTING, RECORDING AND REPORTING	70
SUBSECTION 3.6: EXTERNAL SCRUTINY AND AUDIT	74
SUBSECTION 3.7: DONOR PRACTICES.....	79
4. GOVERNMENT REFORM PROCESS	81
<i>Subsection 4.1: Description of Major PFM Reforms</i>	81
<i>Subsection 4.2: Institutional Factors Supporting Planning/Implementation of Reforms</i> ...	81
ANNEXES	82
ANNEX 1: CROATIA- PROFILE OF SUB NATIONAL GOVERNMENTS	83
ANNEX 2: DETAILED SCORE CALCULATIONS	86
ANNEX 3: LIST OF CONTACTS	87
ANNEX 4: BIBLIOGRAPHY	88
ANNEX 5: MAPS KOPRIVNICA (CROATIA).....	91

FISCAL YEAR

January 1 – December 31

EXCHANGE RATE

(23rd of July 2014)

Euro (€) 1 = 7.62112 Croatian Kuna (HRK)

WEIGHTS AND MEASURES

Decimal Metric System

ABBREVIATIONS

AGA - Autonomous Government Agency
ASSC - Areas of Special State Concern

CG – Central Government
CHU – Central Harmonization Unit
COFOG - Classification of the Functions of Government

EB – Extra budgetary
EU – European Union

FINA Finance Agency
FMIS – Financial Management Information System

GFS – Government Financial Statistics
GDP – Gross Domestic Product
GIZ – Gesellschaft für Internationale Zusammenarbeit

HRK – Hrvatska Kuna (Croatian Kuna)
HLG – High level of government

IA – Internal Audit
IPSAS – International Public Sector Accounting Standards
IMF – International Monetary Fund

LG – Local Government
LGU – Local Government Units

MOF – Ministry of Finance

NB – National Bank

OG - Official Gazette

PBZ - Privredna Banka Zagreb,
PD - Public Companies
PFM – Public Financial Management
PEFA - Public Expenditure and Financial Accountability

SAFE - Strengthening Accountability and the Fiduciary Environment
SAO – State Audit Office
SDDS - Special Data Dissemination Standard
SECO Swiss State Secretariat for the Economic Affairs
SN – Subnational
SPI – Sustav poslovnih informacija (Business information system)

TA - Tax Administration

VAT – Value Added Tax

PREFACE

The present report for the city of Koprivnica was prepared by the PEFA assessment team for Local Government (LG) in Croatia, composed of three experts, the team leader, Giovanni Caprio, the senior PFM expert John Wiggins and one local PFM expert, Anto Bajo. The project officially started on March 17th, 2014 and the field work ended on May 10th, 2014.

The present version of the report is structured as follows:

A Summary Assessment;

Section 1: Introduction

Section 2: Background information on the city of Koprivnica

Section 3: Evaluation of PFM Systems, Processes and Institutions

Section 4: Reform Process

Annexes

The team members wish to express their appreciation to the city Administration of Koprivnica, and in particular to the Mayor, Vesna Želježnak and also to the World Bank, the European Union and the Swiss Cooperation (SECO) for the opportunity to conduct this assessment and for making it possible to accomplish the work within an extremely tight timeline.

We are particularly grateful to Mr. Dario Runtic, the Advisor of the Association of Cities of the Republic of Croatia who coordinated the assignment for his guidance and support.

28th of July, 2014

Summary assessment

i) Integrated assessment of PFM performance

Predictability from higher levels of Government

Transfers to Koprivnica from higher levels of Governments did not fall far short of Budget during 2011-2013 and the amounts provided by the central government under various headings did not differ very much from Budget. (But part of Indicator HLG-1 could not be rated because information was not available about the functional destination of all receipts from central government.) Receipts from overall transfers were spread evenly through the year.

Credibility of the budget

The stock of expenditure arrears exceeded 2% only in 2013 but overall arrears remained low during the period (2011-2013). This element and the appropriate monitoring of arrears in general are important, and they confirm the City's ability to live within its means. In addition, the relatively low variances in aggregate expenditure and in expenditure composition as well as the absence of actual expenditure charged to a contingency vote are evidence of its ability to stick to its priorities. On the other hand the city's own revenues fell substantially short of budget each year, thereby adding considerably to the difficulty of preparing and executing a credible budget.

Comprehensiveness and transparency

The classification system used for budget formulation, execution and reporting in Koprivnica is consistent with international standards. In addition the information included in budget documentation as submitted to the Council is broadly satisfactory (fulfilling 5 of the 9 information benchmarks required by the methodology). Moreover there are no unreported operations during budget execution. It should be noted, however, that the budget and out-turn statements cover only the revenue and expenditure of the City's central administration, including payments to budget users but not their own revenues or final expenditures. (Financial statements integrating all budget users' operations have been produced separately, in a somewhat slower timescale.) Also and as far as transparency is concerned, the public has very good access to key fiscal information. On the other hand, however, the city of Koprivnica has not made an overall assessment of the fiscal risks posed by the utility companies which it owns and which are responsible for the delivery of important public services.

Policy-based budgeting

The budget preparation process in the city of Koprivnica is satisfactory. If the earlier stages of the calendar have been subject to delays, the instructions to the city's entities include ceilings approved by the Mayor. In addition the last three budgets have been approved by the Council before the beginning of the fiscal year.

Detailed projections of budgeted activities are prepared each year for a 3-year period, but firm links between the multi-year estimates and the subsequent budget ceilings for particular activities have not yet been established in many cases.

In Koprivnica, plans for the development of programmes where activities have a steady pattern allow fully for both capital and current costs. But these do not constitute strategies although they cover well over 25 per cent of the Budget. Overall linkages between investment budgets and forward expenditure estimates are weak in Koprivnica.

Predictability and control in budget execution

a) Taxpayer obligation, taxpayer registration & collection of tax payments

In Koprivnica, legislation governing the taxes and utility fees is clear and the administrative procedures straightforward, although there may be scope for error in the measurement of chargeable areas. Information on tax liabilities and administrative procedures is readily available at City offices although no specific taxpayer education has been provided. Appeals against community and utility fees can be made to a body appointed by the county, although such appeals were said to be very rare.

Koprivnica seeks to draw on the Office of State Administration's register of businesses, and devotes considerable effort to its database for all property and business-related fees and taxes. But there are no links with TA databases. Overall penalties for non-compliance are ineffective.

Tax arrears in Koprivnica have been increasing (2011-2013) and collection ratio is below 60%. All revenue is collected by City officials and paid immediately into the Treasury Account. A complete detailed reconciliation is carried out quarterly between the records of assessments, collections and arrears of individual taxpayers and the records of receipts by the Treasury

b) .Cash flow forecast, cash balances and debt management

In Koprivnica, a cash flow forecast is prepared for the fiscal year and updated monthly on the basis of actual cash inflows and outflows. In practice, budget

entities within the city are provided with reliable information for six months in advance. In-year adjustments to budget allocations take place twice a year. They are carried out in a transparent way.

Koprivnica has no foreign debt. The domestic debt records of the city are complete, updated and reconciled quarterly. Domestic debt data are considered of good quality and the corresponding debt reports are comprehensive and elaborated quarterly. Koprivnica's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

The city of Koprivnica has one bank account in HRK, held at *Podravska Banka* a private commercial bank. Every day the city receives a print out from the bank with the balance available (excluding some extra-budgetary funds). The bank accounts of budget users have not yet been absorbed into the Treasury account.

c) Payroll controls and controls for non-salary expenditures

Payroll controls in Koprivnica are fairly effective. Although there are no direct links between personnel records and the payroll, there is full documentation of the way changes in personnel records are reflected in the payroll in practice. According to the City Administration there have not been any retroactive adjustments to the pay of individuals. All changes in the two data bases always leave a clear audit trail. The central administration payroll is small, and subject to close supervision; no errors have been detected in the recent general financial audit; but the payrolls of budget users are not yet centralised through a Single Treasury Account.

Internal controls for non-salary expenditures are effective. In practice, controls are effective in preventing new commitments from being undertaken before the availability of finance has been assured. Other internal control rules and procedures are generally understood and observed.

d) Procurement system

The procurement system in Koprivnica meets the standards of the EU *acquis*. The legal and regulatory framework used is transparent and comprehensive. Open competitive procurement is the default method of procurement. The public has easy access to complete, reliable and timely procurement information, and there is an independent administrative complaints system.

e) Internal audit

Internal audit in Koprivnica has been in abeyance following the promotion of the internal auditor to a higher post. A new internal auditor has recently been appointed.

Accounting, recording and reporting

Account reconciliation in Koprivnica is regular and timely and information on all resources received by service delivery units is available. In-year budget reporting is of fair quality but timely. Annual financial statements are submitted within the required timescale to the City Council and the State Audit Office. However, pending the establishment of a Single Treasury Account covering all budget users at the beginning of 2015, these statements have covered only the City's central operations, including payments to budget users but not their own revenues and final expenditures. Separate financial statements integrating all the operations of budget users have been prepared in a somewhat slower timescale, but there has been no comparable presentation of the initial budget. In addition, nationally prescribed accounting standards are applied consistently for the statements (but these are not consistent with IPSAS).

External Scrutiny and audit

Overall external audit in Koprivnica is of fairly good quality, focusing on significant and systemic issues and adhering to auditing standards. In addition the city council carries out a thorough examination of the budget proposals (but there has been no discussion of recent audit reports which have covered only the City's central operations, with budget users being audited separately at longer intervals than a year).

Donors

The city of Koprivnica received no external budget support or project/program aid during 2011-13.

ii) Implications for budgetary outcome

Aggregate fiscal discipline is very well evidenced by the relatively low level of expenditure arrears. It is also evidenced by the good quality of debt data recording and reporting, and by well controlled systems for contracting loans (made against transparent criteria and fiscal targets). The operation of satisfactory aggregate fiscal discipline is also confirmed (but to a lesser extent) by the good quality and timeliness of in-year budget reporting. Overall aggregate fiscal discipline remains fairly strong in Koprivnica although it is weakened by the revenue out-turns persistently falling far short of the original approved budget (2011-2013).

The extent of sub-national government responsibilities in Croatia is limited, with the central government retaining most of the responsibility for financing health

and education services. Within this framework the strategic allocation of resources in Koprivnica is confirmed by the relatively small changes in the mix of expenditure as well as between budgets and out-turn. In addition budget classifications consistent with international standards, the comprehensiveness of the budget documentation submitted to the city council, a good budget preparation process and good legislative (by the city council) scrutiny of the draft budget law are all indications that the process of allocating resources is satisfactory.

Overall, the good systems of public procurement and fairly good external audit are elements providing evidence of the delivery of efficient services to the city community. However, the unpredictability of some major revenue streams, and their earmarking for particular purposes which may not represent the most immediate priorities, are obstacles to medium-term fiscal planning, and so to the best provision of services. .

The above three budgetary objectives, aggregate fiscal discipline, the strategic allocation of resources and the delivery of efficient services are positively influenced by the integrity of fiscal information. In fact the reconciliation of account is regular and timely, in-year budget execution is closely tracked, and full annual financial statements are produced within a very short timescale.

Overall, the city of Koprivnica has fairly strong PFM systems with acceptable performance. There are some areas needing improvement, such as the significant differences between expenditure and revenue out-turn and budgeted revenue and the absence of costed sector strategies. The City Administration is working to improve the performance of existing systems, notably through the establishment of a Single Treasury Account as from the beginning of 2015 which will fully integrate all the operations of budget users, and through the preparation of a strategic plan for the development of its services.

iii) Prospect for reforms

PFM in Koprivnica will be substantially strengthened by the completion of the new IT system and the establishment of the Single Treasury Account covering all budget users. The recent re-establishment of the internal audit function will also be important. The further development of the City will be crucially dependent on its joint initiative with the food company Podravka to establish a University for Northern Croatia, which will serve as an educational and scientific centre for the region, specialising particularly in the application of science and technology to food production. The City has taken over a former military installation alongside the company, which is being converted to serve as accommodation for the University. This is a large financial commitment on the part of the City, and the success of the initiative will be substantially dependent on the continuing prosperity of the company which is the largest local contributor to the City's

revenues, and also provides support in a socially responsible way to education, culture, art and sport in the region.

PEFA PERFORMANCE INDICATORS (2014)¹

A. PFM OUT-TURNS: Credibility of the budget		Score
HLG-1	Predictability of transfers from Higher Level of Government	NR
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		Score
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	D
PI-8	Transparency of Inter-Governmental Fiscal Relations	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C
PI-10	Public Access to key fiscal information	A
C. BUDGET CYCLE		Score
C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+
PI-17	Recording and management of cash balances, debt and guarantees	B+
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditures	B+
PI-21	Effectiveness of internal audit	D
C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+
C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	C+
D. DONOR PRACTICES		Score
D-1	Predictability of Direct Budget Support	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NA
D-3	Proportion of aid that is managed by use of national procedures	NA

¹ Scoring is assigned based on best international practices and corresponds to a scale of four (4) points: A (best performance) to D, with the possibility of intermediate scoring (+)

1. Introduction

Background and objectives

The Association of Cities of the Republic of Croatia has applied for technical support from the World Bank in order to carry out a Public Expenditure and Financial Accountability (PEFA) assessment of Local Governments in Croatia. Funding was granted from the “*Strengthening Accountability and the Fiduciary Environment*” (SAFE) Trust Fund, administered by the World Bank on behalf of the European Commission and the Swiss State Secretariat for the Economic Affairs (SECO) and the project was executed by the Association of Cities of the Republic of Croatia and covered the evaluation of the cities of Koprivnica, Crikvenica, Labin and Sisak.

The State Audit Office in their reports have regularly emphasized the existence of a number of irregularities in the financial operations of local government and often given a qualified opinion on the financial operations of local governments. The Association of the Cities felt that the local government should carry out a PEFA assessment in order to objectively determine the performance in public finance management of local governments according to internationally accepted standards, assess who is responsible for such performance (local government, legislative framework, intergovernmental relations, or something else) and establish procedures for removing the causes of such operations.

Cities were selected using four criteria:

1. Two "small town" and two county headquarters (one of which is less than 35,000 inhabitants , and the other more than 35,000)
2. Two cities have to be engaged in the activities of the first phase of decentralization (took responsibilities for decentralized function of schools, and fire brigades) and two cities engaged in the activities of the first and second phase of decentralization (took over responsibilities for funding schools, fire brigades plus roads maintenance and construction)
3. Two cities that are based on the Adria coast, and two continental cities
4. Two cities from the regions with an average economic activity (from Primorsko-Goranska county and from Koprivnica-Krizevci county), a city from the region with significant economic activity (from Istria county) and one city from region with weak economic activity (from Sisak-Moslavina county)

The specific PEFA assessment of the city of Koprivnica is part of this initiative.

The current report will be used to advise the city government and the State government on key challenges in the PFM sphere and provide a basis for developing policy and administrative reforms to overcome these challenges.

The specific objectives expected from the PEFA analysis are:

- To have an independent assessment of the PFM performance making use of the PEFA standardized criteria. The result of this report will serve as a reference situation to measure the evolution of PFM performance.
- To identify key reform initiatives/provide policy advice to the beneficiaries in how best to revise their PFM strategy based on the findings of the PEFA evaluation.

Overall process and process at the city level

The overall evaluation process started with a one-day PEFA workshop in Zagreb on March 20th, 2014. The workshop covered methodological issues on evaluations at the SN level and included group works. About 30 participants from following entities were present:

Institutions:

Ministry of Finance (Central harmonization unit, State treasury)
Economics Institute Zagreb
GONG²
State Audit Office
Swiss Embassy
World Bank
Parliamentary Committee for Local Government
Ministry of Administration (deputy minister)
Transparency International
Ministry of Regional Development and EU Funds

Cities:

Koprivnica
Crikvenica
Labin
Sisak
Kutina
Vinkovci
Virovitica

The PEFA team was composed of Giovanni Caprio (team leader), John Wiggins, senior PFM expert and Anto Bajo, senior PFM expert (local). The field work for

² Gong is civic "watchdog organization". Started with election monitoring in 1998 and now does advocacy and research

the evaluation of Koprivnica (as well as for the city of Sisak) took place in the period of April 21th through May 10th, 2014³.

Methodology

The 3 experts have carried out the PEFA evaluation of the city of Koprivnica following strictly the structure, methodology, and guidelines of documents elaborated by the PEFA secretariat: *the PEFA Public Financial Management (PFM) Performance Measurement Framework (PMF)* of January 2011 and the *Guidelines for the application of the PEFA Framework at the Sub National Government level* (updated January 2013). In addition the experts have also consulted the *PEFA Field guide* (May 2012)⁴ extensively.

In the report, the experts have evidenced the scores. They have also specified the analysis, which was carried out by mentioning the information sources and documentation used.

Stakeholders' participation and quality Control

The Office of the World Bank in Zagreb has monitored the field work carried out by the experts but has not participated in the exercise.

Quality control was carried out by the Association of Cities of the Republic of Croatia, the World Bank and the PEFA Secretariat in Washington DC. The city of Koprivnica reviewed the draft report and checked the accuracy of the information used.

Scope

The present PEFA evaluation covers the total expenditures of the city of Koprivnica. These expenditures amounted to million 136.63 HRK in 2012 and to million 130.71 HRK in 2013 respectively.

In 2012 total Koprivnica expenditures represented 0.60% of total Local Government expenditures in Croatia and 0.094% of total consolidated General Government expenditures. In 2012 Koprivnica total revenue represented 0.53% of total Local Government revenue in Croatia and 0.092% of total consolidated General Government revenue.

³ From a contractual point of view, a total of 150 man-days are allocated for the PEFA assessment of the four cities of Koprivnica, Crikvenica, Labin, and Sisak. In practice, it was expected that approximately 37.5 man days (25%) be used for the assessment of the city of Koprivnica

⁴ All the 3 documents are accessible on the website of the PEFA Secretariat www.pefa.org.

Table 1.1: Koprivnica Total Expenditures (Absolute and relative)

HRK millions

	Koprivnica (1)	Local Government (2)	General Government (3)	Koprivnica (1) As Percentage of (2)	Koprivnica (1) As Percentage of (3)
2012	137.7	22 800,00	144 600,0	0.60%	0.095%
2013	130.7	--	--	--	--

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16; Calculations by the PEFA team from data of the Ministry of Finance of Croatia and the city of Koprivnica. Data for 2013 are not available

Table 1.2: Koprivnica Total Revenue (Absolute and relative)

HRK millions

	Koprivnica (1)	Local Government (2)	General Government (3)	Koprivnica (1) As Percentage of (2)	Koprivnica (1) As Percentage of (3)
2012	122.6	22 900,00	133 200,0	0.53%	0.092%
2013	118.1	--	--	--	--

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16; Calculations by the PEFA team from data of the Ministry of Finance of Croatia and the city of Koprivnica. Data for 2013 are not available

2. City background information

2.1 Economic Context

Croatia⁵ is a small country in south central Europe, with a population (2012) of 4.29 million, which has declined by about 2 per cent during the last decade. The country is divided into a flatter inland section south east of the capital, Zagreb, and the Istria peninsula and a long coastline stretch of the Adriatic Sea, with numerous islands. Industry and agriculture are mainly in the inland section, while tourism dominates activity in the coastal areas. GDP per head was about 10,500 Euro (78,500 HRK) in 2012. In recent years an annual deficit on visible trade of about 14 per cent of GDP has been largely offset by net receipts on services (largely tourism) leaving a current account deficit of about one per cent of GDP. During this period the exchange rate between the Euro and the Croatian Kuna (HRK) has been broadly steady at about 7.5 HRK to the Euro.

Croatia has been severely affected by the global recession which began in 2008. Real GDP fell by nearly 7 per cent in 2009, and the economy has contracted further in each subsequent year. In 2013 GDP was about 11 per cent lower than in 2008, and the IMF forecast a further small decline in 2014. Despite considerable efforts at fiscal consolidation, the fiscal deficit has remained obstinately high, increasing from a budgeted 3.5 per cent of GDP for 2013 to an out-turn of 5.5 per cent; the deterioration reflected the lower volume of economic activity and the requirement to meet the debts of public institutions in the health and financial sectors. The hope had been that economic activity would be stimulated by Croatia's accession to the European Union in mid-2013, particularly through inward investment flows, but these have yet to materialise. Meanwhile Croatia is paying its share of EU revenues, but the details of the EU regional and social programmes which should over time more than offset Croatia's contributions to the EU Budget have yet to be settled. The following table summarises main economic developments 2010-13.

Table 2.1 Economic Developments 2010-13

Year	2010	2011	2012	2013
GDP (Euro millions)	44,864	44,896	44,625	46,693
Change in real GDP (%)	-1.4	0.0	-2.0	-0.6
Inflation (average % change in CPI)	1.0	2.3	3.4	2.4
Trade Balance (Euro million)	-5,991	-6,360	-6,329	-6,461
Current Balance (Euro million)	-582	-437	-591	-528
Domestic investment (% of GDP)	24.3	23.3	23.0	23.5
Unemployment (% labour force)	12.2	13.7	14.2	14.0

Sources: IMF Staff Report 12/302 and Ministry of Finance Economic and Fiscal Policy Guidelines 2012-16, adjusted roughly to reflect staff statement at the end of 2014 Article IV Consultations (Figures need revision)

⁵ Refer to Annex, map 4.1

2.2 Central and Local Government Finance⁶

Croatia's General Government expenditure amounted to 43.8 per cent of GDP in 2012. Direct expenditure by the central government accounted for 82.8 per cent of the general government total, while local governments accounted for 15.8 per cent. The balance was expenditure of government-owned companies and other institutions, mainly for the provision of roads, water and environmental protection. General government revenue and expenditure is summarised in the following table.

Table 2.2: General Government Revenue and Expenditure 2012

	Central Government (HRK billion)	Extra-Budgetary (HRK billion)	Local Government (HRK billion)	Consolidated General Govt (HRK billion)	CG as % of GDP	EB as % of GDP	LG as % of GDP	Consol % of GDP
Total revenue	109.8	5.0	22.9	133.2	33.3	1.5	6.9	40.3
Current expenditure	118.7	3.9	19.3	137.4	36.3	1.2	5.8	43.8
Capital expenditure	1.1	2.7	3.5	7.3	0.3	0.8	1.1	2.2
Total expenditure	119.8	6.6	22.8	144.6	33.3	2.0	6.9	43.8
Fiscal Balance	-10.0	-1.5	0.1	-11.4	-3.0	-0.5	0.0	-3.5

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16

Central government revenue is dominated by indirect taxes and social contributions, which accounted for 53.2 billion HRK and 37.8 billion HRK respectively of total revenues of 109.8 billion HRK in 2012. Total revenue from income tax amounted to about 9.0 billion HRK, of which nearly 90 per cent accrued to local government. Although personal income tax is progressive, with a rate of 40 per cent charged on taxable incomes over 8,800HRK per month, the amounts of the personal allowances for each family member (and in particular the increasing amounts of child allowances as the number of children increases) result in a relatively low overall yield by comparison with social security contributions where such exemptions do not apply. The largest central government expenditure is on pensions and social benefits, where the budget was 38.3 billion HRK for 2013. The other major expenditures on services were 19.7 billion HRK on health care and 11.0 billion on education. The following table shows the trend in the central government fiscal balance for 2010-13.

⁶ SN profile for Croatia is in annex 1

Table 2.3: Consolidated Central Government Fiscal Balance

HRK billion

	2010	2011	2012	2013
TOTAL REVENUE	111.1	110.8	113.2	111.0
- Current Revenue	110.8	110.4	112.9	110.7
- Capital Receipts	0.3	0.4	0.3	0.3
TOTAL EXPENDITURE	125.6	126.2	124.3	129.0
Current expenditure	122.6	122.4	120.9	125.3
Of which:				
- Interest	6.6	7.4	8.7	10.0
Capital expenditures)	3.0	3.8	3.4	3.7
AGGREGATE DEFICIT	14.5	15.4	11.1	18.0
As % of GDP	4.4	4.6	3.4	5.4
General Government Debt as % of GDP	42.2	47.2	53.7	56.6
Gen. Govt Guarantees as % of GDP	18.2	17.9	15.2	15.2
- Gen Govt Foreign Debt as % of GDP		16.0	19.1	23.2
- Gen Govt Domestic Debt as % of GDP		31.3	34.7	33.4

Sources: SDDS Tables, Ministry of Finance Economic and Fiscal Policy Guidelines, 2012-16

Local Government

As Table 2.2 above shows, local government accounts for about 17 per cent of General Government revenue, and about 16 per cent of expenditure. Although local government thus accounts for only a relatively small proportion of general government revenue and expenditure, it is nonetheless very fragmented. The country is divided into 20 Counties, 126 cities and 429 municipalities, plus the capital city, Zagreb, which has the status of both a city and a county. 50 per cent of all local government units (LGUs) have populations less than 3,000, and 80 per cent less than 7,000. Municipalities have only very limited administrative functions. The functions of cities and counties may overlap, but no group of LGUs is hierarchically superior to another. Counties are normally responsible for secondary education and health care facilities, economic development and the main transport infrastructure, while cities are responsible for primary education facilities, fire service, utility services (the services are usually provided by local government-owned companies), local road maintenance and public lighting, housing and physical planning, pre-school education and social welfare. Apart from pre-school education, the salaries of people employed in the health and education services remain a charge on the central government. A much higher proportion of local government expenditure is for capital projects than is the case for the central government.

Arrangements for financing local government are very complex. According to the SDDS Tables covering the 53 largest local government units (LGUs) (Zagreb, 20 counties and the 32 largest cities) which together account for about two thirds of total local government revenue and expenditure, LGUs received 15.0 billion HRK

current revenue in 2012, made up of 8.6 billion HRK from income tax, 2.5 billion HRK from administrative fees, 1.8 billion HRK from grants (mainly from central government), 0.9 billion from their own property revenue, 0.4 billion from tax on property sales, 0.8 billion from various small taxes, and 0.4 billion from other miscellaneous sources. They also received 0.3 billion HRK from sales of assets.

Only about 40 per cent of total revenue is under the control of the LGUs concerned. The 5 per cent tax on sales of property is collected by the central government Tax Administration (TA), with 40 per cent of the revenue going to the LGU concerned, and 60 per cent retained by central government. Income tax is collected by TA at centrally determined rates and almost all the revenue is then distributed to LGUs on the basis of various formulae. In 2012 the law on Financing LGUs provided for cities and municipalities to receive 56.5 per cent of receipts from their residents, and counties to receive 16 per cent. Cities taking responsibility for decentralised functions could receive up to a further 12 per cent (the amount depending on which responsibilities had been taken by each LGU), while 15.5 per cent was reserved to finance resource equalisation payments, mainly to LGUs in Areas of Special State Concern (ASSC – mainly places affected by the war in the 1990s), in hill and mountain areas and on the Adriatic islands. Thus the amount available for equalising the resources available to poorer LGUs in order to ensure at least a minimum level of service is limited by the yield from time to time of income tax rather than being dependent on any objective measure of need. The only income tax revenues dependent on LGU decisions were the yield of the surtax an LGU can impose as a percentage of the basic income taxes paid by its residents. Municipalities may impose a surtax of up to 10 per cent and cities up to 12 per cent; if a city's population exceeds 30,000 up to 15 per cent, and for Zagreb up to 30 per cent. In practice few LGUs charge the maximum (Zagreb, with the highest rate, charges 18 per cent).

The only tax revenues wholly dependent on LGU decisions are those arising from three small taxes: 3 per cent on sales of drinks by catering establishments, up to 15 HRK per square metre per year for holiday houses, and up to 2000 HRK per year for registered business names. In addition to these an LGU can impose charges for the use of public space (pavement cafes, etc.). An LGU can decide to collect these revenues itself, or can contract out collection to the county office of TA for a commission of 5 per cent. Even where an LGU has a relatively large number of taxable holiday houses, the yield of these three taxes would amount to only about 5 per cent of total revenue, while the yield of the surtax might amount to a further 5 per cent of revenue for LGUs levying it at 10 per cent of basic tax payments. Administrative fees (the community fee charged on new developments and the annual utility fee) are determined by the LGUs, but the yields are earmarked for investing and maintaining the infrastructure.

Aggregate current and capital expenditure by the 53 largest authorities during the period 2008-13 is shown in the following Table.

Table 2.4: Gross current and Capital Expenditure of Largest LGUs

	2008	2009	2010	2011	2012	2013
Total current expenditure	13.7	14.0	13.1	12.7	13.3	10.9
Total capital expenditure	4.2	3.2	2.6	2.1	1.7	1.5

HRK billion

Source: SDDS Tables

As Table 2.4 shows, total current expenditure remained fairly flat from the beginning of the recession in 2008, until it fell back sharply in 2013, while capital expenditure has declined every year since 2008. These trends are the result of declining receipts of community fees and government grants earmarked for capital expenditure, while the fall in current expenditure in 2013 seems likely to be a reaction to the prolonged squeeze on tax revenues as GDP continued to contract.

The broad functional distribution of LGU expenditure in 2012 (current and capital combined) as between different functions and different types of LGU is shown in the following Table.

Table 2.5: Functional allocation of 2012 expenditure, by type of LGU

	Total	Counties (except Zagreb)	Municipalities	Cities	Zagreb
Population (million)	4.3	3,5	1.2	2.2	0.8
01 General Public Services	4.3	0,8	1,2	2,2	1,0
02 Defence	0,0	0,0	0,0	0,0	0,0
03 Public Order and Safety	0,6	0,0	0,1	0,4	0,1
04 Economic Affairs	3,3	0,4	0,6	1,2	1,1
05 Environmental Protection	0,7	0,1	0,2	0,4	0,0
06 Housing	4,1	0,1	0,8	1,6	1,6
07 Health	0,7	0,5	0,0	0,0	0,2
08 Recreation and Culture	2,5	0,2	0,2	1,3	0,8
09 Education	4,1	1,2	0,3	1,3	1,3
10 Social Protection	1,5	0,4	0,2	0,4	0,5
Total	22,8	3,7	3,6	8,8	6,6

HRK billion

Source: Ministry of finance RC, 2014

As Table 2.5 shows total LGU expenditure per head of population in 2012 was a little less than 5,000 HRK. General Public services (administrative costs) accounted for about 20 per cent of expenditure at county and city level, while for municipalities and Zagreb the percentages were 28 per cent and 11 per cent respectively. About 1,000 HRK per head was spent by counties with education and health the largest amounts. Municipalities spent about 3,000 HRK per head, with housing and economic affairs the largest items. Cities accounted for the largest overall share of expenditure, with the largest expenditures on housing, recreation and culture, economic affairs (including infrastructure) and education; per head of population total expenditure was about 4,000 HRK. Zagreb, which also bears the costs of being the capital city, spent about 8,000 HRK per head, with priorities similar to those of the cities.

Koprivnica Revenue and Expenditure

Table 2.6 Koprivnica Revenue 2011-13

HRK thousands

	2011	2012	2013
Total revenue determined by government	68,120.9	75,231.8	76,990.4
of which Share of income tax	50,470.2	56,316.9	54,792.1
Share of tax on property sales	1,939.4	920.6	3,106.2
Payments for decentralised services	4,078.4	4,449.3	4,310.1
Specific grants	1,057.9	4,905.6	3,382.3
Other receipts from central government	10,033.1	7,827.1	10,556.1
Receipts from County	541.9	812.3	843.6
Total current revenue determined by City	53,465.1	47,418.4	41,114.6
of which Yield of Surtax on income tax	-	-	-
Use of public areas	751.0	606.6	494.2
Tax on consumption of beverages	492.0	423.5	722.3
Tax on business names	343.4	335.9	403.3
Utility fees	21,513.3	19,836.6	19,071.8
Community fees	5,618.6	4,097.9	2,729.7
Revenue from property holdings	8,256.9	9,925.6	5,305.1
Other fees, fines and charges	10,771.8	6,954.1	9,316.6
Donations (domestic)	-	-	-
External grants	-	-	-
Proceeds of asset sales	5,718.1	5,238.2	3,071.6
Total revenues	121,586.0	122,650.2	118,105.0

Source: Koprivnica Department of Finance and Entrepreneurship

Table 2.7: Koprivnica: Economic Classification of Expenditure 2011-13

HRK thousands

	2011	2012	2013
Total Current Expenditure	100,178.3	92,192.3	113,715.6
of which Wages and salaries	29,924.5	28,523.5	28,540.9
Goods and services	40,988.6	39,959.6	40,477.1
Subsidies	4,887.8	6,212.3	8,366.7
Social grants	1,928.6	2,326.6	2,615.1
Grants to other General Government	-	-	-
Interest payments	139.3	-	2,360.1
Other expenditure	22,309.5	15,072.8	31,120.4
Gross investment in fixed assets	13,690.2	45,506.4	16,998.1
Total Current and Capital Expenditure	113,729.2	137,698.7	130,713.7
Net fiscal Balance)	7,856.8	-15,048.5	-12,608.7

Source: Koprivnica, Administrative Dept. of Finance and Entrepreneurship

Table 2.8: Koprivnica Actual Budgetary Allocations 2011-13 (Out-turns)

HRK thousands/% of total

I. MAIN SUB-FUNCTIONS	2011	%	2012		2013	%
General Public Services	16,513.6	14.5	11,790.7	8.6	12,355.0	9.6
Public Order and Safety	7,408.0	6.5	7,403.5	5.4	6,121.9	4.8
Economic Affairs	1,878.4	1.6	2,100.5	1.5	4,123.6	3.2
Environmental Protection	2,050.6	1.8	1,698.0	1.2	3,972.4	3.0
Housing	29,197.4	25.7	62,116.1	45.1	35,810.4	27.9
Health	2,118.2	1.9	1,716.9	1.2	1,894.4	1.4
Sport, Recreation & Culture	20,901.8	18.4	19,641.4	14.2	19,197.2	15.0
Education	27,853.6	24.5	26,681.9	19.4	40,520.2	31.6
Social Protection*	5,668.2	5.0	4,549.5	3.3	4,358.3	3.3
TOTAL ALL SECTORS	113,590.2	100	137,698.7	100	128,353.6	100

Sources: Administrative Department of Finance and Entrepreneurship, Koprivnica: figures exclude interest payments

Only 9 of the COFOG main functions appear, because LGUs have no role in national defence. The table shows that the functional allocation of expenditure can change markedly from year to year, particularly as a result of large investments in infrastructure (classified as Housing) and tertiary education. Amounts spent on Public Safety (Fire Service), Sport, Recreation and Culture, and Social Protection are much more stable from one year to the next. Koprivnica's expenditure per head of its 30,850 population is thus running at

about 4250 HRK per year, a little higher than the average city expenditure of about 4,000 HRK calculated for 2011.

The development strategy of the City of Koprivnica. The city administration has established strategic priorities. However, the city does not yet have a development strategy as a policy instrument. The strategy of economic development of the City is in the process of development and should be completed in November of 2014. This will clearly set out the strategic priorities of the City to be included in the budget plan for 2015 and the budget projections for 2016 and 2017 year

2.3 Description of the legal and institutional framework for PFM

a) Legal framework

The system of financial management at the local level is essentially determined by the *Budget Act (Official Gazette 87/08 and 136/12)* which governs the planning, development, adoption and implementation of the budget; asset and debt management; contracting of debt and issue of guarantees at state and local level; budgetary relations in the public sector; accounting, budgetary control and other issues related to the management of public finance. The Government's Economic and Fiscal Policy Guidelines issued each year set the framework for the budgets of local government units (LGUs) for the next three years. The annual Law on Execution of the Budget determines the limits on borrowing and the amounts of state aid allocated to local governments. *Rules of Procedure of borrowing and consent of the local (regional) self-government (OG 55 / 09 and 139/10)* defines in detail the procedure for granting approval for local government borrowing, mandatory documentation, and reporting on government issued guarantees and approvals.

The Fiscal Responsibility Act (OG 139/ 10, 19 /14) establishes rules limiting spending by LGUs (as well as by all central government institutions), reasserts their responsibility for the legal, functional and purposeful use of budgetary resources, and strengthens the system of control and supervision in order to ensure responsible fiscal behavior. LGUs must comply with the Fiscal Responsibility Act, which obliges all heads of central and local government operations (including mayors of cities and municipalities) to sign an annual statement attesting prudent use and management of budgetary resources

Regulations on the Budget Ledger (OG 114/2010 and 31/ 2011) define the bookkeeping documents, business records, bookkeeping organization, and content of the Chart of Accounts. This regulation prescribes budget classification by economic, functional, organizational categories, and by programs and projects. It also requires LGUs to identify the source of funding for each operation. The strategic planning process prescribed by the Budget Act requires LGUs according to programs linked to their long term development strategies. *The Regulations on Financial Reporting in OFB (OG 32/11)* establish the form and content of LGU financial statements and the deadlines for their submission.

The Law on Financing Local and regional self-government (OG 117 /93, 69/97 , 33 /00 , 73 /00 , 127 /00 , 59 /01 , 107 /01 , 117 /01 , 150 /02 , 147 /03 , 132 /06 , 26 /07 , 73 /08 , 25/12) regulates the sources (own revenues, shared taxes, grants from central and other local governments) and uses of funds by LGUs (counties, municipalities, cities). *The Utility Services Act (OG 36/95, 70/97, 128/99, 57 /00, 129 /00 , 59 /01, 26 /03, 82 /04, 110 /04, 178 /04, 38 /09, 79 /09, 153 /09 , 49 /11, 84/11 , 90/11 , 144/12 , 94 /13, 153/13)* defines the performance and financing of utility services provided to households and businesses, and also the construction and maintenance of the infrastructure in the area of each LGU.

Regulations on Budgetary Control (OG 71/13) regulate the objectives, scope and content of budgetary surveillance and inspection, and the arrangements for its implementation. *The Law on Internal Financial Control (OG 141 /06)* establishes the system of internal financial control in the public sector, including both financial management and control and also internal audit. The Act establishes the methodology, standards, relationships and responsibilities and authority of the Ministry of Finance and other bodies in the implementation of the system of internal financial control in the public sector. An *Ordinance of the Minister of Finance (OG 96 /2013)* sets the framework for the establishment and operation an independent audit function directly responsible to each budget head, including arrangements for quality assurance of internal audit activities

The Law on Civil Servants and Employees in Local and Regional Self-Government (OG 86/08, 61/11) regulates the appointment, rights, duties and responsibilities of officers and employees in administrative departments and agencies of local (and regional) self-government .*The Law on Salaries in local and regional self-government (OG 28/10)* lays down the criteria for determining the salary and benefits of county prefects, city and municipal mayors and their deputies, as well as the salaries of officers and employees in the administrative departments and offices of local and regional governments

The Public Procurement Act (OG 90/11, 83/13, 143/13, 13/14) regulates the planning and execution of public procurement throughout the public sector, including different types of contract which may be used in different circumstances to acquire goods, works or services, legal protection in connection with such activities and the jurisdiction of the State Commission body responsible for dealing with complaints about the operation of the public procurement system. *The Decree on the Supervision of the implementation of the Public Procurement Act (OG 10/12)* regulates the powers of the central state administration body responsible for public procurement system (Ministry of Economy), other matters related to supervision of the implementation of the Public Procurement Act, and the enactment of subordinate legislation in the area of public procurement. *Regulations on the list of entities bound to the Public Procurement Act (OG 19 /12)* specifies the list of contracting authorities subject to the Act (OG 90 /11)

The Act on Financial Transactions and Settlements not involving bankruptcy (OG 35/14, 108/12, 144/12, 81/13, 112/13) regulates the business environment,

including setting deadlines for the fulfillment of financial obligations and the legal consequences of delay. These obligations are defined as the principal amount that should have been paid within the period provided by law or contract, including taxes and other compulsory payments specified in the bill or other appropriate request for payment

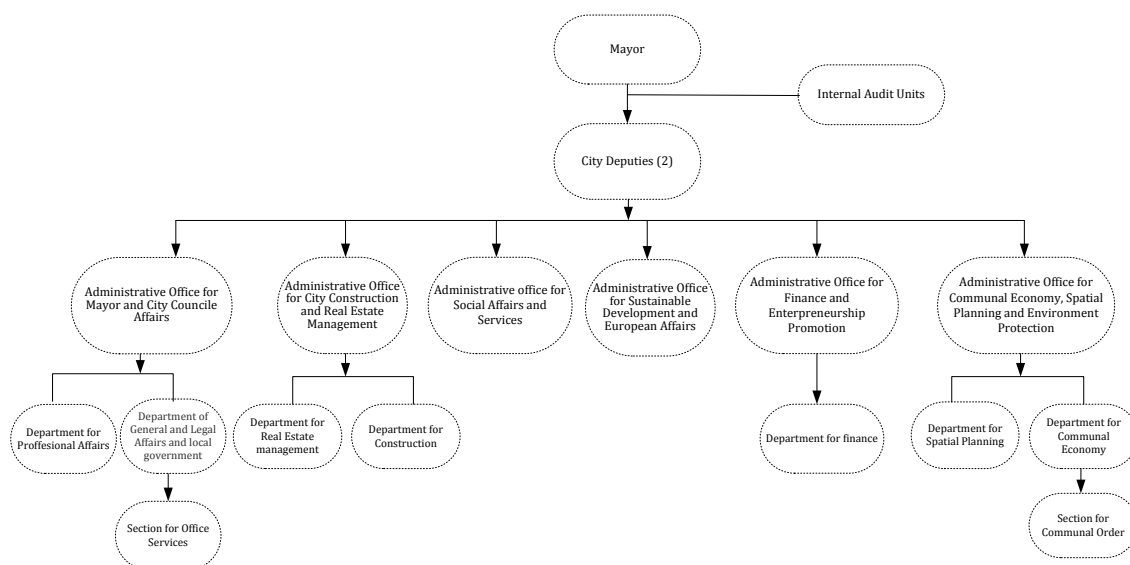
The Law on Public Private Partnerships (OG 78 /12) determines how such partnerships are to be established, implemented and monitored. *Concessions Act (Official Gazette 143 /12)* regulates the procedures for granting concessions (for the provision of particular services, or the exploitation of particular public assets), including the concession agreement, the termination of the concession, and arrangements to ensure fairness in its operation.

b) Institutional framework

The Koprivnica City administration consists of a City Office serving the Mayor and Council and six administrative departments: (1) Mayor and City Council Affairs, (2) Construction and Real Estate Management, (3) Social Affairs and Services, (4) Sustainable Development and European Affairs (5) Finance and Entrepreneurship Promotion, (6) Communal Economy, Spatial Planning and Environment Protection. The City Administration, in addition to its responsibilities for local government activities, also carries out central government functions (elementary education and fire service) which have been transferred to the City.

Administrative Office for Mayor and City Council Affairs carries out most of the administrative tasks related to the activities and responsibilities of the elected Council, including the preparation of decisions and the organization and recording of its decisions. The Office prepares documents, drafts and proposed regulations, monitors their implementation and gives opinions on materials submitted to the Council and working groups. It is responsible for office services including IT functions. The Department manages human resources, taking into account the rights and obligations of staff at all levels.

City of Koprivnica - Internal organisational structure



The Administrative office for City Construction and Real Estate Management is responsible for the construction and maintenance of buildings owned by the City (including those used by companies established by the City). The Office keeps the register of property owned by the City, and manages its real estate. It also participates in strategic and spatial planning and in the preparation of projects for financing by the EU and the central government.

The Administrative Department of Social Affairs and Services is responsible for the City's involvement in preschool education and childcare, primary, secondary and higher education and science, culture, sports, technical culture, information, social welfare and health. It coordinates the work of institutions, organizations and associations working in these areas. It is responsible for the City's assistance to individuals, including grants and scholarships for students, social assistance, and (in cooperation with NGOs and other associations) services for war veterans.

The Department of Finance and Promotion of Entrepreneurship is responsible for planning and executing the City's budget. It prepares decisions on the rates of municipal taxes and charges, and enforces the collection of amounts payable by property owners and developers. It controls the execution of payments on behalf of the City, and provides all necessary accounting and other financial reports, including keeping track of the City's financial assets. The Department promotes the development of business and agriculture, including supporting new enterprises through the provision of factory and office space. It also monitors the performance of companies in which the City has shareholdings.

The Department of Municipal Economy, Planning and Environment Protection is responsible for the construction and maintenance of the City's infrastructure, including roads, public lighting, open spaces, street cleaning and the provision of utility services. It is also responsible for physical planning functions, including zoning for business and residential use, construction permits, building standards and licenses for the use of public space. It determines the basis for the payment of utility fees and contributions levied in respect of new construction, and fixes the payments charged for the retention of illegally constructed buildings. Finally it keeps the Register of all land and property throughout the City.

The Department of Sustainable Development and European Affairs coordinates the preparation of projects to be submitted for co-financing from EU sources, in consultation with the other City Departments concerned, and ensures the provision of full documentation in each case. The Department is also responsible for the coordination of training throughout the City administration, in recognition of the need to improve the capacity of the City Departments in order to make best use of available EU and other funds.

The Internal audit units which is currently being reconstituted advises the Mayor and senior officers about the performance of all the City's administrative and control systems, and the efficiency of the provision of all the services for which the City (including all its budget users) is responsible. The unit prepares strategic and annual plans for the development of its work and reports annually to the MOF Central Harmonization Unit, as well as contributing to the City's annual Declarations of Fiscal Responsibility.

The City Council is the representative body which consists of 21 councilors elected at the regular election on 19 May 2013 for a term of four years. The City Council has a president and two vice-presidents (chosen from their ranks). Within the framework of the State Constitution and the laws applicable to LGUs, the Council determines its own rules of procedure for the conduct of business. The Council has established a number of Standing Committees covering the different functions of the City, which include independent experts as well as councilors. Their main task is to prepare advice on specific issues to be submitted to the Council, including different aspects of the budget. The local Trades Council also provides advice and suggestions through the Mayor. The annual budget prepared by the Mayor requires the approval of the City Council, and the Council has the power to reject the Mayor's proposals if they take insufficient account of its views. However, in practice the Koprivnica Council has always approved the budget following detailed discussions with the Mayor, in the course of which some amendments may be made to the original proposals.

The city of Koprivnica is divided into 18 local areas, each of which elects a neighborhood council. These local councils have 4-7 members elected for four year terms, who participate in decision-making on matters of concern to their areas, including preparation of relevant sections of the City budget. They have

some limited funds available from the City budget, but they do not have independent bank accounts.

c) Municipality special PFM features

In 2013, the City began to introduce a new IT system provided by the company Info Project based in Rijeka. Work is ongoing to connect all City Departments and budget users to the system, which will include controls over procurement and contracting as from the beginning of 2015. All receipts and payments of the City's administrative Departments and budget users will be centralized through the City's Single Treasury Account in the same timescale. Completion of the new system should substantially strengthen financial management and control, as well as contributing to greater transparency.

Section 3: Evaluation of PFM systems, processes and institutions

HLG-1 Predictability of transfer from Higher Level of Government

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

The budgeted and actual total amounts of payments to Koprivnica from central government and other LGUs in respect of the services the City provides is shown in the following Table. In two of the three years 2011-13 actual receipts were more than 5 per cent below the budgeted amount.

Table 3.1: Budgeted and actual receipts from central government and other levels of government 2011-13

HRK thousands						
	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total receipts	74,658.3	68,120.9	78,361.0	75,231.8	81,157.8	76,990.4
Out-turn as % of original budget		91.2%		96.0%		94.9%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

ii) Annual variance between actual and estimated transfers of earmarked grants

The budget estimate and out-turn figures for each of the main streams of revenue Koprivnica received from central government and county for the provision of services for the period 2011-13 are shown in the following table. The rating should be calculated by reference to the sum of the differences between the actual out-turn for each element of revenue earmarked for a particular function and the budgeted amount adjusted for the overall difference between budget and out-turn. Non-earmarked receipts from central government are counted as a single line for the purposes of the calculation. In the event it was not possible to obtain information about the functional destinations of the different earmarked revenue streams, so that the calculation could only be based on the budgeted and actual amounts of the separate revenue streams.

Table 3.2: Budgeted and Actual Revenue Streams from Central and other Local Governments for the Provision of Services

HRK Thousands

2011	Budget (1)	Budget x Out-turn % (91.2) (2)	Out- turn (3)	Difference between (3) and (2) (4)
Share of income tax	53,870.0		50,470.2	
Share of tax on property sales	2,000.0		1,939.4	
Total un-earmarked receipts	55,870.0	50,953.4	52,409.6	1,456.2
Central Government payments for decentralized services	12,628.2	11,516.9	12,628.2	1,111.3
Earmarked CG grants	1,575.0	1,436.4	1,057.9	378.5
Payments from county	550.0	501.6	541.9	40.3
Other receipts from CG	4,035.6	3,680.5	1,483.2	2,197.3
Total	74,658.9		68,120.9	5,183.6
Column (4) as % of Column (3)				7.6%
2012		(1) x 96.0%		
Share of income tax	59,280.0		56,316.9	
Share of tax on property sales	1,000.0		920.6	
Total un-earmarked receipts	60,280.0	57,868.8	57,237.5	631.3
CG payments for decentralized services	11,971.0	11,492.2	11,971.0	478.8
Earmarked CG grants	4,180.0	4,012.8	4,905.6	892.8
Payments from county	680.0	652.8	812.3	159.5
Other receipts from CG	1,250.0	1,200.0	305.5	894.5
Total	78,361.0		75,231.8	3,056.9
Column (4) as % of Column (3)				4.1%
2013		(1) x 94.9%		
Share of income tax	57,520.0		54,792.1	
Share of tax on property sales	2,500.0		3,106.2	
Total un-earmarked receipts	60,020.0	56,959.0	57,898.3	939.3
Earmarked CG grants	3,460.4	3,283.9	3,382.3	98.4
Payments from county	874.9	830.3	843.6	13.3
CG payments for decentralized services	11,166.5	10,597.0	11,166.5	569.5
Other receipts from CG	5,636.0	5,348.6	3,699.7	1,649.9
Total	81,157.8		76,990.4	3,270.4
Column (4) as % of Column (3)				4.2%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship.

iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)

Tax receipts are shared out by FINA (the Government Agency which receives all central government revenue) as they are received from taxpayers. Other payments for decentralized services are paid monthly. Thus most of Koprivnica's receipts are distributed evenly through the year.

Indicator	Score	Explanation
HLG-1 Predictability of Transfers from Higher Level of Government	NR	Scoring method M1
i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the City for inclusion in the latter's budget	B	Transfers from Central and other Governments fell short of budget by more than 5 per cent in two of the last three years
ii) Annual variance between actual and estimated of earmarked grants	NR	Variance of the different payment streams exceeded 5 per cent in only one of the three years 2011-13. But because information was not available about the functional destination of each central government payment, this dimension could not be rated in accordance with the PEFA methodology.
iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the financial year)	A	Receipts are spread evenly through the year.

Subsection 3.1: Budget Credibility

PI-1 Aggregate expenditure out-turn in comparison with the original approved budget

(i) Difference between actual primary expenditure and originally-budgeted primary expenditure

The following table shows budgeted and actual expenditure for the three years 2011-13.

Table 3.3 Budgeted and actual expenditures (2011-2013)

HRK thousands

Year	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total Current Expenditure	103,817.1	100,178.3	97,103.0	92,192.3	120,277.9	113,715.6
Total Capital Expenditure	14,378.1	13,690.2	60,900.1	45,506.4	18,788.6	16,998.1
Less Interest	140.0	139.3	-	-	2,673.0	2,360.1
Less External Grants	-	-	-	-	-	-
Total Primary Expenditure	118,055.2	113,729.2	158,003.1	137,698.7	136,393.5	128,353.6
Out-turn as % of Budget		96.3%		87.1%		94.1%
Current Expenditure less interest	103,677.1	98,188.7	97,103.0	92,192.3	117,604.9	111,355.5
Out-turn as % of Budget		94.7%		94.9%		94.7%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

Actual total expenditure fell well short of the budgeted amount in 2012, essentially because of delays in capital expenditure.

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	Scoring method M1
(i) Difference between actual primary expenditure and originally-budgeted primary expenditure (debt service charges and also expenditure on projects from external financing excluded)	B	Actual primary expenditure fell more than 10 per cent short of original budget in only one of the three years 2011-13. Percentages were 96.3%, 87.1%, 94.1% respectively.

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

(i) Extent to which the variance in the composition of primary expenditure exceeded the aggregate variance (as defined in PI-1) in the past three years excluding contingency items

The variance is calculated by adjusting the budgeted expenditure for each of the nine main (COFOG) functions by the overall percentage difference between budgeted and actual primary expenditure. The difference between actual expenditure on each function and these adjusted figures is then calculated, with the variance being the sum of the absolute differences as a percentage of aggregate primary expenditure. The variance calculated in this way was 2.6 per cent for 2011, 6.8 per cent for 2012, and 2.4 per cent for 2013.

Table 3.4: Primary Expenditures (2011-2013)

(HRK thousands)

	2011				2012				2013			
	Budget (1)	Budget x out-turn 96.3 % (2)	Out-turn (3)	(3) minus (2) (4)	(1)	(2) 87.1%	(3)	(4)	(1)	(2) 94.1%	(3)	(4)
General Public Services	17,011.3	16,381.8	16,513.6	131.7	14,207.1	12,374.4	11,790.7	583.7	13,431.0	12,638.6	12,355.0	283.6
Public Order and Safety	8,026.0	7,729.0	7,408.0	321.0	7,013.8	6,109.0	7,403.5	1,294.5	6,048.7	5,691.8	6,121.9	430.1
Economic Affairs	1,865.0	1,796.0	1,878.4	82.4	2,575.0	2,242.8	2,100.5	142.3	4,250.0	3,999.2	4,123.6	124.3
Environmental Protection	2,303.0	2,217.8	2,050.6	167.2	1,920.0	1,672.3	1,698.0	25.7	4,205.0	3,956.9	3,972.4	15.5
Housing	31,368.0	30,207.4	29,197.4	1,010.0	70,170.0	61,118.1	62,116.1	998.0	38,070.0	35,823.9	35,810.4	13.5
Health	2,193.2	2,112.1	2,118.2	7.1	2,122.1	1,848.3	1,716.9	131.4	2,557.3	2,406.4	1,894.4	512.0
Sport, Recreation, Culture	20,921.4	20,147.3	20,901.8	754.5	19,943.4	17,370.7	19,641.4	2,270.7	19,463.3	18,315.0	19,197.2	882.2
Education	28,449.7	27,397.1	27,853.6	456.5	34,952.5	30,443.6	26,681.9	3,761.7	43,851.1	41,263.9	40,520.2	743.7
Social Protection	5,917.5	5,698.6	5,668.2	30.4	5,099.1	4,441.3	4,549.5	108.2	4,517.1	4,250.6	4,358.3	107.7
Total	118,055.2		113,729.2	2,960.8	158,003.1		137,698.7	9,316.2	136,083.3		128,353.6	3,112.6
Variance as % of out-turn				2.6%				6.8%				2.4%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

(ii) The average amount of expenditure charged to the contingency vote over the last three years

Article 56(4) of the State Budget Law restricts the amount of any Contingency Reserve to 0.5 per cent of revenues excluding capital receipts. Koprivnica did not have any such reserve during the period 2011-13.

Indicator	Score	Explanation
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget	A	Scoring method M1
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years	A	The variance in composition of primary expenditure exceeded 5 per cent of actual expenditure in only one of the three years.
(ii) The average amount of expenditure charged to the contingency vote over the last three years	A	No expenditure was charged to a Contingency Reserve during 2011-13.

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

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

This Indicator is rated by reference to the difference between budgeted own revenue and actual out-turn. The calculations are shown in the following table.

Table 3.5: Own revenue out-turn compared with original budget, 2011-13

	HRK thousands					
	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total current revenue	128,819.2	115,867.9	124,745.0	117,412.0	129,370.4	115,033.4
Less Receipts from General Govt. (HLG-1)	74,653.3	68,120.9	78,361.0	75,231.8	81,157.8	76,990.4
Less External Grants	-	-	-	-	-	-
Own current revenue	54,165.9	47,747.0	46,389.0	42,180.2	48,212.6	38,043.0
Current revenue out-turn as % of original budget		88.1%		90.9%		78.9%
Receipts from asset sales	7,906.0	5,718.1	9,261.4	5,238.2	8,433.6	3,071.6
Total own revenue	62,071.9	53,465.1	55,645.4	47,418.4	56,646.2	41,114.6
Total own revenue as % of original budget		86.1%		85.2%		72.6%

Source: Koprivnica Administrative Department for Finance and Budget

Indicator	Score	Explanation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget	D	M1 Scoring Method
(i) Real collection of domestic income in comparison with estimates in the original approved budget	D	Actual revenue was 86.1%, 85.2% and 72.6% for the three years 2011-13, well below the 92% required for C.

PI-4 Stock and monitoring of expenditure payment arrears

There were very few arrears in Koprivnica in 2011 & 2012 and the city had no liquidity issues during these two years: expenditure arrears represented 1.41% and 1.47% (table 3.6) of total expenditures respectively. They were generated for technical reasons (incomplete documentation during procurement) rather than by the inability of the city to pay. All expenditures not paid before the due date mentioned in the contract (or the due date mentioned in the payment order as a result of the verbal agreement between supplier and the city) are automatically considered to be in arrears.

For 2013 expenditures arrears as a percentage of total real expenditures increased to 3.58% implying that there were delays in payment during the same year (but no real liquidity issues). These high arrears in 2013 are related to the purchase of the national army complex from the state. This complex is now the Justice Hall hosting many administrative offices (offense court, land registry, state prosecutor's office).

These results on expenditure arrears are summarized below:

Table 3.6: Arrears in Percentage (%) of total Expenditures for 2011-2013

(In HRK and in Percent)

Year	Total Expenditures	Amount of Arrears as of December 31	Arrears as a % of total Expenditures
2013	130,713,683	4,672,544	3.58%
2012	137,698,671	2,026,461	1.47%
2011	113,868,467	1,598,990	1.41%

Source: Calculations by the PEFA team on data provided by the Department of Finance & Entrepreneurship for 2011-2013

Data on the stock of expenditures arrears with an age profile are available daily (in real time) in the FMIS, Infoproject, an integrated software covering budget planning, budget preparation, execution, payroll, payments, treasury, procurement and property registry.

Table 3.7: Age Profiles of Arrears for 2011-2013

(In HRK)

Expenditure arrears by day	2011	2012	2013
0-60	580,430	395,468	2,735,700
61-180	1,007,786	150	252,874
181-360	10,000	--	81,637
Above 360	774	1,630,843	1,602,333
TOTAL	1,598,990	2,026,461	4,672,544

Source: Calculations by the PEFA team on data provided by the Department of Finance & Entrepreneurship for 2011-2013

(i) Stock of expenditure payment arrears

The stock of arrears represented 3.58% of total expenditure in 2013 as of December 31, 2013

(ii) Availability of data to monitor the stock of expenditure payment arrears

Reliable and complete data on the stock of arrears (including an age profile) is available daily

Indicator	Score	Explanation
PI-4 Stock and Monitoring of expenditure payment arrears	C+	M1 Scoring Method
(i) Stock of expenditure payment arrears	C	Stock of arrears was 3.58% of expenditure in 2013
(ii) Availability of data in order to monitor the stock of expenditure payment arrears	A	The existing system allows having complete and reliable data on arrears in real time (any time during the year) with an age profile.

Subsection 3.2: Comprehensiveness and Transparency

PI-5 Classification of the Budget

i) The classification system used to formulate, execute and report on the City budget.

The existing legislation that applies to the city of Koprivnica calls for an organizational (administrative), economic, functional and program budget classification⁷. The legislation also calls for a budget classification according to sources of financing and location.

In the city of Koprivnica, there is a functional and sub-functional classification for budget preparation, execution and reporting using GFS/COFOG standards. There are 9 functions and 22 sub-functions⁸ (see following table).

TABLE 3.8 :BUDGET CLASSIFICATION-FUNCTIONS & SUB-FUNCTIONS IN THE CITY OF KOPRIVNICA

1 function. General public services (with 2 sub-functions);
2 function. Defence (does not apply at the SN level);
3 function. Public order and safety (with 1 sub-function);
4 function. Economic affairs (with 2 sub-functions);
5 function. Environment (with 3 sub-functions);
6 function. Housing (with 4 sub-functions);
7 function. Health (with 2 sub-functions);
8 function. Leisure, culture and religion (with 2 sub-functions);
9 function. Education (with 3 sub-functions);
10 function. Social Care (with 3 sub-functions).

Budget preparation, execution and reporting are also classified by programs and activities (there are no sub-programs). There are 29 programs divided in 142 activities and 2 capital projects (2013).

In addition to the above advanced classifications, preparation, execution and reporting of the budget are also carried out according to the administrative and economic classifications⁹.

⁷ State Budget Act (Consolidated Text), 2009, Art. 21; Ordinance on Budget Accounting and Chart of Accounts (Official Gazette, no. 27/05 and 127/07)

⁸ Budget of the city of Koprivnica (2013), Budget execution Reports of the city of Koprivnica (2013)

⁹ This is a legal requirement (State Budget Act, 2009, Art. 10)

Indicator	Score	Explanation
PI-5 Classification of the Budget	A	M1 Scoring method
(i) The classification system used to formulate, execute and report on the central government budget.	A	The budget formulation, execution and reporting is based on administrative, economic, sub-functional and program classifications.

PI-6 Comprehensiveness of information included in budget documentation

TABLE 3.9: INFORMATION CONTAINED IN BUDGET DOCUMENTATION

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	YES	This information is included in the guidelines for budget preparation provided by the Ministry of Finance. It is also included in the draft budget of the city. <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
2. Fiscal deficit defined according to GFS or other internationally recognized standard	NO	The principle of balance applies to the budget. That means that a budget should not show a deficit from a technical point of view (State Budget Act, 2009, Art. 7). On the other side the city is allowed to borrow (State Budget Act, 2009, Art. 86-89). The amount of the Loan in the budget corresponds to the "fiscal deficit". It is considered as a receipt to the budget (State Budget Act, 2009, Art. 48). This presentation is not consistent with the GFS standards <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
3. Deficit financing, describing anticipated composition	YES	Loans are indicated in the budget and can be identified as the amounts to finance the "fiscal deficit". The 2014 budget was balanced (no loans). For the 2013 budget a loan was clearly identifiable in the budget as the deficit financing. <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
4. Debt stock, including details at least for the beginning of the current year	YES	Data on debt stock available <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
5. Financial Assets, including details at least for the beginning of the current year	NO	Shares in 11 companies and bank balances are not indicated in budget documentation. <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>

6. Prior year's budget outturn, presented in the same format as the budget proposal.	NO	Results of previous budget exercise not available <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	YES	Revised budget presented <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	NO	<i>(Draft budget documentation of the city of Koprivnica, 2014)</i>
9. Explanation of the budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	YES	Explanation of the budget implications of new policy initiatives available <i>(Draft budget documentation of the city of Koprivnica, 2014)</i>

i) Share of the above listed information contained in the budgetary documentation most recently issued by the central government.

Recent budget documentation of the city of Koprivnica fulfils 5 of the 9 information benchmarks

Indicator	Score	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation	B	M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	B	Recent budget documentation fulfils 5 of the 9 information benchmarks

PI-7 Extent of unreported city operations

i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.

According to the existing legislation all revenue and expenditure should be budgeted¹⁰. In Koprivnica eleven (11) budget users that are not city enterprises have some own revenues they can spend without the city's specific authorization and these revenues and associated expenditures are not in the city budget or in the out-turn statements submitted for audit¹¹. On the other hand these budget users are required to report quarterly to the Council on their financial activities, and separate annual financial statements are prepared including detailed data on their budget execution (including expenditure met from own revenues). If these revenues are not explicitly in the budget, they are reported after the event and the activities of the entities are transparent. The amount of expenditure in 2013 financed from budget users' own revenues was 14.9 million HRK, or 10.2 per cent of total consolidated City expenditure of 145.6 million HRK. Specific non reported operations were not identified by the PEFA team.

ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.

In 2013 the city of Koprivnica had no donor project funding. The last grant received was in 2011. The dimension does not apply.NA

Indicator	Score	Explanation
PI-7 Extent of unreported government operations	D	M1 Scoring Method
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports.	D	Expenditures financed from budget users' own revenues (10.2% of total consolidated expenditure in 2013) have not been included in the City's budget estimates and out-turn statements although they are included in separate integrated financial statements produced in a somewhat slower timescale.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	NA	No donor project funding

¹⁰ Refer to: State Budget Act (2009), *Universality principle*, Art. 9

¹¹ These entities are 5 elementary schools, one kindergarten, one library, one museum, an open university and a fire center.

PI-8 Transparency of inter-governmental fiscal relations

The city of Koprivnica has 18 Neighbourhood Councils. The neighbourhood councils are at first sight sub-national entities of a lower level that function with elected councils for four years (from 7 to 9 members that are volunteers and paid participation fees by the city).

The neighbourhood councils do not collect revenues (except some rents) and have all their expenses covered by the city. Expenses are based on needs and are the results of proposals presented by the Neighbourhood Councils.

The amounts available and to be spent by the neighbourhood councils are included in the budget of the city of Koprivnica. The latter has to also approve all expenditures made by the neighbourhood councils that have no employees (with the city directly executing the various stages of spending).

On balance, the neighbourhood councils function as departments of the city and/or as deconcentrated units of the same.

- i) Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations).NA*
- ii) Timely provision of reliable information to sub-national governments on the allocations to be made to them by Central Government for the following year.NA*
- iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories.NA*

Indicator	Score	Explanation
PI-8 Transparency of inter-governmental fiscal relations	NA	M2 Scoring Method
i) Transparent systems based on regulations regarding horizontal allocation between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations)	NA	NA
ii) Punctual provision of reliable information to sub-national governments about the allocations to be made to them by central government in the coming year	NA	NA
iii) Degree to which consolidated fiscal data are gathered and made known (at least in terms of income and expenditure) relating to general government, broken down by sectoral categories	NA	NA

PI-9 Oversight of aggregate fiscal risk caused by other public sector entities

Autonomous entities

The city of Koprivnica has 10 entities that enjoy autonomy: a museum, a library, an open university, a kindergarten, a fire station and five (5) elementary schools (refer to next table).

Table 3.12: Koprivnica-Total expenditures and share of expenditures of Autonomous Entities from own revenue (2013)

	Entities (Official names)	Equivalent in English	Own Revenues (HRK)	Own Revenue (%)
1	<i>Muzej Grada Koprivnice</i>	Museum	893 472	0.57%
2	<i>Knjižnica i čitaonica Galović</i>	Library	906 573	0.59%
3	<i>Pučko otvoreno učilište</i>	Open university	1 422 447	0.92%
4	<i>Dječji vrtić Tratinčica</i>	Kindergarten	4 508 738	2.93%
5	<i>Vatrogasna postrojba</i>	Fire station	4 009 303	2.59%
6	<i>OS A.Nemčić Gotovinski</i>	Elementary School	528 093	0.35%
7	<i>OS Braca Radic</i>	"	742 370	0.48%
8	<i>OS Duro Ester</i>	"	716 772	0.47%
9	<i>COOR Podravsko Sunce</i>	"	889 220	0.58%
10	<i>OGS Fortunat Pintarić</i>	"	255 091	0.16%
11	GRAD KOPRIVNICA	City of Koprivnica	139 391 291	90.36%
TOTAL			154 263 370	100.0%

Source: Department of Finance & Entrepreneurship (2013)

These entities have own revenues¹². These are deposited on the entity's bank account (different from the city's bank account). In addition they also receive transfers from the city.

¹² These revenue represented 9.64% of the city's total revenue in 2013

Every quarter the autonomous entities produce an expenditure report, which is sent to the Department of Finance and Entrepreneurship of the city. They also produce an annual financial report which has to be sent to the Council by March 31 of the year following the period covered. Every year the City consolidates the data of the fourth quarterly report into a single report. The consolidated report of the autonomous entities for 2013 was finalized on March 26, 2014¹³.

City enterprises

The city of Koprivnica has shares/ownership in 10 enterprises. These shares (and ownership rights) were valued at about 200 million HRK on December 31, 2013, as follows:

Table 3.13: Companies owned by the city of Krivenica (2013)

	Name of Company	Type of Company	Activity of the Company	Percentage Ownership	Value in HRK
1	Pevec	Join stock company	Shopping center	0.04%	48,100
2	Glas podravine	Limited liability company	Newspaper	31.35%	1,800,200
3	Koprivnički poduzetnik	Limited liability company	Entrepreneurship hub	100%	850,000
4	Trg	Limited liability company	Maintenance of city swimming pools	100%	4,800,000
5	GKP Komunalac	Limited liability company	Utility company	100%	192,281,000
6	Podravska banka	Join stock company	Bank	0.42%	1,196,000
7	Koprivnica Sport	Limited liability company	Management of sport projects	100%	500,000
8	Kampus	Limited liability company	Media University	100%	300,000
9	Koprivničke ceste	Limited liability company	Road maintenance	100%	200,000
10	Media Uni	Limited liability company	Founders of Media University	75%	2,925,000

Source: Department of Finance & Entrepreneurship (2013)

All the above mentioned companies forward annual audited reports to the city but no consolidated overview on fiscal risk (report) is elaborated.

i) Degree of city monitoring of the main autonomous public organisations and state companies.

All autonomous entities forward quarterly fiscal data to the city. A consolidated overview for these entities is established yearly. All city companies (partially or fully owned) submit fiscal reports to the city at least annually but a consolidated overview is missing.

ii) Degree to which the city monitors the fiscal position of the sub-national governments.

¹³ Department of Finance and Entrepreneurship

There are no sub-national governments in Koprivnica. The dimension does not apply (NA)

Indicator	Score	Explanation
PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions	C	M1 Scoring Method
(i) Degree to which the central government monitors the autonomous public organisms (AGAs) and public companies (EPs).	C	Autonomous entities submit quarterly fiscal reports to the city and the information is consolidated yearly. Companies controlled (partially or fully) by the city submit fiscal reports to the city annually but there is no consolidation of the data.
(ii) Degree to which the central government monitors the fiscal position of sub-national governments	NA	--

PI-10 Public access to key fiscal information

i) Number of the elements regarding public access to information, mentioned in table 3.5 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements).

The city makes available to the public 5 of the 6 listed types of information

TABLE 3.14: INDICATORS OF PUBLIC ACCES TO KEY FINANCIAL INFORMATION

Key information	Situation of public access
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the city legislature.	YES. Publicly presented (to the public). Accessible on the web site. For the 2014 draft budget, the whole documentation of the budget was posted on the website on October 14, 2013. (City of Koprivnica; www.Koprivnica.hr)
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	YES. The city website publishes budget execution reports semi-annually. The first report (January-June) is available within 30 days (by July 30th). The second report (July-December) is available within 75 days (March 15 following year). In addition monthly execution reports are available in real time upon request in conformity with the, <i>Law on the Right of Accessing Information</i> (2012). When requested in person, they are immediately available. When requested in writing they are remitted within a maximum of 15 days.

	Budget Law (2009), Art 12 (3); Department of Finance & Entrepreneurship, www.Koprivnica.hr)
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	NO. Statements are published when they are finalized. There are no audited financial statements. The State Audit Office identifies issues that are to be dealt with the following year (Department of Finance & Entrepreneurship)
(iv) External audit reports: All reports on city consolidated operations are made available to the public through appropriate means within six months of completed audit.	YES. July 26 th 2013 audit reports completed (for 2012) September 13 th 2013 posted on the web site (www.revizija.hr)
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.	YES. Published on the Official Gazette and on the website of the official Gazette as soon as the official decision is made (there is a 30 day deadline for publication) (www.snpqz.hr)
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with city coverage (elementary schools or primary health clinics).	YES Resources available to the 2 kindergartens and the 5 elementary schools in Koprivnica (with city coverage) are available in the city budget as well as in the year-end budget execution reports. There are no primary health centres under the city coverage in Koprivnica (City budgets 2013 and 2014, www.Koprivnica.hr)

Indicator	Score	Explanation
PI-10 Public access to key fiscal information	A	M1 scoring method
Number of elements listed above regarding public access to information that is fulfilled.	A	The city makes available to the public 5 of the 6 listed types of information

Subsection 3.3: Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

(i) Existence and observance of a fixed budget calendar

TABLE 3.15: CALENDAR FOR THE BUDGET PREPARATION PROCESS (for 2014 budget)

Deadline	Activity
30 June 2013	Ministry of Finance sends guidelines for preparing 2014 Budget to Local Government Units. Guidelines actually issued in late September 2013.
30 August 2013	Koprivnica Administrative Department for Finance and Entrepreneurship issues instructions including expenditure ceilings to other City Depts. and Budget Users. Actual Date 11 November
15 September 2013	Koprivnica Administrative Department for Finance and Entrepreneurship invites applications for subsidies from voluntary organisations, etc.
15 September 2013	Budget users submit proposals to Koprivnica Administrative Department for Finance and Entrepreneurship Actual date 15 November (submissions entered directly on line)
15 October 2013	Koprivnica Administrative Department for Finance and Entrepreneurship submits consolidated draft Budget to Mayor. Actual date 15 November
15 November 2013	Draft Budget published on City web-site
15 November – 18 December 2013	Consultations on Budget proposals
18 December 2013	Formal notice given of Council discussion
31 December 2013	Council approves revised Budget proposals. Actual date 23 December
By 15 January 2014	Administrative Department for Finance and Entrepreneurship sends approved Budget to Ministry of Finance

Source: State Budget Act, Articles 25-40; Koprivnica Administrative Department for Finance and Entrepreneurship

As indicated in the Table above, the State Budget Act prescribes a calendar which Local Government Units (LGUs) should follow in the preparation of their Budgets. However, during the current period of financial stringency following the financial crisis of 2008-09, the Ministry of Finance has itself been unable to issue its Guidelines for Budget preparation in accordance with the prescribed timescale. As a consequence LGUs have been unable to issue their Budget instructions at the time stipulated. However, Cities are relatively small organisations with few budget users, and Koprivnica has been able in practice to produce consolidated Budget proposals by 15 November, so that consideration by the elected Council can take place in an orderly way before the Budget is approved by 31 December.

(ii) Guidance on the preparation of budget submissions

The City Finance Department works closely throughout the year with the other City Departments and the main budget users (elementary schools, kindergarten, fire service, etc.). The Heads of the City Departments and of the main budget users are analogous to the Cabinet of Ministers at central government level. Thus it is possible for budget submissions to be prepared within a very short time after the issue of final instructions, which the Administrative Department for Finance and Entrepreneurship agrees with the Mayor, and which contain expenditure ceilings within which all Heads of Department and budget users have to work. This process works satisfactorily despite some short timescales, with full communication at every stage between the Administrative Department for Finance and Entrepreneurship, the Mayor and the main budget users.

(iii) Timely approval of the budget by the Legislature

The Council has approved the Budget in each of the last three years before 31 December.

TABLE 3.16: DATES FOR BUDGET APPROVAL BY LEGISLATURE (2012 through 2014)

Fiscal Year	Date of Approval
2012	28 December 2011
2013	5 December 2012
2014	23 December 2013

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

Indicator	Score	Explanation
PI-11 Orderliness and participation in the annual budget process	B	M2 scoring method
(i) Existence and observance of a fixed budgetary calendar	C	The earlier stages of the calendar have been subject to considerable delays which were outside the control of LGUs.
(ii) Directives on the preparation of budgetary documents	B	Ongoing consultations between the Finance Department, the Mayor, the City Departments and the main budget users ensure that Budget proposals can readily be produced once the final instructions, which include expenditure ceilings approved by the Mayor, have been given.
(iii) Timely approval of the budget by the Council	A	The City Council has approved the next year's Budget before 31 December in each of the last three years.

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

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

Article 33 of the State Budget Law requires each LGU's Finance Department to prepare a "*development programme plan*" for a three year period "*on the basis of strategic documents intended for the development of the LGU*". Article 34 requires the development programme plan to "contain goals and priorities of the development of the LGU linked with programme and organisational (i.e. administrative) classification of the budget". During 2011-13 Koprivnica has accordingly presented figures for the two subsequent years alongside its figures for the budget year immediately ahead. The Budget as presented includes 29 programmes, 142 activities and 2 major capital projects. Where the shape of activities in future years can be foreseen with confidence (e.g. elementary schools, kindergarten, fire service), the figures take account of the impact of investment expenditures on future current expenditure. But the unpredictability of the revenue streams required for major investments makes it difficult to prepare strategic plans which remain stable from one year to the next. Koprivnica has ambitious plans for the development of businesses and tertiary education which involve substantial investments, the timing of which has changed considerably from one year to the next. It was the first city to issue bonds and is financing a sports hall at the high school through a Public-Private Partnership.

(ii) Scope and frequency of debt sustainability analyses

The Ministry of Finance keeps tight control of all LGU borrowing, which in all cases (including borrowing by LGU-owned utility firms) requires the Ministry's consent. The Budget Law (OG 87/08) requires that the annual debt service payments (interest and capital repayments) on all outstanding loans remain within a limit of 20 per cent of the previous year's revenue net of capital receipts. Provided LGUs comply with this limit, it already constitutes a considerable measure of assurance that they will always be able to service their debts. Article 75(3) of the State Budget law gives the Ministry of Finance power to further restrict overall LGU borrowing by annual Law on Budget execution. For the period 2011-13 the Ministry limited total new borrowing by LGUs and their utility service companies to 2,3 (in 2011) and 2.5 (2012 and 2013) per cent of the previous year's aggregate LGU revenue excluding central government grants. Koprivnica has one outstanding loan corresponding to about a quarter of annual revenue, on which reports are made every six months to the Council. Debt service costs are well below 10 per cent of revenue. Since the City's debt is small, this dimension is Not Applicable.

(iii) Existence of sectoral strategies with multi-annual determination of current expenditure and investment costs

Koprivnica showed that where its activities follow a relatively stable and predictable path over time, the figures in its projections of the costs of the services concerned include the ongoing current expenditures required to make use of new investments. These activities do not constitute strategies or parts of an overall strategy although they cover more than 25 per cent of the budget. In addition Koprivnica has plans for the development of businesses and tertiary education, but the timing of the necessary investments depends on when funds become available. The City is working on a formal Strategic Plan which it expects to complete in time for it to inform the 2015 Budget proposals.

(iv) Links between the investments budget and future expenditure estimates

The unpredictability of the revenues (communal fee paid in respect of new construction and central government grants) required to finance investments makes longer-term investment planning very difficult. The figures produced each year for the two years following the Budget year include the current expenditure impact of new investments included in the projection, so it is not possible to say that there is no connection between the planning of current and capital expenditure. But there is not yet a strategy in place covering all aspects of the development of the City, while investment plans have to be reformulated each year.

Indicator	Score	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	M2 scoring method
(i) Multi-annual fiscal forecasts and functional allocations	C	Although detailed projections of budgeted activities are prepared each year for a three year period, firm links between multi-year estimates and subsequent budget ceilings for particular activities have not yet been established in many cases.
(ii) Scope and frequency of debt sustainability analyses	NA	Koprivnica has only one outstanding loan which presents no problem for debt service. There is no question of the city's debt becoming unsustainable. In this situation the dimension is Not Applicable.
(iii) Existence of sectoral strategies with cost determination	D	Plans for the development of programmes where activities have a steady pattern allow fully for both capital and current costs. But these do not constitute strategies although they cover well over 25 per cent of the Budget.
(iv) Linkages between investment budgets and forward expenditure estimates	C	Investment planning is rather uncertain because of the unpredictability of the revenue streams required to finance it, although the projections produced each year are consistent as between current and capital expenditure.

Subsection 3.4: Predictability and Control in Budget Execution

PI-13 Transparency of taxpayers' obligations and liabilities

This Indicator considers tax and other revenue accruing to the city as a result of its own decisions, where payments are compulsory, and the rates charged are not directly related to the costs of providing any service. Koprivnica has chosen not to impose any surtax on the income tax payments of its residents. There is a 3 per cent tax on the consumption of beverages at catering establishments in the City, an annual charge of 2,000 HRK on each business operating in the City, and an annual tax on the use of public spaces for market stalls, pavement cafes, etc. Koprivnica does not collect any taxes on holiday houses. Although many LGUs contract out the collection of these tax revenues to the Tax Authority (TA) in return for 5 per cent of the yield, Koprivnica collects them itself. The most important own revenues are the Community fees charged in respect of new developments, and the annual utility fee charged on each property to meet the costs of upkeep of the City's infrastructure. The income from utility fees is particularly important in Koprivnica, which has a flourishing food processing industry. The City directly collects these amounts.

TABLE 3.17: OWN TAX & FEE REVENUE COLLECTION, 2013

Taxes	Executed HRK thousands	% relative to subtotal	% relative to total
Direct taxes	-	-	-
Surtax on personal income tax	-	-	-
Indirect Taxes	1,619.8		6.9%
Tax on consumption of beverages	722.3	44.6%	3.1%
Tax on use of public space	494.2	30.5%	2.1%
Tax on business names	403.3	24.9%	1.7%
Administrative fees	21,801.5		93.1%
Community fees	2,729.7	12.5%	11.6%
Utility fees	19,071.8	87.5%	81.5%
TOTAL OWN TAX and FEE REVENUE	23,421.3		100%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

(i) Clarity and comprehensiveness of tax liabilities

The taxes on the consumption of beverages, on the use of public space and on business names are conceptually simple, and the legislation and administrative procedures are clear, although the effort of collection is considerable in relation to the relatively small yield. The amounts payable are determined by objective factors, without there being scope for the exercise of discretion by City officials. Thus the City and taxpayers know what their liabilities are. The legislation governing the payment of the community fees in respect of new developments and the annual utility fees charged on all properties is well understood by all those

concerned. The basis on which utility fees are charged is clear in principle, although there might be questions about the accuracy of measurements of particular properties, where the records are kept by the City. There is inevitably some (but few) element(s) of negotiation concerning the amounts of the once-for-all payments of the community fees.

(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures

The basis for the calculation of the amounts payable in respect of the different taxes and the annual utility fees is clearly stated on the accounts sent to those who are liable to pay them. Community fees are specifically calculated whenever chargeable developments are undertaken. Further information is readily available to tax and fee payers at City offices, although no particular steps are taken to provide taxpayer education.

(iii) Existence and functioning of a tax appeals mechanism

Appeals against tax assessments are made initially to the authority concerned. If agreement is not reached, an appeal can be made to a specialised section of the Ministry of Finance. A further appeal is possible to the Administrative Court, which has a considerable backlog of undecided cases. It does not appear that the small taxes for which LGUs are responsible give rise to any significant incidence of disputes and appeals. There is provision in the law for appeals to be made against utility fees and community fees charged on new developments to a "second Instance" (i.e. after an initial appeal to the LGU making the assessment) consisting of an independent panel appointed by the county concerned, but such appeals were stated to be extremely rare. LGUs are reliant on the Administrative or Bankruptcy Courts to collect unpaid fees, while those liable to pay the fees can equally appeal to the Court.

Indicator	Score	Explanation
PI-13 Transparency of taxpayers' obligations and liabilities	B	M2 scoring method
(i) Clarity and comprehensiveness of tax liabilities	B	Liability for payment of the taxes and fees for which LGUs are responsible is clearly defined in legislation, although there may be scope for error in the measurement of chargeable areas, and there is inevitably an element of negotiation in the case of the community fees.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	Assessments make clear the basis on which amounts owing have been calculated. Information is readily available at local offices, although there are no particular efforts directed towards education of those liable to pay.
(iii) Existence and functioning of a tax appeals mechanism.	C	A special section of the Ministry of Finance deals with tax appeals. There is provision for appeals against community and utility fees to be made to a body appointed by the county concerned, although such appeals were stated to be extremely rare.

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

(i) Controls in the taxpayer registration system

Koprivnica which collects its own tax revenues has the responsibility to identify businesses in its area liable to the business names and beverage consumption taxes, and also to identify those liable to the tax on the use of public spaces. In doing this it has no access to the databases kept by the TA for VAT and other national taxes, although it does receive information from the Office of State Administration which registers businesses. However, the requirement for businesses to keep electronic Fiscal Registers (important for the collection of VAT) may provide the City with a possible source of information about the amounts due from businesses. The assessment and collection of community and utility fees depends on the completeness of the City's records and the strength of its enforcement efforts; Koprivnica has succeeded in maintaining a fairly steady flow of receipts from utility fees despite the continuing economic recession. The City maintains a single register covering all businesses and individuals liable to pay any of its fees and taxes. However, countrywide the cadastral records are considered not to be of sufficient accuracy to support the collection of a property tax based on size or value, and TA does not release information to LGUs about the details of tax receipts arising from sales of property in their areas.

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

Penalties arising from the minor taxes are not significant. Failure to register a property in respect of which utility fees should be paid incurs a penalty of only 500HKR (less than US\$100), although once such properties are identified the City makes every effort to collect the amounts owed. Enforcement of community and utility fees has to be done through the Courts without the threat of substantial further penalties becoming payable in cases of non-compliance. The city sends notice to users who do not pay the utility charge and contribution within three months, and after the notice expires the city may start foreclosure. For poor users the city provides for the utility charge and contribution to be paid from the budget, from the item social care. The city often writes off claims for utility charge as a part of bankruptcy procedure. The City's claims for charges and contributions must be secured within three years. The payers of utility fees and community fees levied in respect of new developments mostly accept the decisions of the city. In the case of the community fees, the city may take a charge on the property of the payer in order to prevent the owners (debtors) from selling them and leaving the city without paying.

(iii) Planning and control of tax auditing programmes

Koprivnica devotes substantial staff resources to the enforcement of community and utility fees, based on local intelligence. However, the taxes and fees for which LGUs are responsible do not involve self-assessment, so there is no question of a risk-based tax audit programme of the kind with which this dimension is concerned.

Indicator	Score	Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	M2 scoring method
(i) Application of controls in the taxpayer registration system	B	Koprivnica seeks to draw on the Office of State Administration's register of businesses, and devotes considerable effort to its database for all property and business-related fees and taxes. But there are no links with TA databases.
(ii) Effectiveness of sanctions for failure to register and declare taxes	D	Penalties for non-compliance are ineffective
(iii) Planning and control of tax audit programmes	NA	The taxes and fees imposed by Koprivnica do not involve self-assessment.

PI-15 Effectiveness in collection of tax payments

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

There are substantial arrears of the taxes and charges for which Koprivnica is responsible. Information is available at the beginning of each year about arrears of each tax or fee (and the amounts owed by each individual taxpayer), and also about the amounts collected in the course of the year. The position is summarised in the following table.

Table 3.18: Tax arrears and amounts collected each year, 2011-13

HKR thousands

Tax/Fee	Arrears at 31.12.10	Amount collected in 2011	Arrears at 31.12.11	Amount collected in 2012	Arrears at 31.12.12	Amount collected in 2013	Arrears at 31.12.13
Use of public space		802.8		606.6		494.2	
Consumption	397.5	492.0	469.9	423.5	588.8	722.3	755.3
Business names	557.9	343.4	684.0	335.9	682.7	403.3	784.0
Communal fees	2,243.2	5,618.6	1,300.7	4,091.9	1,354.4	2,729.7	1,407.2
Utility fees	10,302.9	21,513.3	10,174.4	19,836.6	11,669.5	19,071.8	14,213.4
Total	13,501.5	28,770.1	12,629.0	25,294.5	14,295.4	23,421.3	17,159.9
Arrears as % of collections during year			43.9%		56.5%		73.3%

Source: Koprivnica Administrative Department for Finance and Entrepreneurship

As the table shows, total arrears increased each year from 2010 to 2013, both absolutely and as a percentage of collections. The deterioration in the position on arrears was attributed to the increasing difficulty taxpayers have in finding the money during the continuing recession, together with the need to absorb the requirements of the new IT system, which had reduced the resources available for enforcement activity. An improved performance should now be expected for 2014. The rise in tax arrears as a proportion of collections from 43.9 per cent at the end of 2011 to 73.3 per cent at the end of 2013 indicates that the debt collection ratio must be relatively low and in any case below 60%.

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

All revenue is collected by city officials and paid immediately into Koprivnica's Treasury Account.

(iii) Frequency with which the Treasury completely reconciles accounts reflecting tax assessments, payments, records of arrears and transfers to Treasury

Koprivnica carries out quarterly reconciliations of the arrears, new assessments and collections from its individual fee payers with its Treasury records within 30 days of end of the quarter. It hopes to do this on a monthly basis once the new IT system is fully operational.

Indicator	Score	Explanation
PI-15 Effectiveness of tax collection	D+	M1 scoring method
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	Arrears of the taxes and which Koprivnica is responsible amount to nearly three quarters of total annual receipts.
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	A	All revenue is collected by City officials and paid immediately into the Single Treasury Account.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Treasury.	B	A complete detailed reconciliation is carried out quarterly between the records of assessments, collections and arrears of individual taxpayers and the records of receipts by the Treasury.

PI- 16 Predictability in availability of funds for commitment of expenditure

i) Degree to which cash-flow forecasts and monitoring are carried out

A yearly cash flow forecast and/or a commitment plan is prepared every year for Koprivnica at the beginning of the fiscal year (early January). The forecast is in the form of a table broken down by month and including recurrent (wages, transfers, interest and subsidies) and capital expenditures (investments). The forecast is elaborated on the basis of historical information (expenditure of previous years) and revenue forecast as well as the city's economic trends. The forecast is adjusted monthly on the basis of cash inflows and outflows.

ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year

The cash flow forecast, as presented in i) above, is updated monthly on the basis of cash inflows and outflows. In Koprivnica, this allows spending units of the city to plan expenditure several months in advance. In all cases spending units receive information to plan expenditure six months in advance in accordance with budgeted appropriations. That has been the case in 2013 (and for 2011 and 2012 as well).

iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations.

In 2013, there were 2 revised budgets in Koprivnica, which modified the original approved budget. In the first case, the revision was very low (+2.9%)¹⁴: In the second case there was a diminution (-) of 9.11% compared to the original budget¹⁵. The amendments/adjustments were not predictable but reviewed and approved by the City Council in a transparent fashion¹⁶.

Indicator	Score	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	B+	M1 scoring method
(i) Degree to which cash flow forecasting and monitoring is carried out	A	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	A	Departments are provided reliable information for six months in advance in accordance with budgeted appropriations.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	B	Adjustments take place twice a year in 2013. They were not predictable but carried out in a transparent way.

PI-17 Registration and Oversight of Cash Balances, Debt and Guarantees

As of time of this assessment (May 2014) the city of Koprivnica had one (1) domestic loan. The original loan was HRK 40 million (2012) with *Privredna Banka Zagreb*, a private commercial bank. Payments for the loan have to be made during the period 2013-2020. Debt management is carried out by the Department of Finance & Entrepreneurship.

i) Quality of debt data recording and reporting

Reconciliation of data is carried out regularly comparing quarterly statements received from the *Privredna Banka Zagreb* and the city's books. As a result debt

¹⁴ The first revised budget was HRK 167.3 million (versus the original budget of HRK 162.5 million)

¹⁵ The second revised budget was HRK 147.7 million

¹⁶ For changes in the same group of budget items (which do not modify the total amount of the approved budget), reallocations are allowed. For all other cases City Council has to review and approve the amendments with the procedures being the same as for the original approved budget.

data are of very good quality. In addition, internal and external auditors (visiting the city) never raised any issue regarding the quality of the data.

Four times per year the Department for Finance and Entrepreneurship elaborates financial reports including a detailed section on loan (covering debt service, stock and operations) sent to the Ministry of Finance. Twice a year the same entity elaborates comprehensive financial reports with a detailed section on debt (on loan covering debt service, stock and operations) sent to the city council.

ii) Degree of consolidation of the government's cash balance

The city of Koprivnica has one bank account only, held at *Podravska Banka* a private commercial bank. This bank account is used for collecting revenues and for transfers from Central Government. It is also used for all payments. Every day the city receives an electronic print out from the bank with the balance available. Authorized staff (Office of the Mayor and Department of Finance & Entrepreneurship) in the city can also access the account electronically in real time.

At present the city does not monitor bank accounts of autonomous entities (PI-9) and is not aware of the balances of these accounts, where the entities' own revenue is deposited. In 2013, real own revenue of these entities represented 9.64% of the city's total revenue. These are reported. As from January 2015 these accounts will all be consolidated in the Single Treasury Account.

iii) Systems for contracting loans and issuance of guarantees

The city may contract loans (as seen above) and issue guarantee. For the time being the city has not issued any guarantee. The conditions for contracting loans and issuing guarantees are indicated in the law¹⁷. In both cases the city council has to approve the decision to borrow or to issue a guarantee. The government should give its consent on the proposal of the Minister of Finance. In requesting approval for a loan or the issue of a guarantee the total annual liability of the city for debt service must not exceed 20 percent of the revenues realized in the year prior to the year in which the borrowing is made (or the guarantee is issued).

¹⁷State Budget Act (2009), Art 88 ; Ordinance on the borrowing procedure of local and regional self-government units and on issuing guarantees of local and regional self-government units (Official Gazette, no. 55/04),

Indicator	Score	Explanation
PI-17 Recording and Management of Cash balances, Debt and Guarantees	B+	M2 scoring method
i) Quality of the records and reports presented on debt data.	B	Domestic debt records (there is no foreign debt) are complete, updated and reconciled quarterly. Data are considered of high standard. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced quarterly.
ii) Degree of consolidation of government cash balances	B	Most cash balances are calculated (and consolidated) daily but some extra-budgetary funds remain outside this arrangement
iii) Systems for contracting loans and issuance guarantees	A	Koprivnica contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

PI-18 Effectiveness of payroll controls

Koprivnica has 48 employees in the City Administration (including 5 temporaries), and 262 working in the services for which it is responsible (of whom 140 in the Kindergarten). Employees of the City Administration are paid directly from the Treasury account, but the budget users which are treated as separate legal entities currently maintain their own payrolls from separate accounts replenished monthly by the Department of Finance and Entrepreneurship.

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

Personnel records are kept by the City Office of Social Affairs and Services. While all decisions on appointments and promotions require the approval of the Mayor, each of the budget users is regarded as a separate legal entity responsible for its own appointments and payroll. The central administration payroll is the responsibility of the Administrative Department for Finance and Entrepreneurship, but the payrolls of the budget users are the responsibility of the head of each legal entity. Each month each budget user submits its payroll request to the Department of Finance and Entrepreneurship, which then transfers the amount requested to the bank account of the budget user concerned. Provided that the amounts requested are consistent with provision in the budget, and not at variance with earlier years' experience of the monthly pattern of payments, the necessary amounts are transferred by the Department of Finance and Entrepreneurship to the bank accounts of the budget users concerned. Once all receipts and payments are centralised through the Single Treasury Account as from 1 January 2015, the Department of Finance and Entrepreneurship will

take over responsibility for the whole payroll. For the time being, however, the integrity of the payroll is dependent on the responsibility and vigilance of the Heads of each of the budget users concerned.

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

Changes to personnel records are notified to the Administrative Department for Social Affairs and Services, which then informs the Department of Finance and Entrepreneurship without delay, so that correct amounts can be paid each month. There have been no recent instances of retroactive pay adjustments being required.

(iii) Internal control over changes to personnel records and payrolls data

Changes to personnel records are initiated by the Head of the responsible Department, endorsed by the Department of Social Affairs and Services, and approved by the Mayor. There is always a clear audit trail.

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

There have been no audits, internal or external, specifically directed at the operation of the payroll system in the last three years, apart from an internal audit review in 2011 of the payroll of the kindergarten (which accounts for about 45 per cent of total employee numbers). However the operation of the payroll of the central administration has been reviewed each year as part of the annual audit of the City's activities and Financial Statements by the State Audit Office (SAO), including the testing of some salary payments. SAO reports have not included any observations about errors or weaknesses in the payroll.

Indicator	Score	Explanation
PI-18 Effectiveness of payroll controls	C+	M1 scoring method
(i) Degree of integration reconciliation between personnel registers & payroll data	C	There are currently no direct links between personnel records and the payroll, with the pay of most City employees remaining the responsibility of the Heads of the budget users concerned.
(ii) Timeliness of changes to personnel records and payroll	A	Changes in personnel records are notified immediately to the Administrative Department for Social Affairs and Services and to the Head of the Budget user concerned. There is no record of any need for retroactive adjustments.
(iii) Internal control of changes to the staff register and payroll	A	There are controls over both personnel records and the payroll, and changes should always leave a clear audit trail.
(iv) Payroll auditing to identify weaknesses and/ or ghost workers	C	Partial payroll audit was carried out once in the last 3 years

PI-19 Competition, value for money and controls in procurements

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

Public Procurement legislation was substantially revised in 2011 in preparation for Croatia's accession to the European Union, with some further amendments in 2013. It applies to all levels of government as well as to all companies owned by central or local government. In Koprivnica an official has received the necessary certification from the Ministry of Economy for preparing tender documents and supervising contract awards. This official is also responsible for preparing the annual Procurement Plan which is published on the City's website after the Budget has been approved. In 2013 all 18 of the contracts above the Croatian Government's thresholds of 200,000HRK for goods and services and 500,000HRK for works were let through open competition (17,323.2 thousand HRK) or through previously contracted Framework Agreements (2,855.0 thousand HRK): the EU Directive sets much higher thresholds (207,000 Euro for goods and services and 5.186million Euro for works). Koprivnica requires at least three offers for any contract below the threshold but in excess of 20,000HRK.

TABLE 3.19: LEGAL AND REGULATORY FRAMEWORK FOR PROCUREMENT

Documentary Requirement	Fulfilled	Explanation
1. Procurement legal framework is organized hierarchically and precedence is clearly established.	Yes	The Public Procurement Act and Regulations issued under it by the Ministry of Economy comprehensively cover all public procurement activities.
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	Yes	All relevant texts are freely available on the government website. http://www.javnabava.hr/default.aspx?id=3414
3. The legal framework applies to all procurement undertaken using government funds.	Yes	The law applies to all procurement by central and local government, and by companies owned by central or local government.
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	Yes	The law conforms to the EU directive requiring justification for the use of less competitive methods than open tender.
5. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes	Complaints can be made to the independent State Commission which has authority to suspend the contracting process. The Commission has hitherto given its rulings within 60 days; plans are in hand to reduce this time to 30 days.
6. The legal framework provides for public access to all of the following procurement information: <i>government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.</i>	Yes	Each contracting authority must publish its procurement plans, tender opportunities and contract awards, and the Ministry of Economy maintains a central database of all this information. The State Commission's rulings are also published on its website. https://eojn.nn.hr

(ii) Use of competitive procurement methods

The following Table summarises Koprivnica's Procurement expenditure in 2012 and 2013.

Table 3.20: Koprivnica Procurement expenditure (2012- 2013)

HRK thousands

Procurement Type	Goods		Construction		Services		Total	
	Value	No.	Value	No.	Value	No.	Value	No.
Open Procedure	3,498.9	10	1,490.0	3	15,189.3	5	20,178.2	18
Negotiation above threshold	-	-	-	-	-	-	-	-
Total above threshold	3,498.9	10	1,490.0	3	15,189.3	5	20,178.2	18
Below threshold	897.6		522.7		1,950.5		3,370.8	
Framework contract			-		2,855.0		2,855.0	
Total 2013	4,396.5		2,012.8		17,139.8		23,549.0	
Open Procedure	1,768.1	4	1,662.4	5	582.7	4	4,326.2	13
Negotiation above threshold					312.9	2	312.9	2
Total above threshold	1,768.1	4	1,662.4	5	895.7	6	4,639.1	15
Below threshold	835.7		391.2		2,439.1		3,666.0	
Total 2012	2,603.7		2,053.6		3,334.8		7,992.1	

Source: City of Koprivnica

Open competition accounts for the large majority of expenditure on contracts above the national thresholds: 100 per cent in 2013 and 93.3 per cent in 2012. The very high figure for contracts for services in 2013 reflects the contracting of a 40million HRK loan through the issue of a tender, with all the interest payable over the 7 years of the loan being scored as a 2013 cost. Where for a smaller proportion of the expenditure negotiated procedures have been used, this reflected particular circumstances which justified a less competitive approach in accordance with the Procurement Law. Full information has to be provided to the Ministry of Economy in all such cases. Koprivnica's procurement was the subject of 3 complaints in 2013, of which two related to the same tender and were not pursued when the threshold for open competition was raised.

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

Koprivnica's Procurement Plans and tender opportunities are published on the City's website; contract awards are published within 48 days in the Official Gazette. The State Commission's decisions on complaints are all published on <https://dkom.hr>

(iv) Existence of an adequate administrative procurement complaints system

Complaints are heard by the State Commission of nine members appointed by the Parliament, five of whom must be lawyers, and all of whom must have three years' experience of public procurement. They are independent professionals, who are excluded from any participation in political activity. The Commission is entirely independent, and its members are specifically excluded from any involvement in the process leading to procurement award decisions. Recent experience indicates that some 30,000 contracts let each year give rise to about 2,000 complaints. Complainants must pay a fee of 3,000HRK for contracts valued

up to 0.5 million HRK rising to 9,000HRK for contracts above 10 million HRK (i.e. about 0.25 per cent of the contract value). The large majority of complaints are settled by the Commission, but about 50 per year result in further appeals to the Administrative Court which is currently considering cases from 2011. The lodging of a complaint suspends the tender process or the contract award until the matter is resolved.

TABLE 3.21: COMPLAINTS SYSTEMS

Complaints are reviewed by a body comprised of experienced professionals, familiar with the legal framework for procurement. This body, which includes members drawn from outside government:

- (i) Is not involved in any capacity in procurement transactions or in process leading to contract award decisions; **Yes**
- (ii) Does not charge fees that prohibit access by parties; **Yes** While the minimum fee of 3,000HRK may discourage complaints against the award of small value contracts, the fees are not large in relation to more substantial contracts.
- (iii) Has the authority to suspend the procurement process; **Yes**
- (iv) Issues decisions within the timeframe specified in the rules/regulations; **Yes** and
- (v) Issues decisions that are binding on both parties. **Yes**
- (vi) Issues decisions within the timeframe specified in the rules, regulations; **Yes**
- (vii) Issues decisions that are binding on all parties (without precluding subsequent access to external higher authority). **Yes**

Indicator	Score	Explanation
PI-19 Competition, value for money and controls in procurements	A	M2 scoring method
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	A	The legal and regulatory framework meets the requirements of the EU Directive on Public Procurement. It provides for transparency, comprehensiveness and competition covering all procurement by general government and government-owned companies.
ii) Use of competitive procurement methods	A	Where contracts above Croatian thresholds have been let other than by open competition, this has been justified in accordance with the Procurement Law. Contracts above the thresholds not let by open competition have accounted for only a relatively small proportion of Koprivnica's procurement expenditure.
(iii) Public access to complete, reliable and timely procurement information	A	There is full public access on the City website to Koprivnica's Procurement Plans and tender opportunities. Contract awards are published in the Official Gazette within 48 days of the decision. The results of any complaints are published on the State Commission's website (www.dkom.hr).
(iv) Existence of an adequate administrative procurement complaints system	A	The State Commission serves as an effective independent body charged with resolving complaints. The lodging of a complaint suspends the tender process or contract award.

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

Croatia has made considerable efforts in recent years to strengthen public financial management and control. The first step was the Public Internal Financial Control (PIFC) Act 2006. Ministries and larger local government units (Zagreb, counties, cities which are county centres and cities with populations over 35,000) are required to make annual reports on the operation of their financial management and control systems and on their internal audit function. These reports are submitted in a standardised format to the Central Harmonisation Unit (CHU) of the Ministry of Finance which has the responsibility to promote better financial management throughout central and local government. The reports cover the control environment (management structure and style, existence of strategic goals, reporting arrangements, development of human resources), risk management, specific control activities, information and communication (arrangements for collecting all information needed to measure achievement of objectives) and system monitoring and assessment (including responses to internal and external audit findings and recommendations). A further report is required about the operation of internal audit. Koprivnica as a county centre (despite its population being below 35,000) is required to submit these reports. The Fiscal Responsibility Act 2010 further requires all heads of operations at

every level of government to submit an annual statement confirming that funds have been used correctly and purposefully, and that the financial management and control system functions efficiently and effectively within the framework of resources defined by the budget. Heads of operations (including the Mayors of each city) make this statement on the basis of answers to detailed questions about the functioning of every aspect of budget planning, execution, accounting and reporting, and the operation of public procurement. Where weaknesses are identified a plan for their elimination is to be submitted, as well as a report on action to correct weaknesses identified the previous year. The statement should also be accompanied by an internal auditor's certificate confirming those aspects of the statement which have been the subject of internal audit examination during the year in question, together with a summary of internal audit activities and recommendations.

i) Effectiveness of expenditure commitment controls

Koprivnica plans, executes, accounts for and reports its budget through an electronic system provided by the company Info Project, Rijeka. This system has been recently installed, and is not yet fully functional in all areas. It provides for expenditure to be tracked against the approved budget, and should prevent payments from being made outside the approved plan. Public procurement contracts are registered in the system when they are signed; they would be rejected if they were not provided for in the Procurement Plan. Similarly a payment in respect of a contract which had not previously been registered would be rejected. The Administrative Department for Finance and Budget prevents any contract from being concluded until it knows that the necessary funds (usually central government grants, borrowing approvals or earmarked revenue from the communal fees paid in respect of new developments) will be available. Koprivnica has thereby avoided incurring any significant expenditure arrears. While the system does not provide for a separate commitment control covering all current expenditure before payments are made, the safeguards which ensure that new contracts or orders are not placed unless they are consistent with the Procurement Plan, and the necessary financing has been assured, constitute effective commitment controls.

(ii) Scope, relevance and understanding of other internal control regulations and procedures

There are clear instructions and procedures covering all aspects of budget planning, execution, public procurement, and separation of functions as between decision-making, payment and accounting in respect of each activity. These are set out in a Process Map approved by the Mayor, and are generally understood and respected. These procedures cover the preparation of the Budget, the collection of revenues, the receipt of invoices and the verification of supporting documents, the issuing of orders and the conclusion of contracts, the checking of accounting and payment records, and the separation of functions related to procurement decisions from the subsequent verification that performance has been satisfactory. As required for the City's annual report to the MOF CHU, the Department of Finance and Entrepreneurship undertakes a series of ex post checks of the correctness of payments of different types, including whether they

are provided for in the budget, supported by all required documentation, financed from the correct sources, correctly recorded in the accounts, and paid in time to avoid any late payment penalties. .

(iii) Degree of compliance with regulations on the processing and registration of transactions

As noted in relation to PI-18 and PI-19, all aspects of transactions related to the payroll and public procurement are subject to rigorous and careful checks and procedures. Across the whole budget all invoices have to be certified by the responsible Department or budget user, and are only paid when signed by the Mayor or his deputy and the Director of the Administrative Department for Finance and Entrepreneurship. Koprivnica's 2012 Financial Statements received an unqualified report from the State Audit Office (SAO).

Indicator	Score	Explanation
PI-20 Effectiveness of internal controls on non-salary expenditure	B+	M1 scoring method
(i) Effectiveness of controls on expenditure commitments	B	Although there is not a separate commitment control in place across the whole budget, controls are effective in preventing new commitments from being undertaken before the availability of finance has been assured.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	A	Internal control rules and procedures are generally understood and observed. Separation of duties is correctly practised and ex post facto checks are made of a sample of payments.
(iii) Degree of compliance with the regulations for processing and registering transactions.	A	Rules and procedures for registering transactions are generally observed. The 2012 Financial Statements received an unqualified report from the SAO.

PI-21 Effectiveness of Internal Audit

(i) Scope and quality of internal audit function

Internal Audit (IA) functioned in Koprivnica until January 2012 when the qualified internal auditor was promoted to a higher post in the City Administration. One competition to find a fully qualified successor failed to produce a satisfactory candidate, and action was further delayed by the 2013 mayoral election. A new internal auditor was scheduled to take up employment on 15 May 2014, shortly after the fieldwork undertaken for this report. IA procedures have been defined in an internal rule book approved by the Mayor. Procedures were in accordance with those of the International Institute of Internal Auditors. The auditor should

prepare a Strategic Plan for three years which then forms the basis for annual plans. An Annual Report should be produced on the previous year's activities, which is sent to the Central Harmonization Unit (CHU) at the Ministry of Finance. The audit work should extend across all the City's Departments and budget users, and focus on the performance of systems in ensuring that programmes are realistically planned, correctly executed, and achieve the intended results. Audits performed in the period up to January 2012 covered the kindergarten payroll, public procurement and arrangements for travel on official business. MOF CHU and SAO are aware of the City's difficulties in maintaining the IA function.

(ii) Frequency and distribution of reports

The auditor aimed to complete four reports a year, in addition to the preparation of strategic and annual plans, annual reports and other work within the City's services. Reports were sent to the Head of the Department for Finance and Entrepreneurship and to the Heads of the Departments or budget users concerned. They were taken into consideration by the State Audit Office in the course of its audit work on Koprivnica. However, there have been no reports since 2011.

(iii) Management response to internal audit findings

It is understood that there was prior to the end of 2011 a constructive management response to audit findings and recommendations, with most recommendations being accepted.

Indicator	Score	Explanation
PI-21 Effectiveness of Internal Audit	D	M1 scoring method
(i) Scope and quality of internal audit function	D	Because of recruitment difficulties no internal audit work has been undertaken since 2011.
(ii) Frequency and distribution of reports	D	There have been no recent reports.
(iii) Management response to internal audit findings	NA	In the absence of recent reports there has been no question of any management response.

Subsection 3.5: Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

i) Regularity of bank account reconciliations

As seen (PI-17 ii), the city of Koprivnica has one bank account. Reconciliation of this account takes place daily. For this exercise, the IT system makes reconciliation with the accounting books.

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

There are few advances accounts (and no suspense accounts) in Koprivnica. Reconciliation of advances is made immediately at the end of the month when the employees returns. Outstanding balances if any are fully cleared at the end of the year (with no balances brought forward).

Indicator	Score	Explanation
PI-22 Timeliness and regularity of accounts reconciliation	A	Scoring method M2
(i) Frequency of reconciliation of bank accounts	A	Reconciliation of the only bank account of the city takes place daily.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	A	Reconciliation and clearance of suspense accounts and advances take place monthly, within a month from end of period and with no balances brought forward. Each

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

i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units.

There are no health centres under the city's supervision. There is one (1) kindergarten and five elementary schools, which depend on the city of Koprivnica. The city pays everything for the elementary schools except the teachers' salaries that are paid by the Central Government.

The kindergarten and the elementary schools record electronically all the resources they receive (including in-kind resources) and forward quarterly execution reports to the city. The Department of Finance and Entrepreneurship of the City consolidates the information on resources received (in cash and in kind) annually prior to March 31 following the year covered.

Indicator	Score	Explanation
PI-23 Availability of information on resources received by service delivery units	A	Scoring method M1
Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of front-line service delivery units.	A	Routine data collection or accounting systems provide reliable information on resources received in cash by primary schools across the city's boundaries. The information is compiled into reports at least annually.

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

In the city of Koprivnica information on budget execution is available in real time from the FMIS Info project IT system. The Mayor can enter the system and follow the execution when needed. However, until the Single Treasury Account comes into operation in January 2015, the information extends only to the receipts and payments which are the responsibility of the City's central administration; budget users report only quarterly.

In addition, following in-year budget execution reports are issued:

- A quarterly report sent to the Ministry of Finance, State Audit Institution and Financial Agency (FINA)¹⁸.
- A Semi-annual report that are sent to the Official gazette.

The elaboration of these reports is required by law¹⁹.

(i) Scope of the reports in terms of coverage and compatibility with budget estimates

For all the above mentioned reports comparison to budget (not the original but the adjusted budget) is possible only for main functional and economic headings. The semi-annual report is more detailed. For all the reports expenditure is captured at the accrual stage, and not at the stage of the original commitment.

¹⁸ FINA is a State funded Agency, which acts as mediator between the State and SN entities. FINA is coordinated by the State and receives data on SN entities

¹⁹ State Budget Act (2009), Art 91, 108 & 109

(ii) Timeliness of report presentation

Quarterly and semi-annual in-year execution reports are finalised 10 days after the period covered. This is a legal requirement²⁰ and this deadline is respected.

(iii) Quality of information

Budget execution data used in the reports originate from the FMIS, Info project, an integrated software covering budget planning, budget execution, payroll, payments, treasury, procurement and property registry. External audit has not detected any inaccuracies of the data in recent years.

Indicator	Score	Explanation
PI-24 Quality and timeliness of in-year budget reports	C+	Scoring method M1
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts	C	Comparison to the adjusted budget is possible only for main functional and economic headings. Expenditure is captured only at the accrual stage, and not at the stage of the original commitment.
(ii) Timeliness in the presentation of reports	A	In-year execution reports are finalized within a maximum of 20 days after the period covered.
(iii) Quality of the information	A	There are no material concerns regarding data accuracy.

PI-25 Quality and timeliness of annual financial statements

(i) Comprehensiveness of financial statements

Yearly financial statements in Koprivnica include full information on revenues and expenditure, financial assets (bank balance and shares/equity in companies) and liabilities (internal debt) in conformity with the existing legislation²¹. Hitherto the statements submitted for audit have covered only the revenue and expenditure of the City's central administration. Payments to budget users are included, but not budget users' own revenues or final expenditures.

(ii) Timeliness in the presentation of financial statements

²⁰ Budget Act, 2009, Art 87 (9);

²¹ State Budget Act (2009), Art 105; Ordinance on Financial Reporting in the Budget Accounting (Official Gazette, no. 27/05 and 2/07),

For 2012 and 2013, the annual financial statements were sent to the State Audit Office prior to February 28, 2013 and 2014 respectively (the legal deadline) within 2 months from the period covered. In 2014, the 2013 annual financial statements were sent to the State Audit Office on February 27th, 2014. Consolidated financial statements including all transactions of budget users have been prepared each year by the end of March.

(iii) Accounting standards used

National accounting standards consistent with IMF GFS and EU standards were used for the last three years (2011-2013). They are not consistent with IPSAS (modified accruals with no provision for depreciation).

Indicator	Score	Explanation
PI-25 Quality & timeliness of financial statements	C+	Scoring method M1
(i) Completeness of financial statements	A	Annual Financial statements include full information on revenue, expenditure, financial assets and liabilities of the City's central administration..
(ii) Timeliness in the presentation of financial statements	A	The last annual financial statements (2013) were submitted for external audit on February 26 th , 2014, less than 2 months after the period covered. Consolidated financial statements integrating the budget users' activities have been prepared by the end of March each year.
(iii) Accounting standards used	C	National standards (not corresponding to IPSAS) were used for the last 3 years.

Subsection 3.6: External Scrutiny and Audit

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

The remit of the State Audit Office (SAO) covers all operations of central and local government, and all companies owned or majority controlled by bodies at any level of government. Until 2011 SAO was required to audit all 576 local government units (LGUs) every year, but it now has more flexibility in planning its work and no longer needs to audit well-managed smaller LGUs with this frequency. Zagreb, counties, county centres and cities with over 35,000 people are still audited every year. Audits have mainly focused on financial statements and compliance of LGUs with legal requirements, but SAO has recently extended its work to address aspects of performance, on which 24 auditors are engaged. Reports covering a number of LGUs have been made on the efficiency of revenue collection and the maintenance of unclassified roads. SAO has 280 staff, of whom 240 are qualified auditors; about 80 per cent of the staff work in offices of each of the counties. Audits are carried out in accordance with international (INTOSAI) standards.

SAO considers that LGU financial management has been improving: while only 3.3 percent of the reports on 2004 were unqualified, this figure rose to 21 per cent for 2011. Qualifications often related to respect for revenue earmarking restrictions and public procurement irregularities occasioned by frequent changes in legal requirements. 135 LGUs were audited in respect of 2011 and 81 for 2012; SAO plans to audit 122 LGUs for 2013, covering 70 per cent of total LGU expenditure. LGU internal audit reports are taken into consideration when SAO audits the LGUs concerned. In addition to audits of government units SAO audited 169 companies' 2012 financial statements.

(i) Scope/nature of the audit carried out (including compliance with auditing standards)

Koprivnica as a county centre is one of the LGUs which is audited every year by SAO. The 2012 Financial Statements received an unqualified report. In addition to the review of financial performance, the audit included reviews of the robustness of control systems, respect for revenue earmarking, and respect for the rule limiting total payroll costs to 20 per cent of total expenditure. The reports for the two previous years were qualified on account of delays in 2011 in concluding an energy supply contract jointly with other LGUs, and of unforeseen problems in 2010 in renewal of the flooring at an elementary school. However, pending the establishment of a Single Treasury Account covering all budget users as well as the City's Administrative Departments, the annual audit by SAO has not extended to the budget users who have been regarded as separate legal entities requiring only periodic separate audit. Thus the audit covered the City's payments to budget users but not their own revenues (about 10 per cent of total Koprivnica expenditure) or the details of their expenditures. Total expenditure of budget users in 2013 amounted to 48.7 million HRK, of which 33.8 million HRK was provided by the City budget; budget users thus accounted for 33.4 per cent

of total consolidated City expenditure of 145.6 million HRK. The audit covered 66.4 per cent of total consolidated expenditure. Koprivnica was also covered by the recent (2013) performance audits of revenue collection and of the maintenance of unclassified roads.

(ii) Timeliness in submission of audit reports to the Legislature

The annual Financial Statements are presented to SAO by the end of February each year, and the reports have generally been received in July, i.e. within about 5 months from the submission of the Financial Statements to the auditors. The reports have been notified to the Council without delay following their receipt from SAO, but they have not called for any action.

(iii) Evidence of follow up on audit recommendations

Koprivnica responded to the audit of revenue collection by assigning an additional employee full-time to this work. On road maintenance the City considers that it is up to date on the maintenance of the roads which have always been its responsibility, although there is some backlog on 47 kilometres of roads recently handed over without documentation by the county authorities.

Indicator	Score	Explanation
PI-26 Scope, nature and follow-up of external audit	C+	Scoring method M1
(i) Scope/nature of the audit carried out (including adherence to audit standards).	C	Audits cover aspects of performance in addition to financial and compliance audits. International standards are respected. But hitherto the annual audit has not covered only the direct payments of the City Administration (including payments to budget users), and not the details of the annual expenditure of budget users. In 2013 budget users were responsible for 33.4 per cent of total consolidated City expenditure.
(ii) Timeliness in the presentation of auditing reports to the Legislature	B	Audit reports are presented to the City Council within 6 months of the submission of the Financial Statements to the auditors.
(iii) Evidence of follow up of audit recommendations	A	The Administration addresses the recommendations, and normally implements them to the extent possible, given the resources and time required. In any case there is clear evidence of effective and timely follow up

PI-27 Legislative scrutiny of the annual budget law

i) Scope of examination by the Legislature

The Budget as submitted to the City Council by the Mayor takes into account the guidance from the Ministry of Finance on trends in the economy and prospects for revenue. Revenues and expenditures must be balanced (with authorised net additional borrowing, if any, counted as revenue for this purpose). Full information is presented about revenue and expenditure by administrative, economic and programme (functional) classification. The Council may propose reallocations of expenditure within the given total, but cannot propose any change which would require additional borrowing (Article 38 of the State Budget Act). Although figures are presented for the two years following the Budget year, the focus of the Council's discussion is on the year immediately ahead.

ii) Degree to which legislative procedures are recognised and respected

The State Budget Act requires the Budget proposals for the following year to be submitted to the Council by 15 November each year. The Budget should then be approved before the end of the year. In Koprivnica members of the Council have been able to raise questions as soon as the draft budget as submitted to the Mayor has been posted on the City's website on 15 October. The Mayor's proposals may also take into account the advice of the local Chamber of Commerce, while the Council's consideration is informed by the views of its specialised Committees which may include independent experts. The Budget, subject to any revisions and reallocations arising from the Council's examination and the public consultation, has been approved before the end of December each year. These arrangements are well established and have been regularly followed in recent years.

iii) Adequacy of the time for the Legislature to provide a response to budget proposals

The timetable allows the Council to spend up to six weeks on its examination of the Budget before final decisions are taken. In practice however the Council has at least a month for its consideration of the proposals.

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

Article 46 of the State Budget Act permits the Mayor to reallocate up to 5 per cent of each Budget line without the prior approval of the Council. No use of this provision has been made in Koprivnica: rather at least one revised budget has been presented to the Council each year. Changes in allocations within Departments have been reported to the Council after the event.

Indicator	Score	Explanation
PI-27 Legislative scrutiny of the annual budget law	B+	Scoring method M1
i) Scope of examination by the Legislature	B	The Council's examination mainly focuses on the next year's revenue and expenditure. There is no scope at sub-national government level for any discussion of the appropriateness of the Government's fiscal stance, and not much attention is paid to fiscal planning in the medium term.
ii) Degree to which legislative procedures are recognised and respected	A	The arrangements for the Council's discussion of the Budget proposals are well established and regularly followed.
iii) Sufficiency of time for the Legislature to respond to the budgetary proposals.	B	The Council has at least a month to consider the Mayor's proposals.
iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	Koprivnica does not use the power given to the Mayor to reallocate up to 5 per cent of the provision under each head without the approval of the Council. At least one revised Budget is presented to the Council every year in full transparency to provide for any necessary changes

PI-28 Legislative scrutiny of external audit reports

External audit reports are made on the affairs of cities like Koprivnica which are county headquarters every year. Smaller cities may be audited only once in three years. Where reports concern only the particular City or other LGU, there would not normally be any discussion in the national Parliament, although the situation might be different in the case of a performance audit report concerning a particular aspect of the affairs of a number of different LGUs. It would not be expected that the Council of a small city would establish special arrangements for the consideration of audit reports analogous to the arrangements in the national Parliament.

(i) Timeliness in examination of the audit reports by the Legislature (reports received within the past three years).

Recommendations by the SAO in annual audit reports have to be implemented by the bodies concerned. Thus when in earlier years qualified reports required action by the City, these were the subject of reports to the Council. The annual audit report for 2012 was submitted to the Council at the end of August 2013, about six weeks after its receipt from SAO. Since the report was unqualified, there was no need for any discussion. Although Koprivnica was covered by the recent

performance audit reports on revenue collection and road maintenance, these reports have not been submitted to the Council.

(ii) Scope of the hearings carried out by the Legislature into the main findings

The recommendations arising from annual audits have been essentially formal, giving little scope for discussion. There has not yet been any discussion of recommendations arising from performance audits.

(iii) Issuance of recommendations by the Legislature and their implementation by the Executive

The initiative in responding to SAO recommendations necessarily rests with the City Administration. The normal expectation in the procedures in force under the Public Internal Financial Control Act is that LGU administrations will implement audit recommendations to the extent possible. In these arrangements there is hardly room for a city Council to address separate recommendations to its Administration. In Koprivnica there have been no discussions by the Council which could provide the basis for recommendations to the Executive.

Indicator	Score	Explanation
PI-28 Legislative scrutiny of external audit reports	C+	Scoring method M1
(i) Timeliness in the examination of audit reports by the Legislature (reports received within the past three years).	A	Annual audit reports have been submitted to the Council within a few weeks of their receipt by the Administration. Where in years before 2013 action was required in response to qualified reports, this has been submitted to the Council. Performance audit reports have not been submitted to the Council.
(ii) Scope of the hearings held by the Legislature into the main conclusions	C	Recommendations arising from annual audits have provided little scope for discussion. No discussions have yet been held of recommendations from performance audits.
(iii) Measures recommended by the Legislature and implementation of these by the Executive	NA	There has been little scope for recommendations by the Council.

Subsection 3.7: Donor Practices

D-1 Predictability of direct budgetary support

Koprivnica does not receive direct budgetary support from any external source. This Indicator is therefore Not Applicable.

Indicator	Score	Explanation
D-1 Predictability of direct budgetary support	NA	Scoring method M1
i) Annual deviation in real budgetary support with respect to that forecast by donor organisations at least six months before the Government presents its budgetary proposals to the Legislature (or other equivalent body responsible for approving the budget)	NA	Koprivnica does not receive direct budget support from any external source.
ii) Timeliness of disbursements by donors throughout the year (fulfilment of aggregate quarterly estimates)	NA	There are no disbursements.

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

i) Comprehensiveness and timeliness of donors' budgetary estimates in relation to project support

Koprivnica is participating in a number of EU projects in 2014. But none of these gave rise to any expenditure during 2011-13, and this dimension is therefore Not Applicable.

ii) Frequency and coverage of the presentation of reports by donors in relation to effective resource flows for project support

The execution of projects is essentially under the control of Koprivnica, so the flow of information is from the City to the donor. This dimension is therefore considered to be Not Applicable.

Indicator	Score	Explanation
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	NA	Scoring method M1
i) Comprehensiveness and timeliness of donors' budgetary estimates for project support	NA	Although EU projects are planned for implementation beginning in 2014, no expenditure was incurred during the period 2011-13.
ii) Frequency and coverage in the presentation of reports by donors on effective flows for project support	NA	Execution of the projects would be under the City's control, and there is no question of any payments being made separately by the donors.

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

i) Global proportion of aid funds to the City that are administered on the basis of national procedures

EU-funded projects when implemented will be subject to national procurement (now assimilated to EU standards) and payment procedures. But donors normally require separate audited reports once projects are concluded. Thus national procedures are used exclusively for procurement and payment, but donor procedures have to be followed for reporting and audit (although the expenditure is also subject to national reporting and audit). In the PEFA criteria this situation is assessed as implying that national procedures are followed for 50 per cent of the donor funds. In 2013 the city had no donor funding. Therefore the indicator does not apply.

Indicator	Score	Explanation
D-3 Proportion of aid managed by use of national procedures		Scoring method M1
i) Proportion of aid funds for the central government that are managed in line with national procedures	NA	When funds are received (expected during 2014) national procedures will be followed for procurement and payment, but special donor requirements will apply to reporting and audit.

4. Government reform Process

Subsection 4.1: Description of Major PFM Reforms

The City Administration works closely with the privately owned Podravka food company, which is Koprivnica's largest employer and the key player in the City's economic and social development. The City and Podravka both seek to apply the principles of sustainable development, bringing together people and businesses to foster the development of Koprivnica. The City seeks to apply innovations in management developed in the private sector to make Koprivnica an attractive place in which its citizens can live and work. The City, drawing on the experience of Podravka, was the first in Croatia to use the model of public-private partnerships to build a secondary school together with the county, and one of the first cities to issue municipal bonds. The City was the first in Croatia to establish a programme of energy efficiency. The "New Face of Koprivnica" is a project which aims to create a green, energy efficient and prosperous lifestyle for the City and its inhabitants. In 2013 this project won the European Award for Energy Efficiency and Energy Management in competition with 82 applications from all over Europe. Koprivnica has the goal to become an energy independent city, and accordingly participates in projects that contribute to the reduction of harmful emissions, including the installation of energy efficient lighting, the construction of a low energy university campus, and the provision of bicycle paths. Koprivnica is the first place in Croatia to plan the installation of charger stations for electric cars.

The City and Podravka work together in a number of different ways to foster economic development and reduce costs. Thus they are working together to establish a higher education institution with particular emphasis on agriculture and food technology, and to attract new businesses to the enterprise zone established by the City. Their practical cooperation is demonstrated by Podravka's decision to contract with the City for the provision of fire-fighting and security services instead of running its own operation; at the same time the City took over some of Podravka's employees previously engaged on these tasks. The overall result is savings for both the City and Podravka.

Subsection 4.2: Institutional Factors Supporting the Planning and Implementation of Reforms

Hitherto budget users have had their own bank accounts, reporting quarterly to the City Administration on their expenditure. Budget users' own revenue (charges for school meals, etc.) has not been included in the budget. Koprivnica is in process of establishing a centralized financial information system including a Single Treasury Account through which all revenue and expenditure of both the central administration and all budget users will pass. The new system will be applied from the beginning of 2015, and will substantially strengthen financial

control, as well as facilitating financial reporting, which currently relies completely on manual consolidation by the Department of Finance and Entrepreneurship. The 2015 Budget will be executed in the new system, and will incorporate the priorities of the City's development strategy scheduled for completion in November 2014.

ANNEXES

Annex 1: Croatia- Profile of Sub National Governments

1. Overall sub-national government structure

Articles 133-138 of the Constitution of Croatia provide for the existence of counties (regions), cities (with more than 10,000 people), municipalities and the Capital City Zagreb which is both a city and a county. Apart from Zagreb, there are two tiers of sub-national government throughout the country; every citizen belongs to a county and to a city or municipality. The powers and responsibilities of different local government units (LGUs) are defined in the Law on Local and Regional Self-Government; there is considerable overlap between the counties and the cities/municipalities, with both permitted to provide education and health services and to build and maintain infrastructure. However, cities/municipalities are not subordinate to counties; both tiers depend directly on central government. All LGUs have elected councils to which elected Mayors (Prefects in the case of counties) are responsible. Mayors are in charge of the appointment of staff, subject to some accountability to the councils. The structure of sub-national government is summarised in the following table.

Table Annex 1: Overview of sub-national government structure in Croatia

Government level	Corporate Body	Own political Leadership	Own Budget	Number	Average population	% of Pub. Exp.	% of Pub. Rev.	% of Exp. paid by Govt. transfers
Central Govt.	Yes	Yes	Yes	1	4.3million	84.2%	93.1%	-
Counties	Yes	Yes	Yes	20	175,000	2.6%	6.9%	59.1%
Cities	Yes	Yes	Yes	126	17,500	6.1%	for all	for all
Municipalities	Yes	Yes	Yes	429	2,800	2.5%	LGUs	LGUs
Zagreb	Yes	Yes	Yes	1	0.8million	4.6%	together	together

Source: Ministry of Finance, RC

2. Sub-national fiscal systems

The financing of sub-national government is regulated by the Law on Local and Regional Self-Government, most recently updated in 2012. The largest revenue stream accruing to LGUs comes from the share of income tax paid by their residents: 56.5 per cent accrues to cities and municipalities and 16 per cent to counties. Cities which take responsibilities for decentralised services (mainly elementary education and fire services) may receive up to a further 12 per cent, while 15.5 per cent is reserved for equalisation payments to poorer LGUs in remote areas or severely affected by the war in the 1990s. The next largest revenues are those from annual utility fees for the maintenance of local infrastructures which are charged by reference to the areas of properties, and the community fees charged on new developments to meet the additional

infrastructure costs. Zagreb, cities and municipalities (but not counties) may levy a surtax on the income tax paid by their residents of up to 10 per cent (municipalities), 12 per cent (cities – and 15 per cent where the population exceeds 30,000), and Zagreb 30 per cent (18 per cent is currently charged). Cities and municipalities also receive 40 per cent of the 5 per cent national tax on the transfer of properties in their area. They further receive the revenue from three small taxes on holiday houses, the consumption of beverages and an annual charge on business names operating in their areas. LGUs may also receive grants from central government Ministries for particular purposes, most frequently for the provision of education, health or transport facilities. Labin and Crikvenica, with populations of about 11,000 and important tourism activities, are smaller than the average for all cities but spend about two thirds more per head of population than the average for all cities.

3. Main functional responsibilities of sub-national governments

Cities are typically responsible for the provision and maintenance of local infrastructures, sports and cultural facilities and activities, pre-school education, non-salary costs of elementary education, and fire services. (Counties have corresponding responsibilities for secondary education as well as providing some health services and co-ordinating transport infrastructures.) The main costs of education and health services – the salaries of teachers and health professionals – continue to be met by central government. The largest share of LGU expenditure is that of cities, which spend about 4,000HRK a year per head of population; counties spend only about 1,000HRK a year per head on their more limited responsibilities.

4. Sub-national budgetary systems

The budgetary systems of LGUs are regulated by the same State Budget Act which applies at central government level. LGUs are required to implement a budgeting process culminating in approval by the elected council, and to follow a budget calendar similar to those operating at central government level; they must also produce execution reports on a basis comparable to those produced by central government. LGUs must present balanced budgets (although the proceeds of permitted new borrowing are treated as revenue, and the repayment of debt as expenditure). Once approved, Budgets must be reported to the Ministry of Finance, but they are not subject to approval by the Ministry. Borrowing is strictly controlled by the Ministry of Finance, and total debt of LGUs is low (about one per cent of GDP, as against about 60 per cent of GDP for the central government). LGUs generally operate a Single Treasury Account in a commercial bank of their choice. The same Public Procurement Act applies to LGUs as to central government (and also to all publicly owned companies and utilities); LGUs' procurement activities must be transparent, and in accordance with the Act, but are not subject to any requirement for prior approval by any central government body.

Annex 2: Detailed score calculations

A. PFA RESULTS: Credibility of Budget					
Indicator/method	Score	D (i)	D (ii)	D (iii)	D (iv)
HLG-1 (M1)	NR	B	NR	A	--
PI-1 (M1)	B	B	--	--	--
PI-2 (M1)	A	A	A	--	--
PI-3 (M1)	D	D	--	--	--
PI-4 (M1)	C+	C	A	--	--
B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency					
PI-5 (M1)	A	A	--	--	--
PI-6 (M1)	B	B	--	--	--
PI-7 (M1)	D	D	NA	--	--
PI-8 (M2)	NA	NA	NA	NA	--
PI-9 (M1)	C	C	NA	--	--
PI-10 (M1)	A	A	--	--	--
C. BUDGETARY CYCLE					
C (i) Policy-based budgeting					
PI-11 (M2)	B	C	B	A	--
PI-12 (M2)	D+	C	NA	D	C
C (ii) Predictability and control in budget execution					
PI-13 (M2)	B	B	B	C	--
PI-14 (M2)	C	B	D	NA	--
PI-15 (M1)	D+	D	A	C	--
PI-16 (M1)	B+	A	A	B	--
PI-17 (M2)	B+	B	B	A	--
PI-18 (M1)	C+	C	A	A	C
PI-19 (M2)	A	A	A	A	A
PI-20 (M1)	B+	B	A	A	--
PI-21 (M1)	D	D	D	D	--
C (iii) Accounting, recording and reporting					
PI-22 (M2)	A	A	A	--	--
PI-23 (M1)	A	A	--	--	--
PI-24 (M1)	C+	C	A	A	--
PI-25 (M1)	C+	A	A	C	--
C (iv) External scrutiny and audit					
PI-26 (M1)	C+	C	B	A	--
PI-27 (M1)	B+	B	A	B	A
PI-28 (M1)	C+	A	C	NA	--
D-1 (M1)	NA	NA	NA	--	--
D-2 (M1)	NA	NA	NA	--	--
D-3 (M1)	NA	NA	--	--	--

Annex 3: List of contacts

Name and surname	Administrative office for:	position	Contact
Vesna Želježnak		City mayor	385 48 279 555 grad.koprivnica@koprivnica.hr
Jasmina Stričević	Finance and Entrepreneurship	head	385 48 279 506 jasmina.stricevic@koprivnica.hr
Krunoslava Pintar	Finance and Entrepreneurship	head of finance section	385 48 279-513 kruna.pintar@koprivnica.hr
Josip Fonjak	Finance and Entrepreneurship – finance sections	administrative officer for city taxes assessment	385 48 279-507 josip.fonjak@koprivnica.hr
Kristina Cvitić	Social Affairs and Services	head	385 48 279-515 drustvene.dielatnosti@koprivnica
Dijana Jakopanec	Communal Economy (affairs), Urban Planning and Environment Protection	Head of Communal Affairs Section	385 48 654-859 dijana.jakopanec@koprivnica.hr

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Annex 5: Maps Koprivnica (Croatia)

(1)



(2)

