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Vranje



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

June, 2020





City of Vranje - Serbia

Public Expenditure and Financial Accountability (PEFA)
Performance Assessment Report

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

PEFA Secretariat,

January 29, 2021

Currency and indicative exchange rate

Local currency unit: Serbian Dinar (RSD)

Exchange rates, March 2019:

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117.9 RSD per Euro

Fiscal Year

1 January – 31 December

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Abbreviations and acronyms

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

Executive summary

Background

1. Vranje is a well-developed industrial centre in Southern Serbia with a total population (including its subordinate municipality Vranjska Banja) of about 82,000. The city is located on the main North-South transport artery and has a broad industrial base. About 40 per cent of its total revenues accrues from its share of nationally-collected taxes, with a further 25 per cent coming from central government budget transfers. This repeat PEFA assessment reflects the situation in 2018; where Indicator scores are based on fiscal statistics the period is 2015-17. Where applicable the cut-off date is end-November 2018. The assessment uses the revised PEFA criteria issued in 2016, and thus provides a baseline against which future changes in public financial management can be measured. It also provides an indication of changes since the previous (2014) assessment, using the 2011 PEFA criteria then in force.

The assessment has been commissioned by the State Secretariat for Economic Affairs (SECO) which has supported efforts to improve public financial management (PFM) in sub-national governments (SNGs) through the “Implementation of the SECO Local Government Finance Reform Program in Serbia” (RELOF). The management of the assessment has been undertaken by RELOF. The assessment has been coordinated by RELOF and was overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team were representatives of the Ministry of Finance, the State Audit Institution, the six Subnational Governments, the Standing Conference of Towns and Municipalities and UNDP. The assessment is conducted in six Serbian sub-national governments – Knjaževac, Osečina, Paraćin, Sremska Mitrovica, Vranje and Užice. All Performance Indicators as set out in the 2016 PEFA criteria have been evaluated.

A. Integrated analysis of PFM performance

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

1. Reliability of the Budget

3. About 60 per cent of central government funding for Vranje comes through the city’s share of income and other CG taxes, where the yield was overestimated by less than one per cent when budgets for 2016 and 2017 were prepared (the overestimate was more than 10 per cent for 2015). Total actual CG transfers exceeded budgets budget for 2015 and 2016 as funds were released for investment but fell well short of budget in 2017 (HLG-1.1). The city’s own revenues were substantially overestimated in 2016 and 2017, and actual expenditure fell far short of budget in each of the years 2015-17 (PI-1 and PI-3.1). The functional breakdown of expenditure showed variance (as measured by the PEFA criteria) exceeding 15 per cent in two of the three years, while the economic breakdown of expenditure showed even larger variances in all three years 2015-17. (PI-2.1 and 2.2). The most significant element in both variances was the reduction in the relative shares going to investment (particularly affecting economic affairs and housing and utilities). No expenditure was charged to contingency during 2015-17.

2. Transparency of public finances

4. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for local government spending as a whole.) Information given to the Assembly as part of budget proposals generally meets PEFA standards on all points (Score A for PI-5). All revenue and expenditure of city institutions is fully reflected in budgets and out-turn statements, while revenue and expenditure of utility companies providing services on behalf of the city are fully covered by

published reports (PI-6 and 10). Financing of the subordinate municipality of Vranjska Banja is fully transparent, but amounts are only settled around the end of November when the city receives information about its transfers from central government (PI-7). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

3. Management of assets and liabilities

5. Full financial reports are published for the city's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment is planned within the framework of the city's sustainable development strategy 2010-20, and progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the city's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Unlike most other SNGs in Serbia, Vranje has significant debts which constrain its ability to borrow to finance new investments, given the requirement that overall indebtedness must not exceed 50 per cent of annual revenue; these include substantial amounts of payment arrears which are the subject of rescheduling agreements with contractors. Debt records are complete and regularly reconciled, and their sustainability is under constant review in the light of the legal limits, but there is no published debt management strategy with targets for interest rates or the maturity of debt instruments used (PI-13).

4. Policy-based fiscal strategy and budgeting

6. Vranje produces revenue and expenditure estimates for the budget year only, although forecasts of capital expenditure are produced for the following two years as part of its budget documentation (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

5. Predictability and control in budget execution

7. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the city's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while budget users are given quarterly ceilings for expenditure commitment (PI-21). As noted in paragraph 3 above, there are significant expenditure arrears which are the subject of rescheduling agreements (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the city administration appears satisfactory, but there are doubts about the completeness of information, while a large part of procurement seems not to be subject to competition (PI-24). Internal control arrangements have been improved following the SAI audit of 2016 (PI-25), but internal audit only began to operate early in 2018 (PI-26).

6. Accounting and reporting

8. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory and in full compliance with national requirements, but tangible assets are not covered in financial statements (as would be required for an A score for PI-29.1) (PIs 28 and 29).

7. External scrutiny and audit

9. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years, a limited financial audit is undertaken by a commercial audit firm. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, as happened in 2017 following a very critical report on 2016, but other audits have not given rise to significant findings. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

B. Effectiveness of the internal control framework

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

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

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

13. Internal controls in the city administration appear to work satisfactorily following recent changes, but internal audit only began to operate in early 2018. External audit by the SAI for 2016 has resulted in significant improvements in the city's financial management. Monitoring the performance of service delivery is still in process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018.

C. PFM strengths and weaknesses

Aggregate financial discipline

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

Strategic allocation of resources

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

Efficient use of resources for service delivery

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

Performance changes since 2015

17. Vranje was already ahead of other SNGs in 2015 in developing medium-term fiscal planning. Problems (including the existence of substantial expenditure arrears) were encountered in budgetary and financial management in 2016, which resulted initially in a draft adverse audit report by the SAI. Financial statements were corrected, new financial rulebooks adopted, and a start was made in installing budget inspection and internal audit. The deterioration in some of the scores relating to budget reliability seems to be associated with the more difficult fiscal climate resulting from reductions in SNGs' receipts of central funding through tax shares and transfers. More experience has been gained in results-oriented budgeting based on the planning of expenditure by programmes, and commitment controls have been improved. The property tax base has been substantially enlarged, and more effort devoted to collecting the revenue due to the city. Aggregate financial discipline has been restored after the problems encountered in 2016, and a start has been made on performance reporting which should contribute to the efficiency of service delivery. There are ambitious plans for public investment which embody the city's approach to the strategic allocation of resources. The further development of medium-term fiscal planning and the consolidation of internal audit work should over time contribute to both the efficiency of service delivery and the strategic allocation of resources. External audit made a substantial impact on improving financial discipline and control during 2016-18 but is not yet fully established on a regular basis. A bare comparison of Indicator and Dimension scores risks being misleading because of inconsistencies in the application of the criteria as between the 2015 and 2019 assessments, as explained in Annex 4.

Approach to PFM reform

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

19. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Vranje has made progress in all four areas targeted by RELOF, but there remains much scope for improvements in expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Table 1: Summary of scores

PFM Performance Indicator		Scoring method	Dimension score				Overall score
			1	2	3	4	
Pillar 1	Budget reliability						
HLG-1	Transfers from Central Government	M1	A	NA	A		A
PI-1	Aggregate expenditure out-turn	M1	C				C
PI-2	Expenditure composition out-turn	M1	D	D	A		D+
PI-3	Revenue out-turn	M2	D	D			D
Pillar 2	Transparency of public finances						
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	A				A
PI-6	Municipal operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subordinate governments	M2	A	C			B
PI-8	Performance information for service delivery	M2	B	D	A	D	C+
PI-9	Public access to fiscal information	M1	B				B
Pillar 3	Management of assets and liabilities						
PI-10	Fiscal risk reporting	M2	B	A	D		B

PI-11	Public investment management	M2	C	A	B	B	B
PI-12	Public asset management	M2	B	D	D		D+
PI-13	Debt management	M2	A	A	D		B
Pillar 4	Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	NA	C	C		C
PI-15	Fiscal strategy	M2	C	C	D		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	NA	C	NA	D+
PI-17	Budget preparation process	M2	B	A	D		B
PI-18	Legislative scrutiny of budgets	M1	B	A	A	A	B+
Pillar 5	Predictability and control in budget execution						
PI-19	Revenue administration	M2	A	A	B	D	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	B	B	A	B+
PI-22	Expenditure arrears	M1	D	A			D+
PI-23	Payroll controls	M1	B	A	A	A	B+
PI-24	Procurement	M2	D	D	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	A	B	A		A
PI-26	Internal audit	M1	D	B	NA	NA	D+
Pillar 6	Accounting and reporting						
PI-27	Financial data integrity	M2	A	NA	C	B	B
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	B	B	A		B+
Pillar 7	External scrutiny and audit						
PI-30	External audit	M1	D	C	A	C	D+
PI-31	Legislative scrutiny of audit reports	M2	B	C	D	D	D+

Chapter 1: Introduction

1.1 Rationale and purpose

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

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

expenditure commitments, to improve tax administration, to bring in effective internal audit and strengthen external audit, and to ensure effective oversight of public enterprises of all kinds.

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

1.2 Assessment management and quality assurance

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

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

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

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

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organisation

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

- Assessment Team Leader and Team Members: John Wiggins (free-lance expert, UK), Anto Bajo (University of Zagreb, Croatia), Gordana Tisma (free-lance expert, Serbia)

Review of the concept note and/or terms of reference

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

Review of the assessment report

- Date(s) of reviewed draft report(s): April 20, 2020.
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF2), Darko Komnenić (Ministry of Finance), Iva Vasilić (State Audit Institution), Bojan Kosić and Ljubiša Stojanović (City of Vranje)
- Reviewers who provided comments: Ana Jolović and Georgios Chatzigiagkou, RELOF [June 21, 2020] and Thomas Stauffer, SECO [June 26, 2020].

1.3 Assessment methodology

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

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

Chapter 2: Country background information

2.1 Economic performance

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

2. These fiscal improvements are the result of measures designed to both cut expenditures and increase revenues, coupled with favourable external factors, such as declining oil and gas prices, falling interest rates across Europe, and an economic recovery in the EU, which Serbia maintains close ties with through exports and foreign direct investments (FDIs). An increase (of some EUR 700mn) in public revenues between 2015 and 2017 can be ascribed to higher economic growth than had been envisaged under the consolidation programme. The structural increase in public revenues was also promoted by efficient tax collection (which accounted for some EUR 500mn) and measures that targeted the informal economy. The remaining unforeseen increase in public revenues in 2017 (of some EUR 600mn) was the result of a number of special factors. Nearly half of this figure came from unusually high amounts collected in corporation tax, due to greater profitability in the manufacturing sector in 2016. In the same year, indirect taxes made up 40.6 per cent of consolidated public revenues, whilst salaries and pensions accounted for more than half of all public expenditures (51.2 per cent). At 63.2 per cent, the tertiary (services) sector accounted for most of the GDP, followed by industry with 23.5 per cent and agriculture at 12.7 per cent.

Table 2.1: Economic Developments 2015-18

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

*Data for January-august 2018

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

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

¹ Source: www.mfin.gov.rs.

2.2 Fiscal and budgetary trends

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

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

	2015	2016	2017
Central government budget	784 (19.4)	759 (17.8)	784 (17.6)
Pension fund	537 (13.3)	536 (12.6)	537 (12.0)
Other insurance funds	245	242	245
PE Roads	38	60	38
Local government	281 (7.0)	302 (7.1)	317 (7.1)
General government expenditure	1,844 (45.6)	1,900 (44.6)	1,921 (43.0)
% of GDP (% of GGE)			
Central government budget	19.4(42.5)	17.8(40.0)	17.6(40.9)
Pension fund	13.3(29.2)	12.6(28.3)	12.0(27.9)
Other insurance funds	6.1	5.7	5.5
PE Roads	0.9	1.4	0.9
Local government	7.0(15.4)	7.1(16.0)	7.1(16.5)
General government expenditure	45.6	44.5	43.0

Source: Ministry of Finance RS, 2018

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

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

	2015		2016		2017	
	bill RSD	% of GDP	bill RSD	% of GDP	bill RSD	% of GDP
I Total revenue	1,695	41.9	1,843	43.2	1,973	44.2
tax on income	147	3.6	155	3.6	168	3.8
tax on profit	63	1.5	80	1.8	112	2.4
VAT	416	10.3	454	10.6	479	10.7
Excise duties	236	5.8	266	6.2	280	6.3
Custom duties and other tax revenue	56	0.8	61	0.8	66	0.8
tax on property	41	0.9	42	0.9	46	1.0
Social contributions	506	12.5	527	12.4	567	12.7
Non tax revenue	224	5.5	247	5.6	247	5.4
Grants	7	0.2	9	0.2	9	0.2

II Total expenditure	1,844	45.6	1,900	44.5	1,921	43.0
Wages and salaries, etc.	419	10.4	418	9.8	426	9.5
Goods and services	258	7.5	284	8.0	302	8.2
Interest	130	3.2	132	3.1	121	2.7
Subsidies	135	3.3	113	2.7	113	2.5
Social welfare and transfers	710	17.6	717	16.8	720	16.1
Other current expenditures	45	1.1	56	1.3	63	1.4
2. Capital expenditures and net lending	118	2.9	142	3.4	147	3.3
3. Guarantees called	30	0.7	39	0.9	29	0.6
III Deficit/surplus (I-II)	-149	-3.7	-57	-1.3	52	1.2

Source: Ministry of Finance RS, 2018

2.3 Local Government Finance

6. Local government in Serbia is based on Part 7 of the 2006 Constitution, which provides for autonomous provinces, cities and municipalities to have their own self-governing institutions. Detailed provisions are contained in the 2007 Law on Territorial Organisation and Local Self-Government, as subsequently amended. Table 2.4 below gives an overview of the subnational government structure in Serbia, as required by the standard model PEFA Report at sub-national level. According to the Constitution Kosovo and Metohija remain part of Serbia as an autonomous province. In practice, all the statistics and other information in this report exclude Kosovo and Metohija. Serbia, as described here, contains just one autonomous province (Vojvodina), the capital city Belgrade which has a special status, 28 cities and 117 municipalities. Vojvodina directly receives part of the revenue accruing to central government and is guaranteed an amount at least equal to 7 per cent of the central government budget; it is responsible in its territory in Northern Serbia for delivery of the main public services - education, health, communications, strategic planning – which are the responsibility of central government elsewhere in Serbia. Cities and municipalities have essentially the same responsibilities for local infrastructure, urban and land use planning, housing and local amenities, nursery education, and sport, recreation, and culture. Cities generally have a population of around 100,000 and are able to establish subordinate municipalities on parts of their territory which take over some functions which are the responsibility of the city, with financing determined by the city concerned. Municipalities have populations of 60,000 or less (one has less than 2,000). Cities and municipalities may also establish Community Councils in different parts of their territory whose expenditures are met directly from the local government budget. Cities and municipalities in Vojvodina are financed in the same way and at the same level as those elsewhere in Serbia, but the central government element in their revenues accrues through the province.

Table 2.4: Overview of subnational government structure in Serbia

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

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

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

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

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

Source: Ministry of Finance, RS

8. Table 2.6 shows the breakdown of total local government revenue, and Table 2.7 the breakdown of expenditure by the main economic categories. For the local government as a whole, about two thirds of revenue are determined by the central government (share of income tax and central government transfers), with the remaining third accruing from property tax and non-tax revenues. More economically advanced local governments are mainly dependent on tax revenues, while the less advanced are heavily reliant on general fiscal transfers. Tax revenues account for about 55% of revenues, government transfers 23%, non-tax revenues 21% and grants the rest. Most transfers are general, i.e., to be spent at the discretion of the recipient local government, but a minority are targeted by central government Ministries to be spent for particular purposes – mainly public investment projects. The distribution of general transfers is based on a formula in which population size has 65 per cent of the weighting and geographical area 19 per cent, with the remainder dependent on school class numbers and the number of children needing protection; local governments receiving less than 90 per cent of the average tax revenue per head of population qualify for additional compensatory transfers.

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

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

Source: Ministry of Finance RS, 2018

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

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

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

Source: Ministry of Finance RS, 2018

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

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

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

2.4. Legal and Regulatory arrangements for PFM

11. **The Law on Local Self-Government²** provides for local populations to manage affairs of direct, shared, and common interest through freely elected representatives; it provides for local authorities to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. In the exercise of its rights and the discharge of its duties in connection with meeting the needs of the local population, **a local authority may establish enterprises, institutions, and other organisations that provide public services**, as envisaged by Law and its articles of association. Much of service delivery – road maintenance, street cleaning, minor

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

construction, etc. – is carried out by corporatized entities owned by local authorities. Until recently authorities retained discretion to have some of this work done directly by municipal administrations. However, the central government required that as from 1 December 2016 all such work should be assigned to utility companies. As noted in paragraph 6 above, in order to meet the general, shared, and day-to-day needs of particular local populations, local authorities may establish **local community councils** or other sub-local governments. **Local authorities perform the following duties** through their bodies as envisaged by the Constitution and Law:

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

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

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

14. In the period 2014-2018, the priority was on fiscal consolidation and rationalisation, and thus the ultimate goal of the Government of Serbia to establish the strategic framework for decentralisation and deconcentration did not materialise³. The Ministry of Public Administration and Local Self-

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

Government (MPALSG) recognises the need for strategic planning of further reform of the local self-government system and the process of decentralisation in the context of a Decentralisation Strategy or a programme of reform of local self-government⁴. It remains to be seen whether the MPALSG will manage to effectively engage and/or lead in strategic planning of decentralisation efforts, co-ordinate ministries, and supervise the transfer of new functions and the required financial arrangements onto the local level.

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

16. Serbia operates a decentralised **public procurement system**; public procurement rules are governed by the Public Procurement Law⁵. Local authorities pursue procurement procedures independently but must notify the central-level Public Procurement Office of all tenders advertised and contracts awarded. In 2017, local authorities and their wholly-owned companies together accounted for one-third of the aggregate value of public procurement in Serbia (17 per cent was spent by public utility companies, whilst town/city and municipal administrations spent 15 per cent).

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

18. Cities/towns and municipalities may **borrow** in the financial market, subject to approval by MoF. Local authorities may freely compare offers available in the market and choose either to borrow from banks or issue municipal bonds. The Public Debt Law⁷ prevents local authorities from issuing guarantees. This piece of legislation stipulates that borrowing decisions are made by the appropriate body of the local government. Local authorities may borrow in Serbia or abroad. Short-term borrowing is permitted only to finance temporary liquidity issues, whilst capital projects require long-term borrowing. The legal framework imposes some restrictions on borrowing by local governments: short-term borrowing to overcome current liquidity constraints may not exceed 5 per cent of aggregate local

⁴ *ibid*

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

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

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

revenue for the preceding year; local authorities may not incur short-term debt to finance capital investments; total long-term debt may not exceed 50 per cent of total current revenue in previous year, excepting where the repayment period for such long-term borrowing is greater than five years; aggregate costs associated with long-term capital borrowing may not exceed 15 per cent of aggregate local revenue for the preceding year, excepting where two-thirds of the current revenue surplus amount to more than 15 per cent of such aggregate revenue. Under Serbian Law, the central government (through the Ministry of Finance) is able to grant or withhold permission for borrowing by local authorities and so exercises control over this process.

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

City/municipality background information

2.5 General information

20. Vranje is a town in the south of the Republic of Serbia. It is the administrative, cultural and economic centre of the Pčinja district. The territory of the city of Vranje occupies an area of 860 km² and consists of a total of 105 settlements. According to the data from 2015, there were 81,986 inhabitants in Vranje (72,856 in the city of Vranje and 9,130 in the city subordinate municipality of Vranjska Banja). Vranje is the best-known industrial centre of the south of Serbia serving both domestic and export markets. Apart from agriculture, the main industries are wood processing, clothing and footwear, furniture, food and drink processing, textiles, chemicals, construction, machinery and equipment, and business services. Economic data show that employment and incomes were rising during the period 2016-18, while unemployment fell substantially (see Table 2.16 below).

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the city's share of national taxes and general transfers from central government, together with the city's own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of city property. While the city's development strategy may, in the long run, add to tax revenues accruing from central government, in the short run increases in revenue are most readily achieved by increasing the efficiency of property tax collection. Table 2.8 shows the overall fiscal balance for each of the years 2015-17, Table 2.9 provides details of revenue, and Tables 2.10 and 2.11

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

show functional and economic analyses of expenditure. Revenue figures in all cases exclude the proceeds of new loans, and expenditure figures in all cases exclude capital repayments.

Table 2.8: Fiscal Balance 2015-17

RSD thousands

	2015	2016	2017
Total revenue	2,161,920	2,278,935	2,324,373
Total expenditure	2,193,365	2,301,653	2,475,645
Fiscal balance	-31,445	-22,718	- 151,272

Source: Vranje Finance Dept.

Table 2.9: City Revenues 2015-17

RSD thousands

	2015	2016	2017
Income & profits taxes	842,345	921,511	1,007,586
Property tax	154,075	193,772	150,180
Goods & servs. tax	74,974	86,815	76,146
Trade name fee	52,468	67,694	56,845
CG transfers	472,888	629,393	631,751
External grants	-	-	46,058
Property revenue	234,673	146,084	128,434
Goods & servs. sales	24,981	25,018	134,070
Administrative fees	40,888	33,902	94,261
Fines	30,473	14,761	15,304
Other revenue	233,046	157,927	10,802
Asset sales	1,109	1,838	18,993
Total revenue	2,161,920	2,278,715	2,370,430

Source: Vranje Finance Dept.

22. Table 2.9 shows the great importance of the city's share of income tax and other revenue collected by central government, which accounts for about 40 per cent of total revenue. Transfers from central government provide around a quarter of total revenue. The remaining third of total revenue comes from revenue sources under the city's control – property tax and trade name fee (12-15 per cent), revenues from the use of property, sales of goods and services and miscellaneous sources.

Table 2.10: Functional analysis of expenditure 2016-17 (RSD thousands)

Function	2015	2016	2017
General public services	478,784	482,156	599,803
Defence	9,345	31,355	1,122
Public order and safety	19,855	49,520	10,782
Economic affairs	375,124	384,249	351,066
Environment protection	82,085	38,209	69,526
Housing, amenities	290,053	324,882	275,132
Health	10,110	13,640	48,147
Sport, recreation, culture	313,777	334,426	330,249
Education	449,627	482,359	617,701
Social protection	146,833	140,694	154,875
Total expenditure	2,175,593	2,281,490	2,457,803

Source: Vranje Finance Dept

23. The figures in table 2.10 exclude debt repayments and interest payments, which have been deducted from the city's figures for General Public Services. It appears that significant changes in

spending on some functions from one year to the next are to a large extent the result in changes in the pattern of investment.

Table 2.11: Economic breakdown of expenditure 2015-17

RSD thousands

	2015	2016	2017
Employment costs	677,962	679,665	670,900
Goods & services	454,679	467,869	499,558
Interest paid	17,772	20,163	17,842
Subsidies	49,881	27,455	38,536
Transfers to comm. cs	312,978	334,742	353,712
Other expenditures	174,096	220,465	360,102
Social benefits	42,376	42,378	50,510
Capital expenditure	463,625	508,916	484,485
Total	2,193,369	2,301,653	2,475,645

Source: Vranje Finance Dept.

24. As Table 2.11 shows, most economic categories of expenditure were relatively stable throughout 2015-17. Transfers to subordinate authorities increased somewhat, while the large increase in other expenditures reflected some exceptional legal costs.

2.7 City organisation

25. The city has one subordinate municipality (Vranjska Banja) and 52 local communities (43 communities belong to the City and 9 to of Vranjska Banja). Local communities are established to meet the needs and interests of the local population in urban settlements and rural areas. They have the status of indirect budget users. The city has established 12 subordinate institutions, which are indirect budget beneficiaries: the numbers employed and revenue and expenditure in 2017 are shown in Tables 2.12 and 2.13 below. The direct budget beneficiaries are: The City Assembly, the Mayor, the City Council, the City Administration, and the City Public Attorney. Chart 1 below shows the structure of the city organization.

26. Six public companies with 540 employees have been established in the city. Information about numbers employed, assets, revenue and expenditure are shown in Tables 2.14 and 2.15 below. These are two public utility companies (PUC) and four public companies (PC). PUC "Komrad" carries out cleaning and maintenance of public infrastructure, parks and gardens, communal funeral services, and winter service of pavements and sidewalks, and operates the regional landfill for waste disposal. PUC "Parking service" provides parking and control services, and maintenance of public lighting in the city. PC "Vodovod" is in charge of maintenance of drainage, management of roads and supply of drinking water. PC "Novi dom" provides district heating and undertakes small-scale construction works only for the needs of the city. PC "Urbanism Institute" is in charge of preparing development projects for the city, zoning of space, and urban planning documents; it may also participate in tenders outside of the city. Public Company "Spa Management" is owned by the municipality of Vranjska Banja and provides, cleaning, maintenance, and district heating services.

Representative body

27. The City Assembly has the ultimate responsibility for the functions of the local government in Vranje. The Assembly consists of 65 councillors elected for 4-year terms on party lists. It elects its President and Deputy President and appoints its Secretary. The Assembly enacts its Statute and Rules of Procedure, adopts the annual budget and subsequent final accounts, and determines the rates and other conditions of municipal taxes and fees, including fees for land development and construction. It adopts the city development program, including urban planning and land use. The Assembly has

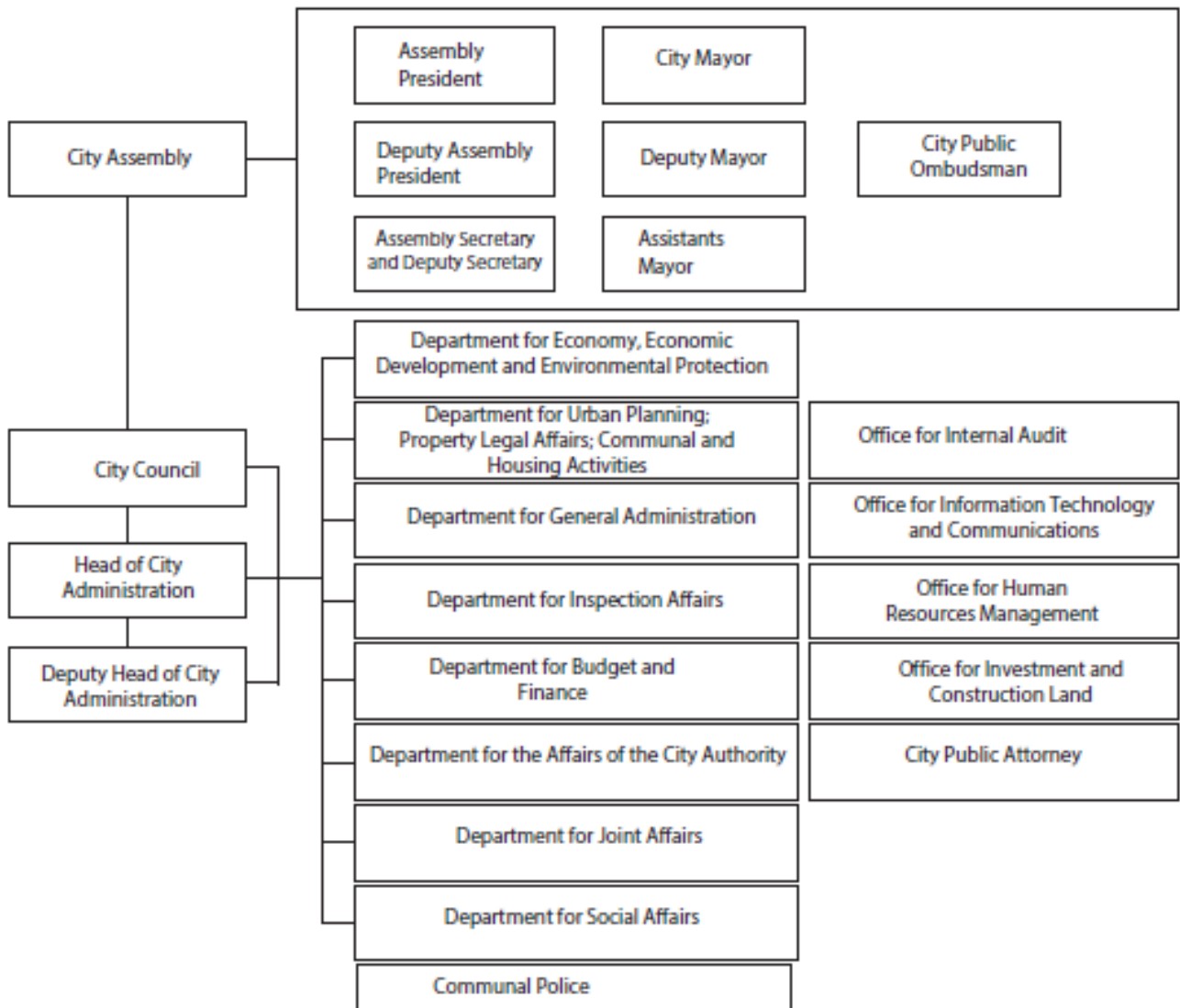
ultimate authority over the activities and staffing of the services, public enterprises, institutions and organizations established in accordance with the City Statute. It appoints the Mayor, Deputy Mayor and members of the City Council. It also appoints the city public attorney and deputy city public attorney, and the city ombudsman.

Management

28. The city's executive bodies are the Mayor and the City Council. The mayor has a deputy. Article 83 of the Statute of the City of Vranje stipulates that in the City Administration five deputy mayors may be appointed for certain areas within the competence of the city. The Mayor represents the City, prepares proposals for decisions to be submitted by the Council to the City Assembly, supervises the execution of the budget, directs and coordinates the work of the City Administration, and takes decisions, which are within the powers given to him in accordance with the City Statute. The Mayor approves the number and structure of employees in institutions financed from the City budget and the number and structure of employees and other persons engaged in the implementation of the program of users of the City Budget. The Mayor may establish expert advisory bodies for particular affairs within his competence.

29. The City Council consists of the Mayor, Deputy and 11 members. The City Council submits proposals for the Statute, the annual budget and other matters requiring the approval of Assembly and supervises their execution by the City Administration. The Council may decide on temporary financing, in case the Assembly does not pass a budget before the beginning of the fiscal year.

Chart 1: Inner organisation of City Vranje



City administration and administrative departments

30. For the performance of tasks of local self-government, a single City Administration has been formed, consisting of the following departments for: Economy, Economic Development and Environmental Protection; Urban Planning, Property Legal Affairs, and Communal and Housing Activities; General Administration; Inspection affairs; Communal Police; Budget and Finance; City Authority Affairs; Joint Affairs; and Social Affairs. There are also four offices. These are: Internal Audit; Information Technology and Communications; Human Resources Management, and Investment and Investment and Construction Land.

Table 2.12: City of Vranje: Public Institutions ownership and employees in 2017

	Public institutions	Function	% of LGU ownership	No. of employees
1	Centar za razvoj lokalnih usluga socijalne zaštite	Social protection	50	26
2	Pozorište "Bora Stanković"	Theatre	100	21
3	Regionalni centar za talente	Regional centre for talents	50	3
4	Predškolska ustanova "Naše dete"	Preschool education	100	272
5	Centar za socijalni rad	Welfare	100	15
6	Sportska hala	Sport hall	100	13
7	Turistička organizacija	Tourist organisation	100	28
8	Javna biblioteka "Bora Stanković"	Library	100	25
9	Narodni Muzej	Museum	100	12
10	Istorijski Arhiv	Culture - Archive	100	18
11	Narodni univerzitet	National University	100	10
12	Škola animiranog filma	School of animated movies	100	7

Table 2.13: City of Vranje: Public Institutions financing in 2017

	Public institutions	Function	Revenue other than from city budget	Total revenues from the budget	Total revenues	Budget revenue as % of total revenues
1	Centar za razvoj lokalnih usluga socijalne zaštite	Social protection	3.673.000	53.663.000	57.336.000	94
2	Pozorište "Bora Stanković"	Theatre	5.593.000	29.451.000	35.044.000	84
3	Regionalni centar za talente	Regional centre for talents	165.000	5.641.000	5.806.000	97
4	Predškolska ustanova "Naše dete"	Preschool education	0	349.170.000	349.170.000	100
5	Centar za socijalni rad	Welfare	0	37.345.000	37.345.000	100
6	Sportska hala	Sport hall	2.170.000	6.500.000	8.670.000	80
7	Turistička organizacija	Tourist organisation	8.144.000	58.729.000	67.473.000	87
8	Javna biblioteka "Bora Stanković"	Library	959.000	33.230.000	34.189.000	97
9	Narodni Muzej	Museum	215.000	23.329.000	23.544.000	99

10	Istorijski Arhiv	Culture - Archive	3.142.000	25.433.000	28.575.000	89
11	Narodni univerzitet	National University	6.907.000	12.508.000	19.415.000	64
12	Škola animiranog filma	School of animated movies	1.122.000	8.137.000	9.259.000	88

Table 2.14: City of Vranje: Public companies' ownership, employees and assets value in 2017

	Public companies	% of ownership	No. of employees	Assets value in RSD
1	PC "Vodovod" Vranje/water supply	100	219	4.804.910.000
2	PUC "Komrad" Vranje/maintenance public spaces, gravery, regional depo for garbage	100	216	70.990
3	PC "Novi dom" Vranje/heating, small construction and maintenance	100	36	5.404.000
4	PC "Zavod za urbanizam" Vranje /Urban planning and development	100	13	31.000
5	PC "Uprava banje "Vranjska banja/maintenance, cleaning, heating	100	12	183.894.000
6	PUC "Parking servis"	100	44	14.500.000

Table 2.15: City of Vranje: Public companies' financing in 2017

	Public companies	Public companies revenue without budget revenues	Total public companies revenues from the budget	Total	Budget revenue as % of total revenues
1	PC "Vodovod"	517.403.623,00	28.665.557	546.069.180	5,5
2	PUC "Komrad"	252.467.922,00	28.768.078	281.236.000	10,2
3	PC "Novi dom"	119.077.733,00	72.969.338	192.047.071	37
4	PC "Zavod za urbanizam"	2.368.264,00	16.881.208	19.249.472	87
5	PC "Uprava banje "Vranjska banja	5.684.000,00	18.974.905	24.659.305	77
6	PUC "Parking servis"	44.850.058,00	1.731.935	46.581.993	3,7

Table 2.16: Key economic indicators for City of Vranje

Economic Indicator	Value			
	2015	2016	2017	2018
Number of Companies	897	943	970	990

Total number of employed	19,540	19,228	19,459	20,074
Total number of unemployed	8,801	8,174	7,028	5,512
Average net income (in RSD)	33,156	37,706	38,982	42,356

Vranjska banja

The subordinate municipality was established in 2011, through a Statute enacted by the Assembly of the City of Vranje. It is made up of 21 settlements and has 9 community councils. Its organisation mirrors that of Vranje City, with an Assembly, Council and municipal President elected or appointed for four-year terms, and a permanent administration. Its financing is determined by Vranje City: for 2018 it received 2 per cent of income tax on wages accruing to the City, 1.5 per cent on property and other income taxes, and a General Transfer of 80 million RSD. It also receives utility and other fees and charges accruing in its area. It administers its own affairs in accordance with its Statute directly through its account in the Treasury Single Account, subject to the requirement for its budget to be approved by the City and for a quarterly report to the City Mayor. The statistics in this report cover the consolidated position of the City and its subordinate municipality.

Chapter 3: Assessment of PFM performance

Pillar 1 Budget reliability

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

HLG-1 Transfers from central government

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

HLG-1.1 Out-turn of transfers from central government

The three main streams of revenue accruing from central government are shown in Table 3.1 below. Cities receive 77 per cent of personal income tax paid by their residents (the share was reduced from 80 per cent in [2016]). They also receive shares of receipts on capital transfers. Amounts are paid throughout the year as funds are received by central government. General transfers are based on a formula designed to enable comparable levels of service to be provided throughout the country and may be spent at the city's discretion; they are paid in twelve equal instalments. Targeted transfers may be spent only on the purposes for which they have been provided – generally specific investment projects. Targeted transfers are never notified until well after the beginning of each fiscal year; thus, they can only be taken into account with certainty in budget-setting where a project extends beyond the first year and funds have been committed by central government for the second year.

Table 3.1: Transfers from central government

RSD thousands

	2015 Budget	2015 Out-turn	2016 Budget	2016 Out-turn	2017 Budget	2017 Out-turn
Share of income tax, etc.	949,561	842,345	928,250	921,511	1,014,650	1,007,586
General transfers	397,630	442,631	397,631	497,631	544,820	597,631
Targeted transfers	10,000	30,257	51,640	131,763	192,739	34,121
Total transfers	407,630	472,888	449,271	629,393	737,559	631,751

Total transfers & tax	1,357,191	1,315,233	1,377,521	1,550,904	1,752,209	1,639,338
Out-turn as % of budget		96.9%		112.5%		93.5%

Source: Vranje Finance Dept.

Since transfers in two of the three years were more than 95 per cent of the amount originally budgeted, score is A.

HLG-1.2 Earmarked grants out-turn

As noted above, municipalities must bid after the beginning of each fiscal year for new targeted grants. If they are successful, the budget Law permits the additional amounts to be spent without any need for a budget revision. Other municipalities in the sample allowed nothing in their original budgets for new targeted grants. For Vranje there was no functional breakdown of the amounts of targeted transfers assumed in the original budgets. Since there is no satisfactory basis for measuring differences between budget and out-turn, this dimension is Not Applicable.

HLG-1.3 Timeliness of transfers from central government

Funds are received from central government in a steady and predictable stream through the year. General transfers are paid in 12 equal instalments, while tax revenue is transferred daily as it is received by central government. The timing of payment of targeted transfers is determined when the amounts are notified to the municipalities concerned. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
HLG-1(M1)	A	
1.1 Transfers from Central Govt (CG)	A	Transfers were more than 95% of budget in 2 of 3 years
1.2 Conditional transfers out-turn	NA	SNGs have very little information about transfers at time of budget enactment.
1.3 Timeliness of transfers from CG	A	Transfers are paid in a steady and predictable stream

PI-1 Aggregate expenditure out-turn

The score for this PI is based on the aggregate differences between originally budgeted total expenditure and actual out-turns over a three-year period. These are shown in Table 3.2 below.

Table 3.2 Budgeted and actual expenditure 2015-17 (RSD thousands)

	Budget 2015	Out-turn 2015	Budget 2016	Out-turn 2016	Budget 2017	Out-turn 2017
Total expenditure	2,466,390	2,193,365	2,470,872	2,301,653	2,899,302	2,475,645
Out-turn as % of original budget		88.9%		93.2%		85.4%
Less interest paid	22,500	17,772	16,450	20,163	22,500	17,842
Total excluding interest	2,443,890	2,175,593	2,454,422	2,281,490	2,876,802	2,457,803
Out-turn as % of original budget		89.0%		93.0%		85.4%

Since out-turn was within the range 85% - 115% of original budget in all three years 2015-17, score is C.

PI-2 Expenditure composition out-turn

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

2.1 Expenditure composition out-turn by function

Details of expenditure by function are shown in Annex 5. The calculated variances were 15.5 per cent, 12.8 per cent and 23.2 per cent for the three years 2015-17 respectively. Changes in relative shares of expenditure as between budget and out-turn were widely distributed among the functions, although in all three years there was a very substantial fall in the share taken by Economic Affairs which was responsible for about half the variance in 2015 and a quarter in the other two years. The relative share of Housing also fell sharply in 2017. These shortfalls appear to reflect the city's inability to implement all its planned investments. Because the calculated variance exceeded 15 per cent in two of the three years, the score is D.

2.2 Expenditure composition out-turn by economic type

Expenditure charged to a contingency reserve is excluded from consideration for this Dimension. (Debt repayments are also excluded). Details are shown in Annex 5. The variance is calculated in the same way as for the functional allocation. The calculated variances were 16.9 per cent, 23.9 per cent and 23.3 per cent for the years 2015-17 respectively. Capital investment fell substantially short of budget in all three years, while the share of "other expenditure" increased both relatively and absolutely. Because the variance exceeded 15 per cent in all three years, the score is D.

2.3 Expenditure from contingency reserves

An A score is given for this dimension if expenditure charged to a contingency reserve was on average less than 3 per cent of the original budget. Although reserves of 14 million RSD, 40 million RSD and 25 million RSD were included in the three budgets for 2015-17 respectively, no expenditure was charged to the reserve in any of the three years. Score is therefore A.

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

PI-3 Revenue out-turn

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

3.1 Aggregate revenue out-turn

Actual revenue collected amounted to 98.8 per cent, 82.6 per cent and 79.3 per cent of budget for the three years 2015-17. Since collections were outside the range 92-116 per cent of budget in 2016 and 2017, score is D. Details are shown in Annex 5 below.

3.2 Revenue composition out-turn

The relatively good performance of own revenue in 2015 resulted from property and other income substantially exceeding budget, almost offsetting shortfalls in property tax and other revenues. While tax revenues performed relatively well in 2016, the benefits were far more than offset by shortfalls on other revenue and expected receipts from asset sales. The 2017 shortfall resulted from lower receipts of property tax, asset sales and other revenue; lower property income was largely offset by higher current sales of goods and services. The calculated variances were 28.4 per cent, 37.6 per cent and 37.4 per cent in the three years 2015-17 respectively. Because the variance exceeded 15 per cent in all three years, the score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-3 (M2)	D	
3.1 Aggregate revenue out-turn	D	Revenue fell below 92% of budget in 2 of 3 years 2015-17
3.2 Revenue composition out-turn	D	Variance exceeded 15% in all 3 years

Pillar 2: Transparency of public finances

This Pillar contains six Performance Indicators. PI-4 assesses the extent to which the classifications of revenue and expenditure in budget and out-turn statements meet international standards. PI-5 assesses the comprehensiveness of information provided to the municipal Assembly together with the budget proposals for the following year. PI-6 measures the extent to which revenue and expenditure controlled by the municipality are reported municipal financial reports. PI-7 assesses the transparency and timeliness of transfers from a higher to a lower level of government. PI-8 reviews the extent of performance information for service delivery. PI-9 assesses the comprehensiveness of fiscal information available to the general public.

PI-4 Budget formulation, execution and reporting

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

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

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

PI-5 Budget Documentation

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

Basic elements:

1. Forecast of fiscal deficit/surplus: Yes
2. Previous year's budget out-turn in the same format as budget proposal (i.e., 2016 for 2018 proposed budget): Yes
3. Current year's budget (i.e., 2017 for 2018 budget proposal): Yes
4. Aggregated budget data for revenue and expenditure broken down by main classification heads (administrative, economic, functional, programme/activities) for 2016 out-turn, 2017 revised budget and 2018 proposals: Yes

Additional elements:

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

All information are provided on the official website of City of Vranje for each year starting from 2011 (<http://www.vranje.org.rs/dokumenta.php?id=9184>) and in the City of Vranje Official Gazette (<http://www.vranje.org.rs/dokumenta.php?id=8459>).

Because all 4 basic elements satisfied, together with 4 additional elements, and 2 others of these are NA, score is A.

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

All expenditure under the control of the city, including expenditure financed from own revenue collected by indirect budget beneficiaries (e.g., kindergarten schools and cultural organisations) is included in the city budget. (The main health and education services, which typically collect significant revenues from users, are the responsibility of central government.) There are no extra-budgetary units. The city's corporate enterprises are considered under PI-10.1 below. Score A.

6.2 Revenue outside financial reports

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

6.3 Financial reports of extrabudgetary units

There are no extra-budgetary units. Score: NA

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

PI-7 Transfers to subnational governments

Most Serbian SNGs have a network of Community Councils representing different geographical areas. These may be given allocations of budgetary funds to be spent on infrastructure or other purposes within their neighbourhoods. In these cases, all transactions pass through the City's account in the Single Treasury Account under the control of the city finance department. However, there is provision for cities to establish subordinate municipalities which directly manage their affairs through the STA. Vranje has one such subsidiary municipality, Vranjska Banja, established in 2011. Section V of the city's Statute allocates powers and responsibilities for local services within its territory to the subordinate municipality, which has its own Assembly and administration. Consolidated annual financial statements covering both the city of Vranje and the subordinate municipality of Vranjska Banja must be submitted to MoF by 1 July.

7.1 System for allocating transfers

Vranje has adopted a city ordinance which allocates to Vranjska Banja for 2018 certain local revenue streams (e.g., trade name fee, fee for the use of public space), specified shares (1.5-2.0%) of income tax revenue, and a general transfer of 80,000 RSD. Since the basis for these allocations is wholly transparent, score is A.

7.2 Timeliness of information on transfers

The amount of the annual allocations is set annually, once the city's allocations from CG have been determined, as part of the city's budget process. This normally takes place in mid-December, so that Vranjska Banja has only a short time to finalise its own budget before the beginning of the fiscal year. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-7 (M2)	B	
7.1 System for allocating transfers	A	The allocation of all transfers is transparent and rules-based.
7.2 Timeliness of information on transfers	C	The amount of transfers is only notified less than two weeks before the beginning of the fiscal year.

PI-8 Performance information for service delivery (M2)

8.1 Performance plans for service delivery

Since the introduction of Programme Budgeting in 2015 budget proposals include objectives to be achieved by each programme specified as performance indicators. All expenditure has to be fitted within 17 programmes specified by MoF, which do not always correspond to local circumstances. Objectives are for the most part defined in terms of outputs rather than outcomes. Thus, the information is published for most budgetary units and subordinate institutions but does not include information on the outcome level. Score B.

8.2 Performance achieved for service delivery

Performance reports for 2017 and the first half of 2018 were submitted to MoF by 1 September. The performance report for 2017 was not published. Although beyond of the scope of this assessment, we should point out that Vranje has published performance reports starting from the 2018 budget on the city's webpage (<http://www.vranje.org.rs/dokumenta.php?id=10948>). The reports contain information on the quantity of outputs for each programme, including information on indicator, baseline, target and achieved result in the relevant year. Score D.

8.3 Resources received by service delivery units

Indirect budget beneficiaries' (kindergarten schools, libraries, cultural centres) resources are fully reported in budgets and execution statements. Quarterly and annual reports are made to the city administration by each of these bodies. The national Treasury system where all transactions are recorded makes it possible to identify all resources received by each institution. Score A.

8.4 Performance evaluation for service delivery

Evaluations of the efficiency or effectiveness of service delivery have not been carried out within the last three years either internally within the city administration or by any independent body. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-8 (M2)	C+	
8.1 Performance plans for service delivery	B	Programme objectives and targets in terms of outputs are included in budget documentation.
8.2 Performance achieved for service delivery	D	Performance reports were made to MoF for the first time in September 2018, but these have not yet been published.
8.3 Resources received by service delivery units	A	Full information is available about resources received by nursery schools, cultural institutions, etc.
8.4 Performance evaluation for service delivery	D	There have been no evaluations.

PI-9 Public access to fiscal information

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

Basic information

1. Annual budget proposal documentation: only published after approval by Assembly – No (but 2019 budget proposal is published when submitted to the Assembly)
2. Enacted budget: published immediately on city website – Yes
3. In-year budget execution reports: published monthly and in detail at half year and 9 months – Yes
4. Annual budget execution report: published by 30 June – Yes
5. Audited annual financial report: budget execution report includes auditor's report in years when City is not audited by SAI. When there is an audit by SAI audited report is available within 12 months of year-end – Yes

Additional elements

6. Prebudget statement: not issued – No
7. Other external audit reports: there are none – NA

8. Summary of budget proposal - Yes (published on city website <http://www.vranje.org.rs/dokumenta>)

9. Macroeconomic forecasts: not relevant at LG level – NA

Public can access all relevant information on the city's official webpage <http://www.vranje.org.rs/dokumenta.php?id=9184>.

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

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

Pillar 3: Management of assets and liabilities

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

PI-10 Fiscal risk reporting (M2)

10.1 Monitoring of public corporations

Vranje's six City-Owned Enterprises (COEs) make quarterly and annual financial reports to the Council and the Assembly. They are incorporated under the Company Act and registered in the Serbian Business Register. The Assembly formally approves the audited annual financial statements before the end of June each year. These are made in the format required for public corporations, including revenue, expenditure, financial and non-financial assets, liabilities, guarantees and long-term obligations, and the reports are published on the Serbian Business Register database (www.apr.gov.rs). Consolidated quarterly and annual reports are submitted to the Ministry of Economy, but no consolidated overview has been published. Score B.

10.2 Monitoring of subnational governments

The city receives monthly, quarterly, and annual reports of Vranjska Banja's operations through the Treasury. Audited annual financial statements for Vranjska Banja are published within nine months and Vranje prepares consolidated report annually. Score A.

10.3 Contingent liabilities and other fiscal risks

Vranje has entered into one PPP for the replacement and subsequent maintenance of its mercury vapour public lighting. The costs under the PPP were said to be lower than continuing the previous arrangement whereby the full costs of lighting maintenance were borne directly through a COE. No formal guarantees are given for COE borrowing, but the City could not avoid liability for risks from COE operations like those arising from its water system, including dams and pipes; such risks fall to be considered under PI-10.1 above. No information has been published about the City's exposure to contingent liabilities and other fiscal risks, including possible currency risks on its significant volume of outstanding loans. Currency risks could readily involve additional payments exceeding 0.5 per cent of annual budget expenditure. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-10 (M2)	B	
10.1 Monitoring of public corporations	B	Audited annual financial reports are published by end June each year, but no consolidated overview is published.

10.2 Monitoring of subordinate governments	A	Audited annual financial statements for Vranjska Banja are published within nine months and Vranje prepares consolidated report annually.
10.3 Contingent liabilities and other fiscal risks	D	No reports have been published about the City's exposure to fiscal risks.

PI-11 Public investment management (M2)

11.1 Economic analysis of investment proposals

A recent MoF Order requires the economic appraisal of projects costing more than 0.5m Euro, but the promised software to be used for this purpose has not been provided. In any event very few municipal projects are large enough to fall within the ambit of this Order. Otherwise, there are no applicable national guidelines for the assessment of projects, nor any independent assessment of projects. However, the City has an established development strategy for 2010-20 within which major initiatives – notably the establishment of a duty-free zone to attract manufacturers and the construction of a by-pass road – have been planned. The most important projects, which are to be executed over a period of several years are:

- Reconstruction of local roads – total cost 380.000.000 RSD, equals 16% of 2017 expenditure
- Building the beltway up to freezone – 300.000.000 RSD, equals 13% of 2017 expenditure
- Freezone Vranje infrastructure – 440.000.000 RSD, equals 19% of 2017 expenditure
- Purchasing land for industrial zone Bunusevac – 310.902.000 RSD, equals 13% of 2017 expenditure

Since the city's development strategy already included an assessment of the contribution of these projects to the city's development, it may be concluded that they have been subject to some form of economic analysis. Score: C. If the criteria in the Capital Investment Plan 2018-22 had been published sooner, a higher score would probably have been justified.

11.2 Investment project selection

The city's Capital Investment Plan 2018-22 was approved by the Assembly on 15 December 2017 and published on the official website (<http://www.vranje.org.rs/dokumenta.php?id=118>) The Capital Investment Plan includes the criteria and model for ranking and selection of all capital projects. It also includes the detailed selection process with a calendar, as well as prescribing how citizens should be consulted. Project selection regardless of size is in the hands of the city Council. Score A.

11.3 Investment project costing

The capital costs and any associated current costs of investment projects in the budget year and the two following years are included in budget documentation, although forecasts of the generality of current expenditure have not been published. The full capital costs of each are given. Score B.

11.4 Investment project monitoring

The total cost and physical progress of projects is regularly monitored by the city services. Expert engineers have been recruited to improve the management and execution of investment projects. An annual report on public investment is produced for the Assembly and published. The City also publishes summary information for citizens as part of its monthly budget execution report (<http://www.vranje.org.rs/dokumenta.php?id=11354>).

The Finance and Budget Department and Department for Urbanism, Property Legal Affairs, Communal and Housing Activities, monitor the financial and physical progress of projects and report accordingly to the city Council. The timing of reporting is related to each specific contract. Also, the Capital Investment Plan prescribes that between 1 and 31 March each year the Working Group for Capital Investment Plan prepares information on the status of already approved capital projects, as a part of preparation for the next Capital Investment Plan. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-11 (M2)	B	
11.1 Economic analysis of investment proposals	C	Major investments are planned by reference to the City's development strategy.
11.2 Investment project selection	A	Projects are prioritised by the City Council in accordance with criteria set out in the city's Capital Budget Plan 2018-22 adopted by the Assembly.
11.3 Investment project costing	B	The full capital costs of investment projects are included in budget documentation, together with amounts capital and current, to be spent over the next 3 years.
11.4 Investment project monitoring	B	The costs and physical progress of projects is regularly monitored, and an annual report on public investment is submitted to the Assembly.

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

The City publishes the financial reports of its COEs each year, including balance sheet valuations of all assets at historical cost (but not fair or market value). The Finance Department keeps close track of the city's bank balances. Score B.

12.2 Nonfinancial assets monitoring

The city has recently received details of assets returned to it by central government, but registration of all the City's assets in the national cadastre is incomplete and valuation lacking. The national cadastre is open but there is no consolidated publication of the City's holdings. Since the register is not complete, score is D.

12.3 Transparency of asset disposal

Article 29 of the Law on Public Property (most recently amended in 2016) requires sales of city property to be subject to competitive bids. Budgets and financial reports recognise the possibility of receipts from asset sales, but details of prices and successful tenderers are not published. Asset sales were responsible for 0.8 per cent of total receipts in 2017. Score D.

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

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

As noted in 13.3 below, Vranje has significant outstanding debts which limit its current borrowing. Records kept by the Finance Department are complete, and all details of amounts outstanding,

interest paid, and repayments of principal are reconciled and reported monthly to the city management, with monthly statistical reports to MoF.

The Public Debt Law (Article 37) requires that local governments to submit to the Ministry monthly data by the type of borrowing, interest rate and amount of interest paid, amount of principal repaid, and amount outstanding. Thus, the debt records are complete, accurate, updated and reconciled monthly, and comprehensive management and statistical reports are produced monthly.

Additionally, the information is published annually as a part of Budget Execution Report (for example, http://www.vranje.org.rs/dokumenti/sr/22_9184_odluka_o_završnom_racunu_za_2017.pdf). In the reports, the detailed management and statistical reports are provided for the public, including details per every loan (name of the bank, interest rate, purpose, outstanding amounts, etc.). The 6-month and 9-month budget execution report contain information about debt, but with less details.

According to the regulation (Law on Public Debt, Article 34), the local government cannot issue guarantees. Score A.

13.2 Approval of debt and guarantees

Borrowing, whose management is the exclusive responsibility of the municipal Finance Department, requires consent of MoF and approval of city Assembly. Under the Public Debt Law, the approval of the city Assembly must be obtained before consent for borrowing is sought from the Minister of Finance. Any borrowing by COEs requires the approval of the city Assembly and is included in quarterly reports to CG. SNGs are forbidden to give guarantees. Score A.

13.3 Debt management strategy

The city's debts include significant amounts of expenditure arrears contracted before MoF began enforcing payment within 45 days, which are the subject of rescheduling agreements with suppliers. As a result, Vranje will find its ability to borrow sharply limited for the next several years by the requirement in Article 36 of the Public Debt law that total borrowing must not exceed 50 per cent of the previous year's total revenue. Close track is kept of the scope for borrowing on different assumptions about future revenue and expenditure. But there is no publication of a debt management strategy with target ranges for interest rates, refinancing and foreign currency risks. Score D.

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

Pillar 4: Policy-based fiscal strategy and budgeting

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

PI-14 Macroeconomic and fiscal forecasting (M2)

14.1 Macroeconomic forecasts

Since the city relies on central government forecasts, dimension is Not Applicable.

14.2 Fiscal forecasts

The city prepares forecasts of revenue (by type), expenditure and budget balance for the budget year and the two subsequent years, but these are not published, nor are they submitted to the Assembly. (Only figures for capital investment are published for the two years following the budget year.) Score C.

14.3 Macroeconomic sensitivity analysis

The City explores the impact of possible future fiscal scenarios using a programme supplied several years ago by USAID, but these quantitative analyses are neither published, nor included in the budget documents. They inform the city's analysis of its scope for future borrowing. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-14 (M2)	C	
14.1 Macroeconomic forecasts	NA	The city relies on macroeconomic forecasts supplied by CG.
14.2 Fiscal forecasts	C	Forecasts of revenue, expenditure and budget balance for 3 years ahead are produced, but these are not published.
14.3 Macroeconomic sensitivity analysis	C	Alternative fiscal scenarios are considered internally, but not published.

PI-15 Fiscal strategy (M2)

15.1 Fiscal impact of policy proposals

Budget documentation includes the impact of all new revenue and expenditure decisions on the figures for the budget year only. The proposals reflect intentions about investments to be implemented and property tax rates. Score C.

15.2 Fiscal strategy adoption

The city has ambitious plans for its economic development and has a substantial investment programme, some of which it would be ready to finance by borrowing if it were able to do so. But as explained in PI-13.3 above its ability to borrow is constrained by the government ceiling. It uses its econometric projection model (see PI-14.3 above) to assess its maximum expenditure possibilities each year in order to implement its investment programme as quickly as possible, and is also seeking so far as possible to expand its revenue base (see PI-19.3 below). This amounts to a fiscal strategy with quantified objectives, but the numbers have not yet been published or submitted to the Assembly. Score C.

15.3 Reporting on fiscal outcomes

No reports have been produced of progress against the fiscal strategy. Score D

Indicator/Dimension	2018 score	Justification for 2018 score
PI-15 (M2)	D+	
15.1 Fiscal impact of policy proposals	C	Budget documentation includes fiscal impact of all changes in revenue and expenditure for the budget year only.
15.2 Fiscal strategy adoption	C	The city administration has prepared a fiscal strategy with quantified objectives, but this has not been published or submitted to the Assembly.

15.3 Reporting on fiscal outcomes	D	No reports have been made of progress against the fiscal strategy.
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PI-16 Medium-term perspective in expenditure budgeting (M2)

16.1 Medium-term expenditure estimates

The budget as presented provides estimates of capital expenditure only, for the budget year and the two following years. Score D.

16.2 Medium-term expenditure ceilings

There is no question of ceilings being set for total expenditure beyond the budget year. Score NA.

16.3 Alignment of strategic plans and medium-term budgets

Some programmes are linked to the City's development strategy which covers all city operations (see PI-11.2). Score C.

16.4 Consistency of budgets with previous year's estimates

There are no medium-term estimates in budget documents which would provide a basis for comparisons from one year to the next. Three year forecasts have not been published. Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-16 (M2)	D+	
16.1 Medium-term expenditure estimates	D	Medium-term estimates cover only capital expenditure.
16.2 Medium-term expenditure ceilings	NA	There has been no question of setting ceilings for expenditure beyond the budget year.
16.3 Alignment of strategic plans and medium-term budgets	C	There are some links between the City's strategic development plan and annual budgets.
16.4 Consistency of budgets with previous year's estimates	NA	There are no medium-term estimates in budget documents which would provide a basis for comparisons from one year to the next.

PI-17 Budget preparation process (M2)

17.1 Budget calendar

There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the city. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September. MoF Guidance on economic assumptions about overall GDP growth, inflation and public service pay should be received by August 1. But in practice this has been provided much later – for 2018 budget on 21 November. The City budget circular has thus been issued on time, using the previous year's assumptions. When MoF Guidance is finally received, budget users have to revise their figures within a very short timescale. Since budget users have 4 weeks to provide their submissions after receipt of the circular, score is B.

17.2 Guidance on budget preparation

As stated in 17.1 a budget circular with full instructions to budget users is issued by 1 August each year. This includes budget ceilings for the year immediately ahead for each user, which are set by the Finance Department after consultation with the Council. Score A.

17.3 Budget submission to the Assembly

The budget proposals were submitted to the Assembly on 10 December 2015, 14 December 2016 and 7 December 2017 for the 2016, 2017 and 2018 budgets respectively. Since the Assembly has less than one month each year to consider the proposals, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-17 (M2)	B	
17.1 Budget calendar	B	Although the final MoF Guidance is not received in the required timescale, Budget users are able to complete most of their work on the basis of interim instructions given within the specified timescale.
17.2 Guidance on budget preparation	A	Expenditure ceilings are reviewed by the Council before issue to budget users.
17.3 Budget submission to the Assembly	D	Budget proposals have been submitted to the Assembly less than a month before year-end for the last three budgets.

PI-18 Legislative scrutiny of budgets (M1)

18.1 Scope of budget scrutiny

Since the city has to pay attention to its debt position, the Assembly's discussions cover fiscal policies and aggregates as well as details of revenue and expenditure for the year ahead. But no attention is paid to the medium term. Score B.

18.2 Legislative procedures for budget scrutiny

There are standard procedures followed by the Assembly, which include study by a specialised Committee before the plenary discussion. If the Committee were dissatisfied, the proposals would be referred back to the administration to be reconsidered. Public consultation meetings in advance of submission of the budget proposals to the Assembly were held on 4 December 2015, 8 December 2016, and 29 November 2017 for the 2016, 2017, and 2018 budgets respectively. Score A.

18.3 Timing of budget approval

The Assembly approved the three most recent budgets on 17 December 2015, 20 December 2016, and 15 December 2017, respectively. Score A.

18.4 Rules for budget adjustments by the executive

Virements of up to 10% of the amounts for each activity within a programme can be made subject to approval by the Council. The Assembly has not imposed further restrictions beyond those in the Budget System Law, and there is nothing in Regulations governing budget execution which impose further limits on reallocations. Larger reallocations or reallocations between programmes require a supplementary budget. These limits are respected. Budget revisions by the Assembly have been made only once or twice a year. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-18(M1)	B+	
18.1 Scope of budget scrutiny	B	Assembly reviews fiscal aggregates and revenue and expenditure details for the year ahead, but does not consider the medium-term forecasts.
18.2 Legislative procedures for budget scrutiny	A	Assembly

		Has well-established procedures, including study by a specialised committee. There are also arrangements for public consultation.
18.3 Timing of budget approval	A	The budget has been approved before the beginning of the next fiscal year in each of the last three years.
18.4 Rules for budget adjustments by the executive	A	There are clear rules limiting the extent to which the Council can make budget adjustments without the approval of the Assembly.

Pillar 5: Predictability and control in budget execution

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

PI-19 Revenue administration (M2)

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

19.1 Rights and obligations for revenue measures

Full information is provided by the city Tax Office to domestic and business payers of property tax about the basis on which their liabilities is calculated. The same applies to public utility charges on new constructions, charges for the use of public space and charges for the display of business names. Domestic property tax amounts are notified by the city, but business taxpayers must self-assess using instructions provided. There are public announcements on radio and television reminding people of their obligation to pay property and other taxes, and reminders are sent to people who owe more than 50,000 RSD. Taxpayers can access the amounts they owe on the city's website. Notifications to domestic taxpayers and instructions to businesses make clear that if the city's response to a complaint is not accepted, it may be taken to MoF Regional Office. Score A.

19.2 Revenue risk management

Vranje undertook a major review of its property register, with employment of 16 people for 6 months to undertake the work. As well as inspections on the ground this work also involves drawing on other registers (e.g., those concerned with business registration, property sales and planning permissions). As a result of this an additional 360,000 sq. m. of taxable space has so far been identified, to add to the 1.2m. sq. m. already registered. Taxes in respect of previously concealed property will be enforced from the beginning of 2018, and a 50 per cent overall increase in property tax revenue is expected in 2019. 5 of the 14 permanent staff of the Local Tax Administration (LTA) are assigned to work on the database, with the number of taxpayers increasing from 20,070 in 2016 to 21,997 in 2017. Collection statistics (see 19.4 below) show that the risks associated with property taxes are much greater than those arising from other revenue streams. As noted in 19.3 below, in order to encourage complete and accurate information in declarations, there is an ongoing programme of checks particularly focused on business taxpayers. Timely declaration and payment are encouraged by the provision that full payment by 31 December of all amounts owed for the year entitles a taxpayer to a 10 per cent reduction in payments for the following year. Score A.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. The effort to identify additional taxpayers, the requirement to provide a tax clearance certificate to participate in public procurement, and the willingness to negotiate the rescheduling of payments all represent elements in such a programme. There is an ongoing programme of checks (250 in 2016 and 411 in 2017) particularly directed towards the 240 business taxpayers who are responsible for well over half of property tax revenue. The city confirmed that more than 90 per cent of planned checks in 2017 were actually carried out. An action plan to improve the database of taxpayers, and thereby reinforce compliance was agreed by the Assembly in December 2017. As the data concerning revenue arrears (see 19.4 below) indicate, Vranje is more successful in collecting all revenue due in respect of charges for the display of business names and the use of public space than in respect of property tax. Score B.

19.4 Revenue arrears monitoring

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

Table 3.6: Tax collections and arrears, 2016-17

RSD thousands

	Arrears at 1.1.16	Assessments 2016	Collections 2016	Arrears at 1.1.17	Assessments 2017	Collections 2017	Arrears at 1.1.18
Property tax							
Principal	198,416	179,588	193,684	183,926	179,599	149,912	223,026
Interest	142,260			134,908			166,228
Total	340,676			318,834			389,254
Environment contribution							
Principal	89,943	31,746	43,694	82,564	31,279	31,970	89,780
Interest	49,592			50,369			62,006
Total	139,535			132,933			151,786
Trade name display charge							
Principal	125,103	41,955	67,694	149,874	59,075	56,845	163,059
Interest	113,794			114,345			137,779
Total	238,897			264,219			300,838
Public space usage charge							
Principal	6,740	99,063	101,138	6,461	106,200	103,019	9,477
Interest	2,188			1,799			2,466
Total	8,929			8,260			11,943
Overall							
Principal	420,202	352,352	406,210	422,825	376,153	341,746	485,342
Interest	307,834			301,421			368,479
Total	728,037			724,246			853,821

For a score above D the stock of revenue arrears must not exceed 40 per cent of collections in the previous year, and those over 12 months old must be less than 75 per cent of total arrears. As the figures show, collections exceeded assessments in 2016, as a result of an enforcement campaign, and there was a small reduction in total arrears. As noted in 19.3 above, Vranje appears generally more successful in collecting all the revenue due from the charges for displaying trade name and for using public space than in collecting all the assessed amounts of property tax. The table also shows how

rapidly arrears increase through interest charges on unpaid assessments. The persistence of total amounts outstanding is an indication that only relatively small amounts of arrears at the beginning of each year are collected during that year, although exact information on this point is not available. A large proportion of the arrears must be considered uncollectable, but they cannot readily be written off because of the city's need to maintain its claims against insolvent businesses which may eventually be turned into equity stakes. Since the arrears at the end of 2016 were 178 per cent of collections during the year (when there was a special enforcement campaign), and 250 per cent of collections at the end of 2017, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-19 (M2)	B	
19.1 Rights and obligations for revenue measures	A	A variety of different means are used to notify revenue payers of their obligations.
19.2 Revenue risk management	A	A major campaign is under way to widen the property tax base and improve collection.
19.3 Revenue audit and investigation	B	There is a compliance improvement plan covering the majority of revenues, and audit plans are implemented.
19.4 Revenue arrears monitoring	D	Arrears at end -2017 were 250 per cent of 2017 collections.

PI-20 Accounting for revenue (M1)

20.1 Information on revenue collections

All revenue whether collected by the city Tax Office or received by other city Departments and institutions is paid into the city's account at the MoF-administered TSA. The system collects full details of each receipt. The Finance Department makes a monthly report broken down by revenue type to the Council and MoF. Score A.

20.2 Transfer of revenue collections

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

20.3 Revenue accounts reconciliation

A full monthly reconciliation between city and Treasury records is within four weeks of month-end of assessments, collections, arrears and payments into TSA. Individual taxpayer accounts are updated and reconciled by the Tax Office as payments are received. Score A.

Indicator/ Dimension	2018 score	Justification for 2018 score
PI-20 (M1)	A	
20.1 Information on revenue collections	A	A monthly report is made by the Finance Department to the Council and MoF.
20.2 Transfer of revenue collections	A	All revenue is paid the same day into the city's account in the Treasury Single Account.
20.3 Revenue accounts reconciliation	A	There is a complete monthly reconciliation of assessments, collections, arrears and payments into TSA, and individual taxpayer accounts are updated as revenue is received.

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

21.1 Consolidation of cash balances

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

21.2 Cash forecasting and monitoring

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

21.3 Information on commitment ceilings

The city's Finance Department issues quarterly commitment ceilings to budget users (i.e., the amount they may commit during the following three months) before the beginning of each quarter. Score B.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly once or twice a year with full transparency. There was only one budget revision in 2017 (on November 13). (A revised budget is not needed for the spending of targeted transfers not notified before the beginning of each fiscal year.) Score A.

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

PI-22 Expenditure arrears (M1)

22.1 Stock of expenditure arrears

The city has a significant volume of expenditure arrears, which are subject to rescheduling agreements continuing until 2022. Amounts outstanding exceeded 10 per cent of annual expenditure throughout 2015-17. These arrears were contracted before MoF began to apply sanctions where SNGs failed to pay invoices within 45 days. Contracts must now be registered with the Treasury on signature, and would be rejected if budgetary provision was not available, and invoices are sent direct to the Treasury thereby enabling any new arrears to be identified. Score D.

22.2 Expenditure arrears monitoring

Repayment of the arrears subject to rescheduling is tracked by the Finance Department. The incurrence of new arrears is prevented by the arrangements whereby contractors and suppliers register their invoices directly with the CG Treasury, which suspends transfers of tax revenue if invoices are not paid within the stipulated period. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-22 (M1)	D+	
22.1 Stock of expenditure arrears	D	Arrears of expenditure exceeded 10% of total expenditure throughout 2015-17.

22.2 Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices have to be registered.
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PI-23 Payroll controls (M1)

23.1 Integration of payroll and personnel records

Central government sets an overall ceiling for city employees, including those in COEs. Only the 236 direct employees of the city administration and the 450 working in the city's institutions (see Table 2.12 above) are paid from the city budget on the basis of staff lists approved by the Mayor. Personnel and payroll records are not directly linked, but all changes in personnel records are subject to close control, and no changes are made to the Administration payroll unless authorised by HR management at senior level. Indirect budget beneficiaries are responsible for their own staff management, and for instructing the Finance Department about changes to their payrolls. Operation of the payroll for both direct and indirect budget beneficiaries is supervised by the Head of Finance and it is reconciled monthly by reference to changes since the previous month. Score B.

23.2 Management of payroll changes

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

23.3 Internal control of payroll

As explained in 23.1 above, there is close hierarchical supervision of changes to personnel and payroll records. Access to the payroll software system is closely controlled by the head of Finance, so as to ensure the integrity of the data, and there is always an audit trail. The presence of employees at work is controlled by an electronic system, ensuring a satisfactory basis for holiday and overtime pay. Score A.

23.4 Payroll audit

The personnel records of all SNGs are subject to external inspection every year organised by central government, to confirm that all employees hold the required qualifications, that their pay is correctly assessed in accordance with their grade and length of service, and that all posts are authorised by central government. Score A.

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

PI-24 Procurement (M2)

24.1 Procurement monitoring

Records covering the city Administration and indirect budget beneficiaries are stated to be complete and accurate. However, the total value of contracts placed in 2016 and 2017 is less than a quarter of total expenditure in these years on goods and services and capital investment. The city notes that contracts with its COEs are not treated as part of public procurement, that some contracts extend over several years, that in the case of investments co-financed by central government it is central government which manages the procurement, and that some of the expenditure on goods and services is actually settlement of arrears for the supply of electricity which is subject to a rescheduling agreement over several years. Score D.

24.2 Procurement methods

Procurement in 2016 and 2017 directly financed from the city budget is summarised in Table 3.7 below. No contracts were placed through direct approaches to a single supplier or through restricted tendering. Low value procurements were all advertised on city and the central government Public Procurement Portal. However, given the wide divergence between the value of contracts and the city's expenditure on goods and services and capital investment, it appears that less than 60 per cent of expenditure has been subject to competition. Score D.

Table 3.7: Public Procurement 2016-17

RSD thousands

	Goods (Number of contracts)	Services (Number of contracts)	Works (Number of contracts)
2016			
Open procedure	10,139 (2)	-	145,513 (4)
Low value procurement	27,413 (17)	8,610 (6)	28,536 (8)
Total	37,552 (19)	8,610 (6)	174,049 (12)
2017			
Open procedure	14,083 (3)	5,364 (1)	45,352 (1)
Low value procurement	20,358 (21)	22,490 (15)	22,336 (9)
Total	34,441 (24)	27,854 (16)	67,688 (10)

Source: Vranje Dept. of Finance

24.3 Public access to procurement information

5 of 6 key elements of information are accessible to the general public (legal and regulatory framework, city procurement plans (on the website of the central government Public Procurement Office), bidding opportunities, contract awards, data on resolution of procurement complaints (on the city website)). But it is doubtful whether the information on procurement plans, bidding opportunities and contract awards is complete. There is no publication of annual procurement statistics. Score D.

24.4 Procurement complaints management

The Republican Commission which judges complaints satisfies all 6 criteria:

- (1) The members of the Commission have no involvement in procurement transactions or the award of contracts.
- (2) The fees required, although high enough to discourage frivolous complaints (60,000 RSD for contracts in the range 0.4m. – 3m.RSD, 120,000 RSD for contracts up to 120m. RSD, and 0.1 per cent for the largest contracts), are not such as to prohibit access to the appeals process.
- (3) The Commission follows clearly defined processes which are publicly available.
- (4) The Commission has the authority to suspend the procurement process.
- (5) The Commission issues decisions within a specified timeframe.
- (6) The Commission's decisions are binding on all parties (without precluding subsequent appeals to the administrative court).

Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-24 (M2)	D+	
24.1 Procurement monitoring	D	Published procurement records apparently correspond to less than half of total expenditure on goods, services and capital investment.
24.2 Procurement methods	D	It appears that less than 60 per cent of procurement is subject to competition.
24.3 Public access to procurement information	D	Five of six elements of information are published, but not annual procurement statistics. However, it is doubtful whether information on procurement plans, bidding opportunities and contract awards is complete.
24.4 Procurement complaints management	A	The complaint system meets all six criteria.

PI-25 Internal controls on nonsalary expenditure (M2)

25.1 Segregation of duties

The MoF Rulebooks on the Organisation and Systemisation of Workplaces and on Accounts and Budgetary Accounting prescribe appropriate arrangements for ensuring segregation of duties, so that responsibilities for different stages of payment process are clearly specified. Effect is given to this through the city Decision on the Organisation of the City Administration. The SAI audit of 2016 found deficiencies in some aspects of the city's arrangements: these have been rectified by the recruitment of independent engineers to separate responsibilities for certifying compliance with contracts from those for authorising payment, and by the establishment of a budgetary control inspectorate to see that duties are properly discharged. Score A.

25.2 Effectiveness of expenditure commitment controls

As explained in PI-22 above, new IT software introduced since 2015 requires all contracts to be registered with the Treasury on signature. They would be rejected if they were not within approved budgetary provision. This ensures that no order is placed unless there is specific budgetary provision and cash available. At the time of the assessment this arrangement had not yet been extended to the city's public institutions (see Table 2.12 above), but the specific approval of the Mayor was required for any commitment exceeding 100,000 RSD (about 850 Euro). Since the control was not yet operative over the whole range of expenditure, but covered at least 75 per cent, the score is B.

25.3 Compliance with payment rules and procedures

The Treasury will only make payments if the orders are in the correct form supported by two independent signatures and documentary evidence of the justification for each payment. All payments are properly authorised and justified, without any exceptions. Score A

Indicator/Dimension	2018 score	Justification for 2018 score
PI-25 (M2)	A	
25.1 Segregation of duties	A	A new financial rulebook has recently been introduced, which reinforces the segregation of duties.
25.2 Effectiveness of expenditure commitment controls	B	The new controls prevent commitments from being undertaken unless budgetary provision and cash are available, but they do not yet apply to the city's public

		institutions which in the meanwhile require the specific authorisation of the Mayor for any significant commitment.
25.3 Compliance with payment rules and procedures	A	All payments are properly authorised and justified.

PI-26 Internal audit (M1)

26.1 Coverage of internal audit (IA)

A partially trained internal auditor took up employment on 1 February 2018. He is working within the framework of a strategic plan approved by the Mayor and City Council, and an annual audit plan approved by the Mayor, to whom he reports. Two mentored audits have been completed, but the auditor's full qualification depends on the provision of additional training by MoF. Two further audits requested by the Mayor have been completed. The city intends to employ two further internal auditors, and to extend the IA unit's coverage to the city's COEs, subject in both cases to approval by MoF. In principle the whole range of the city's revenue and expenditure is within the remit of the IA unit, but since the actual coverage so far of IA is extremely limited, score is D.

26.2 Nature of audits and standards applied

A rulebook and code of ethics have been adopted to govern the work undertaken, which are in line with international professional standards. The intention is to focus on the performance of systems, with full consultation with auditees before audits are finalised. Audits already undertaken have reviewed the performance of the procurement unit, and the consumption of electricity in schools. An audit of arrangements for planning, preparing, and executing the 2018 Budget produced recommendations for improved reporting of progress against previously established objectives, and for regular reporting of the city's exposure to risks resulting from legal processes. These audits have focused on the performance of systems, not on the compliance of individual transactions with applicable regulations. A Quality Assurance process has not yet been established. Score B.

26.3 Implementation of internal audits and reporting

There is a 3-year strategic plan within which an annual audit plan is prepared for approval by the Mayor. It was stated that the 2018 audit plan had substantially been executed, with the reports having been submitted to the Mayor, the Central Harmonisation Unit at MoF, and the auditees. However, since the IA unit has been in operation for less than a year, the score for the time being is NA.

26.4 Response to internal audits

It is too soon to assess the response to IA reports. Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-26 (M1)	D+	
26.1 Coverage of internal audit	D	Coverage so far has been very limited, and the remit does not yet extend to COEs.
26.2 Nature of audits and standards applied	B	Audits are directed at the performance of systems and carried out in accordance with international standards. But there is no Quality Assurance process in operation.
26.3 Implementation of internal audits and reporting	NA	The IA unit only began operating during the current year.
26.4 Response to internal audits	NA	It is too soon to assess the response of auditees to IA reports.

Pillar 6: Accounting and reporting

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

PI-27 Financial data integrity (M2)

27.1 Bank account reconciliation

All city transactions, including those of indirect budget beneficiaries, take place through the TSA with daily reconciliations with city records. Score A.

27.2 Suspense accounts

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

27.3 Advance accounts

Apart from advances to contractors under works contracts, the city makes no advances. Advances to contractors are cleared at each stage of the contract and reconciled at year end. Monthly or quarterly reconciliations are required for scores higher than C, so score is C.

27.4 Financial data integrity processes

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-27 (M2)	B	
27.1 Bank account reconciliations	A	All transactions included in the city budget are executed through the TSA with daily reconciliations between bank and city records.
27.2 Suspense accounts	NA	There are no suspense accounts.
27.3 Advance accounts	C	Advances to contractors are cleared in accordance with contractual arrangements, and outstanding amounts are reconciled at year-end.
27.4 Financial data integrity processes	B	Access and changes to records are restricted and recorded, and give rise to an audit trail.

PI-28 In-year budget reports (M1)

28.1 Coverage and comparability of reports

The Treasury system contains all the information needed to produce reports of revenue and expenditure on all classifications at any time. Monthly reports of revenue and expenditure by functional, programme, administrative and economic classifications are submitted by the Finance Department to MoF by 15th of the next month, with full coverage of indirect budget beneficiaries. These reports allow full comparison with the original budget but are not published. There is monthly publication only on the basis of the economic classification. Reports with the same detail as the original budget are produced quarterly and published after 6 and 9 months. Score A.

28.2 Timing of in-year budget reports

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

28.3 Accuracy of in-year budget reports

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-28 (M1)	B+	
28.1 Coverage and comparability of reports	A	Detailed monthly reports are made to MoF on economic and functional classifications.
28.2 Timing of in-year budget reports	A	Reports are sent to MoF within 15 days of month-end.
28.3 Accuracy of in-year budget reports	B	Reports cover payments only, and not commitments

PI-29 Annual financial reports (M1)

29.1 Completeness of annual financial reports

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

29.2 Submission of reports for external audit

Legislation (Articles 78 and 79 of the Budget System Law) requires audited reports covering the city and its subordinate municipality to be adopted by their assemblies and a consolidated report to be submitted to MoF by 1 July. Budget execution reports can be finalised after all indirect and direct budgetary users submit their budget execution reports for revenue and expenditure (up to 31 March) and these represent the starting point for the audit. However, they need to be complemented by the other elements in the annual financial report (balance sheet, cash flow reconciliation, etc). SAI decides by 15 April whether it will audit each SNG; if it does not decide to audit, SNG must appoint commercial auditors to carry out a financial audit within a very short space of time, to comply with required timetable. Thus the (commercial) audit of 2017 was begun at the beginning of April 2018, the SAI having audited the previous year. If SAI decides to audit, timetable is relaxed. In this case (as Vranje in respect of 2016) reports are normally submitted for audit within 6 months of year-end. SAI started auditing 2016 during February 2017 working on the basis of budget execution figures. The full financial report including the balance sheet and cash flow reconciliation was provided before the end of April. SAI finalised the report in December 2017. Score B.

29.3 Accounting standards

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

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

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

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

Pillar 7: External scrutiny and audit

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

PI-30 External audit (M1)

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

30.1 Audit coverage and standards

In most years SNGs are subject to a limited financial audit by commercial auditors which pays little attention to the functioning of systems or compliance with legal requirements. However, Vranje's 2016 financial statements were audited by the SAI according to ISSAI standards. This included examinations of the functioning of systems and control risks, and resulted initially in an adverse draft report. Following action to correct some of the figures and to address the problems identified, the final report was only qualified. Although COEs are within the ambit of SAI audit of SNGs (Article 10 of the SAI Law), the SAI audit did not extend to them, and they have been subject only to a limited financial audit by commercial auditors. For a score of C at least half of total expenditure during 2015-17 must have been subject to comprehensive audit performed to international standards. Since only about a third of the total revenue and expenditure of the city has been subject to a thorough audit, score is D.

30.2 Submission of audit reports to the legislature

Commercial audit reports for 2015 and 2017 were submitted to the Assembly within three months of the auditor receiving the draft financial statements (on 13 June 2016 and on 15 June 2018). For 2016 submission of the SAI's report in December 2017, taking into account the responses of the city Administration, was within nine months of receipt of the draft financial statements. Score C.

30.3 External audit follow-up

The commercial audits of 2015 and 2017 did not give rise to findings requiring follow-up. The city administration's response to the 2016 audit shows clearly that close attention is paid to SAI findings, and that effective action is taken in response to them. Following the audit, the city established budget inspection and internal audit in line with audit recommendations and adopted rulebooks previously missing. A risk management strategy was adopted in 2018. Score A.

30.4 Supreme Audit Institution (SAI) independence

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-30 (M1)	D+	
30.1 Audit coverage and standards	D	Comprehensive audit covered only one of the three years 2015-17, so overall coverage was less than 50 per cent.
30.2 Submission of audit reports to the legislature	C	The SAI report on 2016 was submitted to the city Assembly within 9 months of the receipt of the financial statements by the auditor.
30.3 External audit follow-up	A	There is clear evidence of a substantial response by the city to the SAI report on 2016.
30.4 SAI independence	C	The President and Members of the SAI Council are appointed by the National Assembly, and the SAI is independent of the executive in the conduct of its work. But its budget is ultimately controlled by MoF.

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Commercial financial audit reports are submitted to the Assembly with the annual financial statements. Any consideration of the reports must be completed quickly, given the requirement to transmit the audited financial statements adopted by the Assembly to MoF by 15 June. In practice the Assembly's involvement is essentially formal, and there is no substantive discussion. In the case of the SAI report on 2016, this did not reach the Assembly until December 2017 by which time the Administration had already responded to it in draft and begun to take action in response. A substantive discussion was held by the Assembly in June 2018 (see 31.2 below). At that stage the Assembly's involvement was not so much with the audit report but in implementing the decisions needed to give effect to its recommendations (in terms of a new financial rulebook, etc.). The substantive Assembly discussion of the report took place in June 2018, 6 months after its finalisation. Score B.

31.2 Hearings on audit findings

The Assembly takes note of audit reports as a part of adopting the annual financial statements, in the case of commercial audits. In the case of audit by the SAI of 2016 the Assembly had an in-depth hearing on SAI findings in June 2018 as a part of the discussion of the 2017 budget execution. But there were no comparable hearings in 2015 and 2016. Score C.

31.3 Recommendations on audit by the Assembly

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

31.4 Transparency of legislative scrutiny of audit reports

The discussion of the 2016 audit was open to the public and broadcast on local television. But the presentation on behalf of the Council and the report of the Assembly's discussion were not published subsequently on the city website. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-31 (M2)	D+	
31.1 Timing of audit report scrutiny	B	Scrutiny of the SAI report on 2016 was completed within 6 months of its finalisation.
31.2 Hearings on audit findings	C	A hearing was held to consider the SAI report on 2016.
31.3 Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4 Transparency of legislative scrutiny of audit reports	D	Hearings are open to the public and the Assembly's discussion of the SAI report on 2016 was broadcast on local television. But the administration's presentation and the report of the Assembly's discussion were not subsequently published on the city website.

Chapter 4: Conclusions of the analysis of PFM systems

4.1 Integrated analysis of PFM performance

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

4.1.1 Reliability of the Budget

2. About 60 per cent of central government funding for Vranje comes through the city's share of income and other CG taxes, where the yield was overestimated by less than one per cent when budgets for 2016 and 2017 were prepared (the overestimate was more than 10 per cent for 2015). Total actual CG transfers substantially exceeded budget in 2015 and 2016 as funding for investment was released after budgets had been set, but the 2017 total fell about 80 million RSD short of budget (HLG-1.1). The city's own revenues were substantially overestimated in 2016 and 2017, and actual expenditure fell well short of budget in each of the years 2015-17 (PI-1 and PI-3.1). The functional breakdown of expenditure showed substantial variance (as measured by the PEFA criteria) in all three years, while the economic breakdown showed even greater variance. The most important factor in both cases was investment expenditure falling far below budgeted amounts. No expenditure was charged to contingency during 2015-17.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals generally meets PEFA standards on all points (Score A for PI-5). Financing of the subordinate municipality of Vranjska Banja is fully transparent, but amounts are only settled around the end of November when the city receives information about its transfers from central government (PI-7). Reporting of performance against targets established for each of the programmes into which

SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are published for the city's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment is planned within the framework of the city's sustainable development strategy 2010-20, and progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the city's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Unlike most other SNGs in Serbia, Vranje has significant debts which constrain its ability to borrow to finance new investments, given the requirement that overall indebtedness must not exceed 50 per cent of annual revenue; these include substantial amounts of payment arrears which are the subject of rescheduling agreements with contractors. Debt records are complete and regularly reconciled, and their sustainability is under constant review in the light of the legal limits, but there is no published debt management strategy with targets for interest rates or the maturity of debt instruments used (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

5. Vranje produces revenue and expenditure estimates for the budget year only, although expenditure figures are given for capital expenditure during the following two years as part of its budget documentation (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

4.1.5 Predictability and control in budget execution

6. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the city's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while budget users are given quarterly ceilings for expenditure commitment (PI-21). As noted in paragraph 4 above, there are significant expenditure arrears which are the subject of rescheduling agreements (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the city administration appears satisfactory, but there are doubts about the completeness of information, while much expenditure does not seem to be subject to competition (PI-24). Internal control arrangements have been improved following the SAI audit of 2016 (PI-25), but internal audit only began to operate early in 2018 (PI-26).

4.1.6 Accounting and reporting

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

4.1.7 External scrutiny and audit

8. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years a limited financial audit is undertaken by a commercial audit firm. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, as happened in 2017 following a very critical report on 2016, but other audits have not given rise to significant findings. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

4.2 Effectiveness of the internal control framework

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

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

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

12. Internal controls in the city administration appear to work satisfactorily following recent changes, but internal audit only began to operate in early 2018. External audit by the SAI for 2016 has resulted in significant improvements in the city's financial management (see paragraph 8 above). Monitoring the performance of service delivery is being improved, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018. From the year 2018 the city has published the reports of performance against targets.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

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

4.3.2 Strategic allocation of resources

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

4.3.3 Efficient use of resources for service delivery

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

4.4 Performance changes since 2015

16. Vranje was already ahead of other SNGs in 2015 in developing medium-term fiscal planning. Problems (including the existence of substantial expenditure arrears) were encountered in budgetary and financial management in 2016 which resulted initially in a draft adverse audit report by the SAI. Financial statements were corrected, new financial rulebooks adopted, and a start was made in installing budget inspection and internal audit. The deterioration in some of the scores relating to budget reliability seems to be associated with the more difficult fiscal climate resulting from reductions in SNGs' receipts of central funding. More experience has been gained in results-oriented budgeting based on the planning of expenditure by programmes, and commitment controls have been improved. The property tax base has been substantially enlarged, and more effort devoted to collecting the revenue due to the city.

Chapter 5: Government PFM reform process

5.1 Approach to PFM reform

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

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

5.2 Institutional considerations

2. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Vranje has made progress in all four areas targeted by RELOF, but there remains much scope for improvements in expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Annex 1: Performance indicator summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level of Government (M1)	A	
1.1	Difference between planned and actual transfers	A	Transfers exceeded 95 per cent of budget in two of the three years 2015-17.
1.2	Conditional grant composition Variance	NA	Conditional transfers are not notified before budget is enacted.
1.3	In-year timeliness of transfers from central government (CG)	A	Transfers are paid in a steady and predictable stream.
PI-1	Aggregate expenditure out-turn	C	Out-turn was above 85% of budget in all three years 2015-17.
PI-2	Expenditure composition out-turn (M1)	D+	
2.1	Expenditure composition out-turn by function	D	Variance was more than 15% in two of three years 2015-17.
2.2	Expenditure composition by economic classification	D	Variance was more than 15% in all three years 2015-17
2.3	Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in 2015-17
PI-3	Revenue out-turn (M2)	D	
3.1	Aggregate revenue out-turn	D	Revenue fell below 92% of budget in two of the three years 2015-17
3.2	Revenue composition out-turn	D	Variance of revenue composition exceeded 15% in all three years
PI-4	Budget classification	A	Consistent information is presented, broken down by administrative, economic, functional and programme classifications.
PI-5	Budget documentation	A	All four basic elements are satisfied, plus four others (and a further two are NA)
PI-6	Operations outside financial reports (M2)	A	
6.1	Expenditure outside financial reports	A	All expenditure of the city and its subordinate institutions is included in budgets and execution reports.
6.2	Revenue outside financial reports	A	All revenue of the city and its subordinate institutions is included in budgets and execution reports.
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7	Transfers to lower tier governments(M2)	B	
7.1	System for allocating transfers	A	The allocation of transfers to Vranjska Banja is transparent and rules based.
7.2	Timeliness of information on transfers	C	The amount of transfers is only notified less than two weeks before the beginning of the fiscal year.
PI-8	Performance information for service delivery (M 2)	C+	
8.1	Performance plans for service delivery	B	Output objectives for the programmes within which all SNG expenditure is fitted have been published since 2015.

8.2	Performance achieved for service delivery	D	Performance reports were made for the first time to MoF in September 2018, but no reports have yet been published.
8.3	Resources received by service delivery units	A	Full information is available about resources received by individual nursery schools and cultural institutions.
8.4	Performance evaluation for service delivery	D	There have been no independent or other evaluations.
PI-9	Public access to fiscal information	B	Four of five basic elements are satisfied, and two others.
PI-10	Fiscal risk reporting (M2)	B	
10.1	Monitoring of public corporations	B	COEs' audited financial reports are published by end-June
10.2	Monitoring of subordinate governments	A	Quarterly and annual reports are made to the city by the subordinate municipality Vranjska Banja. Annual audited report is published within nine months and consolidated report is done annually.
10.3	Contingent liabilities and other fiscal risks	D	No information is published
PI-11	Public investment management (M2)	B	
11.1	Economic analysis of investment proposals	C	Major investments are planned by reference to the city's development strategy.
11.2	Investment project prioritisation	A	Projects are prioritised the city Council according to criteria set out in the city's Capital Budget Plan 2018-22.
11.3	Investment project costing	B	Projections of full capital costs of projects are included in budget documentation as well as capital and current costs to be incurred over the next three years.
11.4	Investment project monitoring	B	Progress is systematically monitored, and an annual report to the city Assembly is published.
PI-12	Public asset management (M2)	D+	
12.1	Financial asset monitoring	B	Financial reports of all COEs are published annually, with assets valued at historic cost.
12.2	Nonfinancial asset monitoring	D	The register is incomplete.
12.3	Transparency of asset disposal	D	Prices realised and identity of purchasers are not published.
PI-13	Debt management (M2)	B	
13.1	Recording and reporting of debt and guarantees	A	Records of outstanding debts are complete and regularly reconciled
13.2	Approval of debt and guarantees	A	Incurrence of debt requires approval of both MoF and municipal Assembly.
13.3	Debt management strategy	D	No debt management strategy has been published.
PI-14	Macroeconomic and fiscal forecasting(M2)	C	
14.1	Macroeconomic forecasts	NA	The municipality relies on CG forecasts
14.2	Fiscal forecasts	C	Forecasts are produced for 3 years ahead, but not published.
14.3	Macrofiscal sensitivity analysis	C	Alternative fiscal scenarios are considered internally, but not published.
PI-15	Fiscal strategy (M2)	D+	
15.1	Fiscal impact of policy proposals	C	Budget documentation includes the fiscal impact of all changes in revenue and expenditure for the budget year only.
15.2	Fiscal Strategy adoption	C	The city administration has prepared a fiscal strategy with quantified objectives, but this has not been published.

15.3	Reporting on fiscal outcomes	D	No report has been produced of progress against the strategy.
PI-16	Medium-term perspective in expenditure budgeting (M2)	D+	
16.1	Medium-term expenditure estimates	D	Published medium-term estimates cover only capital expenditure.
16.2	Medium-term expenditure ceilings	NA	There has been no question of setting medium-term expenditure ceilings.
16.3	Alignment of strategic plans and medium-term budgets	C	There are some links between the city's strategic development plan and medium-term budgets.
16.4	Consistency of budgets with previous year's estimates	NA	Three year forecasts have not been published.
PI-17	Budget preparation process (M2)	B	
17.1	Budget calendar	B	Budget users have four weeks to prepare final budget submissions.
17.2	Guidance on budget preparation	A	Expenditure ceilings are reviewed by the Council before issue to budget users.
17.3	Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before year-end.
PI-18	Legislative scrutiny of budgets (M1)	B+	
18.1	Scope of budget scrutiny	B	The Assembly's scrutiny covers fiscal policies and aggregates as well as details of revenue and expenditure for the year ahead.
18.2	Legislative procedures for budget scrutiny	A	Proposals are reviewed by a specialised committee, and there are also arrangements for public consultation.
18.3	Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4	Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.
PI-19	Revenue administration (M2)	B	
19.1	Rights and obligations for revenue measures	A	A variety of different means are used to notify revenue payers of their obligations.
19.2	Revenue risk management	A	A major campaign is under way to widen the property tax base and improve collection.
19.3	Revenue audit and investigation	B	There is a compliance improvement plan covering the majority of revenues, and audit plans are implemented.
19.4	Revenue arrears monitoring	D	Revenue arrears at end-2017 were 250% of collections during that year.
PI-20	Accounting for revenue (M1)	A	
20.1	Information on revenue collections	A	A monthly report of revenue broken down by type is made to MoF and city Council.
20.2	Transfer of revenue collections	A	All revenue is paid daily into the city's account in the TSA.
20.3	Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.
PI-21	Predictability of in-year resource allocation (M2)	B+	

21.1	Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year and updated quarterly.
21.3	Information on commitment ceilings	B	Quarterly commitment ceilings are notified to budget users.
21.4	Significance of in-year budget adjustments	A	Revised budgets are approved by the Assembly once or twice a year, with full transparency.
PI-22	Expenditure arrears (M1)	D+	
22.1	Stock of expenditure arrears	D	Arrears exceeded 10% of total expenditure.
22.2	Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices are registered.
PI-23	Payroll controls (M1)	B+	
23.1	Integration of personnel records and the payroll	B	Payroll is only changed when authorised at high level by senior management.
23.2	Management of payroll changes	A	The payroll is updated monthly, and retroactive adjustments are very rare.
23.3	Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4	Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that all posts have been authorised and that all staff are paid correctly based on their qualifications, responsibilities and length of service.
PI-24	Procurement (M2)	D+	
24.1	Procurement monitoring	D	Procurement records account for less than 50 per cent of expenditure on goods, services and capital investment.
24.2	Procurement methods	D	It appears that less than 60 per cent of procurement is subject to competition.
24.3	Public access to procurement information	D	5 of the 6 elements are available; only annual procurement statistics are lacking. But it is doubtful whether the information is complete.
24.4	Procurement complaints management	A	The Republican Commission meets all 6 criteria.
PI-25	Internal controls on nonsalary expenditure (M2)	A	
25.1	Segregation of duties	A	A new financial rulebook has recently been introduced, which reinforces the segregation of duties.
25.2	Effectiveness of expenditure commitment controls	B	A new IT system ensures that commitments cannot be undertaken unless budgetary provision and cash are available, but this has not yet been extended to indirect budget users.
25.3	Compliance with payment rules and procedures	A	All payments must follow correct procedures without which the Treasury will not act on city instructions.
PI-26	Internal audit (IA) (M1)	D+	
26.1	Coverage of internal audit	D	Coverage so far has been very limited, and the remit does not extend to COEs.
26.2	Nature of audits and standards applied	B	Audits are directed at the performance of systems and carried out in accordance with international professional standards. But there is no Quality Assurance process in operation.
26.3	Implementation of audits and reporting	NA	The IA unit only began operating during the current (2018) year.

26.4	Response to internal audits	NA	It is too soon to assess the response of auditees to IA reports.
PI-27	Financial data integrity (M2)	B	
27.1	Bank account reconciliations	A	Budgetary transactions through the TSA are reconciled daily.
27.2	Suspense accounts	NA	No use is made of suspense accounts
27.3	Advance accounts	C	Advances to contractors are cleared in accordance with contractual terms and reconciled at least annually.
27.4	Financial data integrity processes	B	Access and changes to records are restricted and recorded, and leave an audit trail.
PI-28	In-year budget reports (M1)	B+	
28.1	Coverage and comparability of reports	A	Monthly reports to MoF are broken down by functional and economic classifications.
28.2	Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3	Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).
PI-29	Annual financial reports (M1)	B+	
29.1	Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement. But tangible assets are not covered.
29.2	Submission of reports for external audit	B	Reports are submitted within 4 months of year-end.
29.3	Accounting standards	A	Reports are consistent from one year to the next and consistent with all the country legal framework's requirements.
PI-30	External audit (M1)	D+	
30.1	Audit coverage and standards	D	Comprehensive audit covered only one of the three years 2015-17, so audit coverage was less than 50 per cent.
30.2	Submission of audit reports to the Assembly	C	The audit report for 2016 was submitted to the Assembly within 9 months of the receipt of the financial statements by the SAI.
30.3	External audit follow-up	A	The Administration has made a full response to the SAI report for 2016.
30.4	SAI independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But its budget is ultimately controlled by the executive.
PI-31	Legislative scrutiny of audit reports	D+	
31.1	Timing of audit report scrutiny	B	Discussion of the SAI report on 2016 took place 6 months after the report was finalized.
31.2	Hearings on audit findings	C	A hearing was held to consider the SAI report on 2016.
31.3	Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4	Transparency of Assembly's scrutiny of audit reports	D	Assembly meetings are open to the public and the discussion of the report on 2016 was televised. But the administration's presentation and the record of the discussion were not published subsequently on the city website.

Annex 2: Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control throughout the organisation	The city administration has been significantly reorganised following a critical audit report on the 2016 financial statements. Internal audit has only begun to function in 2018. (PI-26)
1.2 Commitment to competence	The staff are well-qualified and competent.
1.3 The “tone at the top”	The Mayor gives an appropriate lead to the staff.
1.4 Organisation structure	The heads of the six main city departments report through the head of administration to the Mayor. (See Organisation chart in Chapter 2.)
1.5 Human resources policies and practices	The city’s scope for initiative is drastically limited by the central government controls over appointments and conditions of service, and by the current freeze on new appointments. (Chapter 2) Staff pay is well managed (PI-23).
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of property and other local taxes, and of failure to obtain best value in procurement. (PI-19, PI-24)
2.2 Risk assessment	Vranje is now working towards the establishment of PIFC arrangements on the EU model (PI-26), with regular reports to MoF Central Harmonisation Unit on internal audit and internal control activities.
2.3 Risk evaluation	Reports on performance against objectives have only just begun to be produced, and have not yet been published (PI-8). There has been no publication of fiscal and other risks faced by the city (PI-10.3).
2.4 Risk appetite assessment	Vranje is now avoiding commitment to investment projects until the necessary finance has been assured (PI-11, PI-22), having previously incurred substantial expenditure arrears.
2.5 Responses to risk	Vranje has reorganised its financial planning and control arrangements (PI-21, PI-25), and developed and improved its tax assessment and collection operations. (PI-19)
3. Control activities	
3.1 Authorisation and approval procedures	New arrangements as part of the city’s interface with the Treasury Single Account ensure that commitments are not undertaken unless financial provision for them has

	previously been shown to be available (PI-21, PI-25).
3.2 Segregation of duties	Segregation of duties reinforced by recent changes. (PI-25)
3.3 Controls over access to resources and records	The budget, payment and accounting system includes controls over access to records (PI-27.4).
3.4 Verifications	Payroll and financial management systems include appropriate requirements for verifications before commitments are undertaken or payments made. (PI-23, PI-25)
3.5 Reconciliations	There are daily reconciliations of revenue and expenditure (PI-20, PI-27).
3.6 Reviews of operating performance	Reporting has only just been initiated, and results have not yet been published. There have been no external evaluations. (PI-8)
3.7 Reviews of operations, processes and activities	Systems reviews are undertaken when the city is subject to audit by the SAI, as recently in respect of 2016 financial statements. (PI-30)
3.8 Supervision	The structure of the administration provides appropriately for supervision (PIs 21, 23, 24, 25,27).
4. Information and communication	Reporting to MoF on the performance of internal audit and internal controls is under development (PI-25, PI-26).
5. Monitoring	
5.1 Ongoing monitoring	Monitoring of the implementation of public investment projects is regularly undertaken, and an annual report is made to central government and the city Assembly (PI-11). Expenditure is continuously tracked against budget (PI-28).
5.2 Evaluations	No significant action hitherto.
5.3 Management responses	External audit findings in 2017 resulted in a major reorganisation of financial management (PI-30).

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	Ministry of Finance Republic of Serbia	Public financial management reform Programme 2016-20	2015	https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Finacial%20Management%20Ref orm%20Program%202016-2010%20EN.PDF
2	OECD	Serbia Profile	9/2016	https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf
3	IMF	Republic of Serbia: Request for a 30-Month Policy Coordination Instrument-Press Release; Staff Report; and Statement by the Executive Director for Serbia, IMF Country Report 18/237.	July 24, 2018	https://www.imf.org/en/Publications/CR/Issues/2018/07/23/Republic-of-Serbia-Request-for-a-30-Month-Policy-Coordination-Instrument-Press-Release-Staff-46118
4	IMF	Republic of Serbia: Eighth Review Under the Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia IMF Country Reports 17/397.	December 21, 2017	www.imf.org/en/Publications/CR/Issues/2017/12/21/Republic-of-Serbia-Eighth-Review-Under-the-Stand-By-Arrangement-Press-Release-Staff-Report-45506
5	EU COMMISSION	STAFF WORKING DOCUMENT Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2018 Communication on EU Enlargement Policy, Strasbourg.	April 17, 2018	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf
6	Ministry of Public Administration and Local Self-Government	Public Administration Reform Report	3/2018	http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf
7	Grad Vranje	Statut Grada Vranje	December 4, 2018	https://www.vranje.org.rs/dokumenta.php?id=118
8	Grad Vranje	Odluka o završnom računu grada Vranja za 2016. godinu	06/2017	https://www.vranje.org.rs/dokumenta.php?id=7841
9	Grad Vranje	Odluka o izmenama i dopunama Odluke o budžetu grada Vranja za 2016. godinu	December 6, 2016	https://www.vranje.org.rs/dokumenta.php?id=7841

10	Grad Vranje	Obrasci za programski budžet - verzija Excel 2007 - REBALANS 2016		https://www.vranje.org.rs/dokumenta.php?id=7841
11	Grad Vranje	Izveštaj o ostvarenju prihoda budžeta grada Vranja za period jan-maj 2016. godine	June 7. 2016	https://www.vranje.org.rs/dokumenta.php?id=7841
12	Grad Vranje	Odluka o budžetu za 2016.	December 17, 2015	https://www.vranje.org.rs/dokumenta.php?id=7841
13	Grad Vranje	Uputstvo za pripremu Odluke o budžetu grada Vranja za 2016.godinu, 30. jul 2015.	July 30, 2015	https://www.vranje.org.rs/dokumenta.php?id=7841
14	Grad Vranje	Obrasci za pripremu finansijskih planova za 2016.godinu, 30. Jul 2015.	July 30, 2015	https://www.vranje.org.rs/dokumenta.php?id=7841
15	Grad Vranje	Odluka o završnom računu za 2017.	June 15, 2018	https://www.vranje.org.rs/dokumenta.php?id=9184
16	Grad Vranje	Građanski budžet		https://www.vranje.org.rs/dokumenta.php?id=9184
17	Grad Vranje	Odluka o izmenama i dopunama Odluke o budžetu za 2017.		https://www.vranje.org.rs/dokumenta.php?id=9184
18	Grad Vranje	Odluka o budžetu grada Vranja za 2017. godinu	December 20, 2016	https://www.vranje.org.rs/dokumenta.php?id=9184
19	Grad Vranje	Dopuna Uputstva za izradu budžeta grada Vranja za 2017. godinu, 18. novembar 2016.	November 18, 2016	https://www.vranje.org.rs/dokumenta.php?id=9184
20	Grad Vranje	Uputstvo za pripremu budžeta za 2017.	August 1, 2016	https://www.vranje.org.rs/dokumenta.php?id=9184
21	Grad Vranje	Uputstvo za pripremu budžeta za 2015.	August 1, 2014	https://www.vranje.org.rs/dokumenta.php?id=6666
22	Grad Vranje	Grafički prikaz organizacije lokalne jedinice u 2018.		
22	Grad Vranje	Javne nabavke Grada Vranja od 2015. do 2017.		https://www.vranje.org.rs/dokumenta.php?id=336
24	Grad Vranje	Funkcionalna klasifikacija rashoda Grada Vranja od 2015. do 2017.		
25	Grad Vranje	Administrativna/organizacijska klasifikacija/ rashoda po korisnicima Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
26	Grad Vranje	Programska klasifikacija rashoda Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
27	Grad Vranje	Prihodi po ekonomskoj klasifikaciji Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
28	Grad Vranje	Rashodi po ekonomskoj klasifikaciji Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php

29	Grad Vranje	Autonomni budžetski prihodi/fiskalna autonomija Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
30	Grad Vranje	Stanje budžetske rezerve Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
31	Grad Vranje	Odobravanja i amandmani na budžet Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
32	Grad Vranje	Potraživanja za porezne prihode Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
33	Grad Vranje	Potraživanja za neporezne prihode Grada Vranja od 2015. do 2017.		http://www.vranje.org.rs/dokumenta.php
34	Grad Vranje	Broj poreznih obveznika i obveznika sa dugom Grada Vranja od 2015. do 2017.		
35	Grad Vranje	Broj obveznika neporeznih prihoda i broj onih sa dugom po svakom od neporeznih prihoda Grada Vranja od 2015. do 2017.		
36	Grad Vranje	Ovisnost finansiranja javnih i komunalnih preduzeća od sredstava iz budžeta u 2017.		
37	Grad Vranje	Indirektni budžetski korisnici, broj zaposlenih i vrednost imovine Grada Vranja od 2015. do 2017.		
38	Grad Vranje	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća Grada Vranja od 2015. do 2017.		
39	Grad Vranje	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća - dostavljanje opštini/gradu, učestalost objava Grada Vranja od 2015. do 2017.		

Annex 3B: List of people interviewed

	Name and surname	Department/office	Position
1	Ljubiša Stojanović	Assembly Secretariat for finance and economy of City administration	Head of Budget and Finance Department
2	Bojan Kostić	City councillor for finance	City councillor for finance
3	Suzana Jovanović	Department for budget and finance – treasury office	Head of treasury
4	Nebojša Savić	Department for budget and finance	Head of accounting
5	Nenad Tasić	Local tax administration	Associate for LPA
6	Danijela Kostov	Office for public procurement	Head of Department for Public Procurement
7	Milica Stevanović	Office for public procurement	Officer in the Public Procurement Department
8	Predrag Stošić	The City administration – monitoring public companies and quality of public services	Advisor for monitoring the work of PE and PUC
9	Tanja Anđelković	Internal audit	Internal auditor
10	Boban Stanković	Department for economy and economic development	Associate in the Department for economy and local economic development
11	Jasmina Petrović	Local economic development	Head of local economic development department
12	Helena Stajić	Office for human resources management	Associate in Office for human resources management
13	Marko Stojković	Department for finance and budget, treasury	Associate in Department for finance and budget, treasury
15	Ljiljana Stojanović	Department for Assembly administration	Secretary of the City Assembly
16	Nenad Stamenov	Office for public procurement	Officer in the Public Procurement Department
17	Milan Mitić	Department for finance and budget	Budget analyst

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

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

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

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

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

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment.

Indicator/Dimension	Score previous assessment 2015	Score current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget				
HLG-1 Predictability of transfers from higher level of government (M1)	NR	A		
(i) Deviation between budget and out-turn for total transfers	C	A	Transfers exceeded budget in 2 of the 3 years 2015-17.	Performance improvement
(ii) Variance between budget and out-turn for earmarked transfers	NR	NA	Some targeted transfer amounts are not notified until after the beginning of the budget year.	No change
(iii) In-year timeliness of transfers	A	A	Transfers are made in a steady and predictable stream.	No change
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	C	Out-turn was below 90% of budget (but more than 85%) in 2 of the 3 years 2015-17.	Performance deterioration
PI-2 Composition of expenditure out-turn compared to original approved budget (M1)	A	D+		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	A	D	Variance exceeded 15% in 2 of the 3 years 2015-17	Performance deterioration
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	No expenditure was charged to contingency in 2015-17	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	B	D	Revenue fell below 92% of budget in 2 of the 3 years 2015-17	Performance deterioration
PI-4 Stock and monitoring of expenditure payment arrears (M1)	D+	D+		

(i)	Stock of expenditure payment arrears and a recent change in the stock	D	D	Outstanding arrears were more than 10% of expenditure	No change
(ii)	Availability of data for monitoring the stock of expenditure payment arrears	A	A	Full information is available from the Treasury system about the age of arrears.	No change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5 Classification of the budget		A	A	Budgets are broken down by administrative, economic, functional and programme classifications.	No change
PI-6 Comprehensiveness of information included in budget documentation		A	A	Documentation fulfils 7 of 8 applicable benchmarks	No change
PI-7 Extent of unreported government operations (M1)		A	A		
(i)	Level of unreported government operations	A	A	There are no unreported operations	No change
(ii)	Income/expenditure information on donor-funded projects	A	A	Any donor-funded projects would be fully reflected in the budget.	No change
PI-8 Transparency of inter-governmental fiscal relations (M2)		NA	B+		
(i)	Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	NA	A	Financing of subordinate municipality is transparent and rules-based	Vranjska Banja not considered in 2015
(ii)	Timeliness and reliable information to SN Governments on their allocations	NA	C	Allocation to subordinate municipality is determined less than a month before the beginning of the budget year.	Vranjska Banja not considered in 2015
(iii)	Extent of consolidation of fiscal data for general government according to sectoral categories	NA	A	Consolidated financial statements covering both city and subordinate municipality are produced every year.	Vranjska Banja not considered in 2015
PI-9 Oversight of aggregate fiscal risk from other public sector entities (M1)		C	A		
(i)	Extent of central government monitoring of autonomous entities and public enterprises	C	A	All COEs submit quarterly reports and annual audited reports, and a	Performance improvement No consolidated report was made in 2015

			consolidated report is made annually		
(ii)	Extent of central government monitoring of SN government's fiscal position	NA	A	Monthly, quarterly and annual reports are made by the subordinate municipality	Vranjska Banja not considered in 2015
	PI-10 Public access to key fiscal information	B	A	5 of 6 listed types are available	Performance improvement Audit reports considered available in 2018
C. BUDGET CYCLE					
<i>C(i) Policy-Based Budgeting</i>					
	PI-11 Orderliness and participation in the annual budget process (M2)	B	B		
(i)	Existence of, and adherence to, a fixed budget calendar	C	B	Spending units have 4 weeks to prepare submissions	Probably no underlying change
(ii)	Guidance on the preparation of budget submissions	C	A	Council reviews expenditure ceilings before issue to budget users	Performance improvement
(iii)	Timely budget approval by the legislature	A	A	Assembly enacts budget before the beginning of the year	No change
	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)	A	B		
(i)	Multiyear fiscal forecasts and functional allocations	A	D	Forecasts are published only for capital expenditure	No underlying change: 2015 assessment gave credit for projections produced internally by the administration
(ii)	Scope and frequency of debt sustainability analysis	A	A	The scope for borrowing within legal constraints is regularly reviewed	No change
(iii)	Existence of costed sector strategies	B	B	Sector strategies cover more than 25% of expenditure	No change
(iv)	Linkages between investment budgets and forward expenditure estimates	A	B	Sector strategies take account of current expenditure implications of investment plans	No underlying change
<i>C(ii) Predictability and Control in Budget Execution</i>					

PI-13 Transparency of taxpayer obligations and liabilities (M2)		B+	B+		
(i)	Clarity and comprehensiveness of tax liabilities	A	A	Tax liabilities are clearly defined	No change
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	A	Taxpayers have ready access to information (see PI-19.1)	No change
(iii)	Existence and functioning of a tax appeal mechanism	C	C	Appeals machinery is not independent	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)		C+	B		
(i)	Controls in the taxpayer registration system	C	A	Taxpayers are registered in a complete database with some links to other databases	Performance improvement as property tax administration more fully developed
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	A	C	Penalties are significant but arrears remain substantial	Previous A score was based on existence of enforcement action
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	B	There is an ongoing programme of tax audit, directed particularly at large business taxpayers	Performance improvement as property tax system more fully developed
PI-15 Effectiveness in collection of tax payments (M1)		D+	D+		
(i)	Collection ratio for gross tax arrears	D	D	Arrears were 250 per cent of 2017 collections	No change
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All revenue is paid directly into Treasury	No change
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	There is full monthly reconciliation of assessments, collections, arrears and payments into Treasury	No change
PI-16 Predictability in the availability of funds for commitment of expenditures (M1)		B+	B+		
(i)	Extent to which cash flows are forecasted and monitored	B	B	Cash flow forecast is updated quarterly	No change
(ii)	Reliability and horizon of periodic in-year	B	B	Budget users receive quarterly allocations	No change

	information to MDAs on ceilings for expenditure				
(iii)	Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	Revised budgets are approved by the Assembly once or twice a year	No change
	PI-17 Recording and management of cash balances, debt and guarantees (M2)	A	A		
(i)	Quality of debt data recording and reporting	A	A	Records are complete and there is full monthly reconciliation of amounts outstanding, interest paid, and principal repaid	No change
(ii)	Extent of consolidation of the government's cash balances	A	A	All balances are consolidated in the city's account at the Treasury	No change
(iii)	Systems for contracting loans and issuance of guarantees	B	B	Loans are approved by the Assembly, but amounts are not set by reference to transparent criteria and fiscal targets	No change
	PI-18 Effectiveness of payroll controls (M1)	C+	B+		
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	B	There are no automatic links between personnel records and the payroll, but payroll is only changed when authorised by staff managers	No underlying change: absence of automatic links not considered in 2015
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Personnel records and payroll are updated monthly	No change
(iii)	Internal controls of changes to personnel records and the payroll	A	A	Authority to change personnel records and the payroll is restricted and always leaves an audit trail	No change
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	C	A	There are regular annual inspections to check that all posts are approved, and all employees paid correctly	System of inspections not considered in 2015
	PI-19 Competition, value for money and controls in procurement (M2)	A	A		

(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	The legal framework meets all 6 requirements.	No change
(ii)	Use of competitive procurement methods	A	D	Absence of competition is justified by reference to law in all cases, but there are doubts about the completeness of information on procurement plans, bidding opportunities and contract awards	Probably no underlying change (2015 report does not contain detailed information)
(iii)	Public access to complete, reliable and timely procurement information	A	D	All 4 elements are accessible to general public but there are doubts about the completeness of information	Probably no underlying change (as 19(iii))
(iv)	Existence of an independent administrative procurement complaints system	A	A	Appeals body meets all 7 benchmarks	No change
PI-20 Effectiveness of internal controls for non-salary expenditure (M1)		C+	A		
(i)	Effectiveness of expenditure commitment controls	C	A	New system since 2015 ensures that no orders are placed unless budgetary provision and cash are available	Performance improvement
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	A	System has been strengthened in response to 2016 audit	Performance improvement
(iii)	Degree of compliance with rules for processing and recording transactions	A	A	All payments are correctly processed	No change
PI-21 Effectiveness of internal audit		D	D+		
(i)	Coverage and quality of the internal audit function	D	D	New function, and coverage so far limited	Performance improvement
(ii)	Frequency and distribution of reports	D	B	Audits are directed at performance of systems and carried out in accordance with international standards	Performance improvement

(iii)	Extent of management response to internal audit function.	NA	NA	Too soon to judge	
<i>C(iii) Accounting, Recording and Reporting</i>					
PI-22 Timeliness and regularity of accounts reconciliation (M2)		A	B		
(i)	Regularity of bank reconciliation	A	A	All transactions included in city budget are executed through the Treasury with daily reconciliation between bank and city records	No change
(ii)	Regularity and clearance of suspense accounts and advances	A	C	Advances to contractors are cleared in accordance with contracts and reconciled at year end	No underlying change: advances to contractors not considered in 2015
PI-23 Availability of information on resources received by service delivery units		A	A	Full information available from Treasury about resources received by service delivery units	No change
PI-24 Quality and timeliness of in-year budget reports (M1)		C+	C+		
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Reports are fully comparable with budget estimates but only payments, not commitments, are reported	No change
(ii)	Timeliness of the issue of reports	A	A	Reports are produced within 15 days of month-end	No change
(iii)	Quality of information	A	A	There are no doubts about the quality of information	No change
PI-25 Quality and timeliness of annual financial statements (M1)		A	A		
(i)	Completeness of the financial statements	A	A	Financial statements include full information on revenue, expenditure, financial assets and liabilities	No change
(ii)	Timeliness of submissions of the financial statements	A	A	Statements are available for audit within 6 months of year-end	No change
(iii)	Accounting standards used	A	A	Statements comply with national standards set out in MoF Regulations	No change

C(iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit (M1)	D+	D+		
(i) Scope/nature of audit performed (including adherence to auditing standards)	A	D	A full audit was undertaken for only one of the three years 2015-17	No underlying change: limited nature of most audits was not taken into consideration in 2015
(ii) Timeliness of submission of audit reports to the Legislature	B	B	SAI report on 2016 was submitted to Assembly within 8 months of receipt of financial statements by auditors	No change
(iii) Evidence of follow up on audit recommendations	D	A	Substantial changes were made in response to audit recommendations on 2016	Performance improvement
PI-27 Legislative scrutiny of the annual budget law (M1)	C+	C+		
(i) Scope of the legislature scrutiny	C	C	The Assembly's review covers details of revenue and expenditure, but only at a stage when detailed proposals have been finalised	No change
(ii) Extent to which the legislature's procedures are well established and respected	A	A	Assembly has well-established procedures including study by a specialised Committee	No change
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	D	The Assembly has only a few days to consider the budget proposals	Probably no underlying change
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	There are strict limits to the extent of reallocations without submission to the Assembly	No underlying change: 2015 assessment judged that significant reallocations were possible
PI-28 Legislative scrutiny of external audit reports (M1)	D+	D+		

(i)	Timeliness of examination of audit reports by the legislature	A	D	The Assembly has not insisted on a substantive audit every year	No underlying change: 2015 assessment gave credit for formal responses to limited commercial audits
(ii)	Extent of hearing on key findings undertaken by the legislature	D	C	A hearing was held to consider the SAI report on 2016.	Performance improvement
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	D	D	The Assembly has made no recommendations	No change

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

Data for year =		2015				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	505249	478784	452,372.8	26,411.2	26,411.2	5.8%
Public order & safety	17443	19855	15,617.5	4,237.5	4,237.5	27.1%
Economic affairs	606934	375124	543,416.1	-168,292.1	168,292.1	31.0%
Environment protection	78527	82085	70,308.9	11,776.1	11,776.1	16.7%
Housing	284317	290053	254,562.2	35,490.8	35,490.8	13.9%
Sport, recreation, culture	349456	313777	312,884.1	892.9	892.9	0.3%
Health	12000	10110	10,744.2	-634.2	634.2	5.9%
Education	476676	449627	426,790.1	22,836.9	22,836.9	5.4%
Social protection	98588	146833	88,270.4	58,562.6	58,562.6	66.3%
Defense	700	9345	626.7	8,718.3	8,718.3	1391.0%
allocated expenditure	2429890	2175593	2,175,593.0	0.0	337,852.5	
interests	22500	17772				
contingency	14000	0				
total expenditure	<u>2466390</u>	<u>2193365</u>				
aggregate outturn (PI-1)						88.9%
composition (PI-2) variance						15.5%
contingency share of budget						0.0%
Data for year =		2016				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	500402	482156	472,851.1	9,304.9	9,304.9	0.019678
Public order and safety	11612	49520	10,972.7	38,547.3	38,547.3	3.51303
Economic affairs	491947	384249	464,861.6	-80,612.6	80,612.6	0.173412
Environment protection	83774	38209	79,161.6	-40,952.6	40,952.6	0.517329
Housing	335064	324882	316,616.2	8,265.8	8,265.8	0.026107
Health	28684	13640	27,104.7	-13,464.7	13,464.7	0.496767
Sport, recreation, culture	335205	334426	316,749.5	17,676.5	17,676.5	0.055806
Education	478124	482359	451,799.7	30,559.3	30,559.3	0.067639
Social protection	104500	140694	98,746.5	41,947.5	41,947.5	0.4248
Defense	45110	31355	42,626.4	-11,271.4	11,271.4	0.264422
allocated expenditure	2414422	2281490	2,281,490.0	0.0	292,602.7	
interests	16450	20163				
contingency	40000	0				
total expenditure	<u>2470872</u>	<u>2301653</u>				
aggregate outturn (PI-1)						93.2%
composition (PI-2) variance						12.8%
contingency share of budget						0.0%
Data for year =		2017				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	523296	599803	450,998.5	148,804.5	148,804.5	0.329945
Public order and safety	17884	10782	15,413.2	-4,631.2	4,631.2	0.300469
Economic affairs	563005	351066	485,221.4	-134,155.4	134,155.4	0.276483

Environment protection	65170	69526	56,166.2	13,359.8	13,359.8	0.237861
Housing	486931	275132	419,657.6	-144,525.6	144,525.6	0.344389
Health	28000	48147	24,131.6	24,015.4	24,015.4	0.995187
Sport, recreation, culture	343185	330249	295,771.3	34,477.7	34,477.7	0.116569
Education	673296	617101	580,274.8	36,826.2	36,826.2	0.063463
Social protection	147725	154875	127,315.6	27,559.4	27,559.4	0.216465
Defense	3310	1122	2,852.7	-1,730.7	1,730.7	0.606688
allocated expenditure	2851802	2,457,803.0	2,457,803.0	0.0	570,085.8	
interests	22500	17,842.0				
contingency	25000	0				
total expenditure	2899302	2475645				
aggregate outturn (PI-1)						85.4%
composition (PI-2) variance						23.2%
contingency share of budget						0.0%

Results Matrix

year	for PI-1.1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2015	88.9%	15.5%	
2016	93.2%	12.8%	0.0%
2017	85.4%	23.2%	

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	672141	677962	610,247.7	67,714.3	67,714.3	11.1%
Use of goods and services	499737	454679	453,719.4	959.6	959.6	0.2%
Capital investment	685808	463623	622,656.2	-159,033.2	159,033.2	25.5%
Interest	22500	17772	20,428.1	-2,656.1	2,656.1	13.0%
Subsidies	44400	49881	40,311.5	9,569.5	9,569.5	23.7%
Transfers/Grants	370442	312976	336,330.3	-23,354.3	23,354.3	6.9%
Social benefits	34595	42376	31,409.4	10,966.6	10,966.6	34.9%
Other expenses	86200	174096	78,262.4	95,833.6	95,833.6	122.5%
Total expenditure	<u>2415823</u>	<u>2193365</u>	2,193,365.0	0.0	370,087.3	
composition variance						16.9%
Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	637175	679665	617,647.5	62,017.5	62,017.5	10.0%
Use of goods and services	410940	467869	398,345.9	69,523.1	69,523.1	17.5%
Capital investment	699522	508916	678,083.7	-169,167.7	169,167.7	24.9%
Interest	16450	20163	15,945.9	4,217.1	4,217.1	26.4%
Subsidies	35864	27455	34,764.9	-7,309.9	7,309.9	21.0%
Transfers/Grants	447035	334,742	433,334.7	-98,592.7	98,592.7	22.8%
Social benefits	30962	42378	30,013.1	12,364.9	12,364.9	41.2%
Other expenses	96474	220465	93,517.4	126,947.6	126,947.6	135.7%
Total expenditure	<u>2374422</u>	<u>2301653</u>	2,301,653.0	0.0	550,140.6	
composition variance						23.9%
Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	648170	670900	563,169.1	107,730.9	107,730.9	19.1%
Use of goods and services	669446	499558	581,655.0	-82,097.0	82,097.0	14.1%
Capital investment	772338	484485	671,053.7	-186,568.7	186,568.7	27.8%
Interest	22500	17842	19,549.4	-1,707.4	1,707.4	8.7%
Subsidies	13743	38536	11,940.7	26,595.3	26,595.3	222.7%
Transfers/Grants	427330	353712	371,290.0	-17,578.0	17,578.0	4.7%
Social benefits	34467	50510	29,947.0	20,563.0	20,563.0	68.7%
Other expenses	261308	360102	227,040.1	133,061.9	133,061.9	58.6%
Total expenditure	<u>2849302</u>	<u>2475645</u>	2,475,645.0	0.0	575,902.1	
composition variance						23.3%

Results Matrix

year	composition variance
2015	16.9%
2016	23.9%
2017	23.3%

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	180000	154075	177,838.3	23,763.3	23,763.3	13.4%
Vehicle, environmental charges, etc	64288	74974	63,515.9	11,458.1	11,458.1	18.0%
Trade name fee	80000	52468	79,039.2	26,571.2	26,571.2	33.6%
Property income	155400	234673	153,533.7	81,139.3	81,139.3	52.8%
Sales of goods and services	30500	24981	30,133.7	-5,152.7	5,152.7	17.1%
Fines, penalties and forfeits	26000	30473	25,687.7	4,785.3	4,785.3	18.6%
Administrative fees	87500	40888	86,449.2	45,561.2	45,561.2	52.7%
Other revenue	212691	233046	210,136.7	22,909.3	22,909.3	10.9%
Asset sales	20600	1109	20,352.6	19,243.6	19,243.6	94.6%
Total revenue	856979	846687	846,687.0	0.0	240,583.9	
overall variance						98.8%
composition variance						28.4%

Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	175000	193772	144,515.6	49,256.4	49,256.4	34.1%
Vehicle, environmental charges, etc.	65300	86815	53,925.0	32,890.0	32,890.0	61.0%
			0.0	0.0	0.0	0.0
Trade name fee	55000	67694	45,419.2	22,274.8	22,274.8	49.0%
Property income	140400	146084	115,942.8	30,141.2	30,141.2	26.0%
Sales of goods and services	27500	25018	22,709.6	2,308.4	2,308.4	10.2%
Fines, penalties and forfeits	27500	14981	22,709.6	-7,728.6	7,728.6	34.0%
Administrative fees	41000	33902	33,858.0	44.0	44.0	0.1%
Other revenue	251903	157927	208,022.4	50,095.4	50,095.4	24.1%
Asset sales	98000	1838	80,928.8	79,090.8	79,090.8	97.7%
Total revenue	881603	728031	728,031.0	0.0	273,829.6	
overall variance						82.6%
composition variance						37.6%

Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	180000	150180	142,672.9	7,507.1	7,507.1	5.3%
Vehicle, environmental charges, etc	78500	76146	62,221.2	13,924.8	13,924.8	22.4%
Trade name fee	60000	56845	47,557.6	9,287.4	9,287.4	19.5%

Property income	181100	128434	143,544.7	15,110.7	15,110.7	10.5%
Sales of goods and services	89000	134070	70,543.8	63,526.2	63,526.2	90.1%
Fines, penalties and forfeits	15500	15304	12,285.7	3,018.3	3,018.3	24.6%
Administrative fees	80000	94261	63,410.2	30,850.8	30,850.8	48.7%
Other revenue	89159	10802	70,669.8	59,867.8	59,867.8	84.7%
Asset sales	91000	18993	72,129.1	53,136.1	53,136.1	73.7%
Total revenue	864259	685035	685,035.0	0.0	256,229.3	
overall variance						79.3%
composition variance						37.4%

Results Matrix

year	total revenue deviation	composition variance
2015	98.8%	28.4%
2016	82.6%	37.6%
2017	79.3%	37.4%