



Bosnia and Herzegovina

Public Expenditure and Financial Accountability Assessment (PEFA)

May, 2014



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO



Report No. 82646-BA

Bosnia and Herzegovina Public Expenditure and Financial Accountability Assessment (PEFA)

May, 2014

**Operations Services Department
Europe and Central Asia Region**



Document of the World Bank

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not be disclosed without the World Bank's authorization.

CONTENTS

Abbreviations and Acronyms	vi
Bosnia and Herzegovina: PEFA Assessment.....	ix
Executive Summary of the Assessment.....	xiii
I. Introduction, Country Background, Context	15
A. Country Context and Economic Situation.....	15
B. Link to World Bank Country Partnership Strategy	20
C. Objectives of the PEFA Assessment	20
D. Methodology	20
E. Scope	21
F. How the Report is organized	21
II. PFM Overview of Bosnia and Herzegovina.....	23
A. Legal and Institutional Framework for PFM	27
B. Budgetary Responsibilities.....	28
III. The Four PEFA Assessments: Cross-Cutting Issues.....	37
A. Budget Planning and Fiscal Coordination	37
B. Budget Execution	40
C. Budget Reporting and Scrutiny	40
IV. Assessment of PFM Systems, Processes, and Institutions.....	42
BIH INSTITUTIONS	42
FEDERATION OF BIH	96
REPUBLIKA SRPSKA	150
DISTRICT BRČKO.....	197
DONOR PRACTICES	235
V. Reform Process.....	239
A. Recent and Ongoing Reform Measures	239
B. Expected Changes in Tax Legislation in Bosnia and Herzegovina.....	240
Annex 1. Bibliography and Source Documents.....	241
Annex 2: General Government Total Revenue and Expenditure (2010-2012).....	246
Annex 3. Extra Data Tables, Charts, and Graphs	247
Annex 4. Counterparts/People Interviewed.....	259
Annex5: Disclosure of Quality Assurance Mechanism.....	262
Annex6: Bosnia and Herzegovina Political Structure	264

Figures

Figure 1.1. Fiscal Balance and GDP Growth.....	16
Figure 2.1. General Government Structure in Bosnia and Herzegovina.....	23

Tables

Table 1.1. Key Economic Indicators for Bosnia and Herzegovina.....	15
Table 1.2. General Government State of Operations 2010-2016 (percent of GDP)	18
Table 1.3. Bosnia and Herzegovina - External Financing Requirements (in percent of GDP).....	19
Table 2.1. General Government Total Expenditure in Bosnia and Herzegovina.....	24
Table 2.2. Main Types of Tax Revenue in BiH	36
Table 4.1.1. Percentage Difference between Out-turn and Budget.....	49
Table 4.1.2.PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget	49
Table 4.1.3. Percentage Variance in Out-turn Composition compared to budget	50
Table 4.1.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget.....	50
Table 4.1.5. 2011 Annual Statement of Operations for BiH.....	51
Table 4.1.6. Actual ITA Revenues vs. MAU Projection	52
Table 4.1.7. Actual Revenues of BiH Institutions vs. Originally Approved Budget	53
Table 4.1.8.PI-3: Aggregate Revenue Out-turn compared to Originally Approved Budget.....	53
Table 4.1.9. Short-term Liabilities as at 31 December 2009 to 2011	54
Table 4.1.10.Cash and Precious Metals as at 31 December 2009 to 2011.....	54
Table 4.1.11.PI-4: Stock and Monitoring of Expenditure Payment Arrears.....	54
Table 4.1.12.PI-5: Classification of the Budget.....	55
Table 4.1.13. Comprehensiveness of Budget Documentation (BiH).....	56
Table 4.1.14.PI-6: Comprehensiveness of Information included in Budget Documentation	57
Table 4.1.15.PI-7: Extent of Unreported Government Operations	58
Table 4.1.16.PI-8: Transparency of Intergovernmental Fiscal Relations	60
Table 4.1.17.PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities.....	61
Table 4.1.18.Benchmarks to assess Public Access to Key Fiscal Information.....	61
Table 4.1.19.PI-10: Public Access to Key Fiscal Information.....	62
Table 4.1.20. BiH Institutions Budget Calendar (for 2013 budget).....	63
Table 4.1.21. Date of Enactment of Budget Law.....	64
Table 4.1.22.PI-11: Orderliness and Participation in the Annual Budget Process.....	64
Table 4.1.23.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy and Budgeting.....	68
Table 4.1.24.PI-13: Transparency of Taxpayer Obligations and Liabilities	70
Table 4.1.25.PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment	71
Table 4.1.26.PI-15: Effectiveness in Collection of Tax Payments	73
Table 4.1.27.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures	74
Table 4.1.28.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees	76
Table 4.1.29.PI-18: Effectiveness of Payroll Controls	78
Table 4.1.30. Use of Procurement Methods BiH, 2009-2012.....	80
Table 4.1.31.PI-19: Competition, Value for Money, and Controls in Procurement	82
Table 4.1.32.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure	84
Table 4.1.33.PI-21: Effectiveness of Internal Audit	86
Table 4.1.34.PI-22: Timeliness and Regularity of Accounts Reconciliation.....	86
Table 4.1.35.PI-23: Availability of Information on Resources Received by Service Delivery Units	87
Table 4.1.36.PI-24: Quality and Timeliness of In-year Budget Reports.....	88
Table 4.1.37.PI-25: Quality and Timeliness of Annual Financial Statements.....	89
Table 4.1.38.PI-26: Scope, Nature, and Follow-up of External Audit.....	90
Table 4.1.39. Extent to which the Legislature's Procedures are well Established and Respected.....	91

Table 4.1.40.PI-27: Legislative Scrutiny of the Annual Budget Law.....	93
Table 4.1.41. Schedule of Audit Report Dates to the BiH Parliamentary Assembly.....	94
Table 4.1.42.Parliamentary Scrutiny of Audit Reports.....	94
Table 4.1.43.PI-28: Legislative Scrutiny of External Audit Reports.....	95
Table 4.2.1. Percentage Difference between Out-turn and Budget.....	104
Table 4.2.2.PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget.....	104
Table 4.2.3. Percentage Variance in Out-turn Composition compared to Budget.....	105
Table 4.2.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget.....	106
Table 4.2.5. 2011 Annual Statement of Operations for FBiH.....	106
Table 4.2.6.Revenue of the Federation of Bosnia Herzegovina.....	109
Table 4.2.8.PI-3: Aggregate Revenue Out-turn compared to Originally Approved Budget.....	110
Table 4.2.9. Liabilities by EBFs and the FBiH Central Government.....	111
Table 4.2.10.PI-4: Stock and Monitoring of Expenditure Payment Arrears.....	111
Table 4.2.11.PI-5: Classification of the Budget.....	112
Table 4.2.12.Comprehensiveness of Budget Documentation (FBiH).....	113
Table 4.2.13.PI-6: Comprehensiveness of Information included in Budget Documentation.....	114
Table 4.2.14.PI-7: Extent of Unreported Government Operations.....	115
Table 4.2.15.PI-8: Transparency of Intergovernmental Fiscal Relations.....	118
Table 4.2.16.PI-9: Oversight of aggregate fiscal risk from other public sector entities.....	120
Table 4.2.17.Benchmarks to assess Public Access to Key Fiscal Information.....	120
Table 4.2.18.PI-10: Public Access to Key Fiscal Information.....	120
Table 4.2.19.FBiH Budget Calendar (for 2013 budget).....	121
Table 4.2.20. Date of Enactment of Budget Law.....	122
Table 4.2.21.PI-11: Orderliness and Participation in the Annual Budget Process.....	122
Table 4.2.22.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting.....	126
Table 4.2.23.PI-13: Transparency of Taxpayer Obligations and Liabilities.....	127
Table 4.2.24.PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment.....	129
Table 4.2.25.PI-15: Effectiveness in Collection of Tax Payments.....	130
Table 4.2.26.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures.....	132
Table 4.2.27.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees.....	134
Table 4.2.28.PI-18: Effectiveness of Payroll Controls.....	136
Table 4.2.29.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure.....	138
Table 4.2.30.PI-21: Effectiveness of Internal Audit.....	140
Table 4.2.31.PI-22: Timeliness and Regularity of Accounts Reconciliation.....	141
Table 4.2.32.PI-23: Availability of Information on Resources received by Service Delivery Units.....	141
Table 4.2.33.PI-24: Quality and Timeliness of In-year Budget Reports.....	143
Table 4.2.34.PI-25: Quality and timeliness of annual financial statements.....	144
Table 4.2.35.PI-26: Scope, Nature, and Follow-up of External Audit.....	145
Table 4.2.36. Extent to which the Legislature's Procedures are well established and Respected.....	146
Table 4.2.37.PI-27: Legislative Scrutiny of the Annual Budget Law.....	147
Table 4.2.38. Schedule of Audit report Dates to the FBiH Parliament.....	148
Table 4.2.39.PI-28: Legislative Scrutiny of External Audit Reports.....	149
Table 4.3.1. Percentage Difference between Out-turn and Budget.....	158
Table 4.3.2.PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget.....	158
Table 4.3.3. Percentage Variance in Out-turn Composition compared to Budget.....	159
Table 4.3.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget.....	160
Table 4.3.5. 2011 Annual Statement of Operations for RS (million BAM).....	160
Table 4.3.6.Government of Republika Srpska Budgeted and Actual Revenues 2009-11.....	162
Table 4.3.7.PI-3: Aggregate Revenue Out-turn compared to Original Approved Budget.....	162
Table 4.3.8.PI-4: Stock and Monitoring of Payment Arrears.....	163
Table 4.3.9 PI-5: Classification of the Budget.....	164

Table 4.3.10. Comprehensiveness of Budget Documentation (Republika Srpska)	164
Table 4.3.11. PI-6: Comprehensiveness of Information included in Budget Documentation	165
Table 4.3.12. PI-7: Extent of Unreported Government Operations	166
Table 4.3.13. PI-8: Transparency of Intergovernmental Fiscal Relations	168
Table 4.3.14. PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities	170
Table 4.3.15. Benchmarks to assess Public Access to Key Fiscal Information	170
Table 4.3.16. PI-10: Public Access to Key Fiscal Information	170
Table 4.3.17: Republika Srpska Budget Calendar (for 2013 budget)	171
Table 4.3.18. Date of Enactment of Budget Law	172
Table 4.3.19. PI-11: Orderliness and Participation in the Annual Budget Process	172
Table 4.3.20. PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting	175
Table 4.3.21. PI-13: Transparency of Taxpayer Obligations and Liabilities	176
Table 4.3.22. PI-14: Effectiveness of measures for taxpayer registration and tax assessment	178
Table 4.3.23. PI-15: Effectiveness in Collection of Tax Payments	179
Table 4.3.24. PI-16: Predictability in the Availability of Funds for Commitment of Expenditures	180
Table 4.3.25. PI-17: Recording and Management of Cash Balances, Debt, and Guarantees	182
Table 4.3.26. PI-18: Effectiveness of Payroll Controls	184
Table 4.3.27. PI-20: Effectiveness of Internal Controls over Non-salary Expenditure	185
Table 4.3.28. PI-21: Effectiveness of Internal Audit	187
Table 4.3.29. PI-22: Timeliness and Regularity of Accounts Reconciliation	188
Table 4.3.30. PI-23: Availability of Information on Resources received by Service Delivery Units	189
Table 4.3.31. PI-24: Quality and Timeliness of In-year Budget Reports	189
Table 4.3.32. PI-25: Quality and Timeliness of Annual Financial Statements	191
Table 4.3.33. PI-26: Scope, Nature, and Follow-up of External Audit	192
Table 4.3.34. Extent to which the Legislature's Procedures are well Established and Respected	193
Table 4.3.35. PI-27: Legislative Scrutiny of the Annual Budget Law	194
Table 4.3.36. Schedule of Audit Report Dates to the RS National Assembly	195
Table 4.3.37. National Assembly Scrutiny of Audit Reports	195
Table 4.3.38. PI-28: Legislative Scrutiny of External Audit Reports	196
Table 4.4.1. Percentage Difference between Out-turn and Budget	204
Table 4.4.2. PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget	204
Table 4.4.3. Percentage Variance in Out-turn Composition compared to Budget	205
Table 4.4.4. PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget	205
Table 4.4.5. 2011 Annual Statement of Operations for DB	205
Table 4.4.6. District Brčko Revenues, with and without Indirect Taxes	207
Table 4.4.7. PI-3: Aggregate Revenue Out-turn compared to Original Approved Budget	207
Table 4.4.8. PI-4: Stock and Monitoring of Expenditure Payment Arrears	208
Table 4.4.9. PI-5: Classification of the Budget	209
Table 4.4.10. Comprehensiveness of Budget Documentation (District Brčko)	209
Table 4.4.11. PI-6: Comprehensiveness of Information included in Budget Documentation	210
Table 4.4.12. PI-7: Extent of Unreported Government Operations	211
Table 4.4.13. PI-8: Transparency of Intergovernmental Fiscal Relations	212
Table 4.4.14. PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities	212
Table 4.4.15. Benchmarks to assess Public Access to Key Fiscal Information	213
Table 4.4.16. PI-10: Public Access to Key Fiscal Information	213
Table 4.4.17. District Brčko Budget Calendar (for 2013 budget)	214
Table 4.4.18. Date of Enactment of Budget Law	215
Table 4.4.19. PI-11: Orderliness and Participation in the Annual Budget Process	215
Table 4.4.20. PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting	217
Table 4.4.21. PI-13: Transparency of Taxpayer Obligations and Liabilities	218
Table 4.4.22. PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment	220

Table 4.4.23.PI-15: Effectiveness in Collection of Tax Payments	221
Table 4.4.24.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures	222
Table 4.4.25.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees	224
Table 4.4.26.PI-18: Effectiveness of Payroll Controls	225
Table 4.4.27.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure	227
Table 4.4.28.PI-22: Timeliness and Regularity of Accounts Reconciliation.....	228
Table 4.4.29.PI-23: Availability of Information on Resources received by Service Delivery Units.....	228
Table 4.4.30.PI-24: Quality and Timeliness of In-year Budget Reports.....	229
Table 4.4.31.PI-25: Quality and Timeliness of Annual Financial Statements	230
Table 4.4.32.PI-26: Scope, Nature, and Follow-up of External Audit.....	231
Table 4.4.33. Extent to which the Legislature's Procedures are well Established and Respected	232
Table 4.4.34.PI-27: Legislative Scrutiny of the Annual Budget Law.....	233
Table 4.4.35. Submission of Audit Reports to and Adoption by the Assembly	234
Table 4.4.36.Parliamentary Scrutiny of Audit Reports.....	234
Table 4.4.37.PI-28: Legislative Scrutiny of External Audit Reports	235
Table 4.5.1.D1: Predictability of Direct Budget Support.....	237
Table 4.5.2. Programmed and Actual EU disbursements, 2009-2012	237
Table 4.5.3.D-2: Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid	238
Table 4.5.4.D-3: Proportion of Aid Managed by the Use of National Procedures	238

ABBREVIATIONS AND ACRONYMS

AGA	Autonomous government agency	IPA	Instrument for Pre-Accession Assistance
BiH	Bosnia and Herzegovina	IPSAS	International Public Sector Accounting Standards
BUPRT	Budget User Priority Review Table	ITA	Indirect Taxation Authority
CAD	Current account deficit	MAU	Macroeconomic Analysis Unit
CBBiH	Central Bank of Bosnia and Herzegovina	MDAs	Ministries, Departments and Agencies
CHU	Central Harmonization Unit	MoF	Ministry of Finance
CoA	Chart of accounts	MFT	Ministry of Finance and Treasury
COFOG	UN Classification of the Functions of Government	MTEF	Medium-term expenditure framework
CPS	Country Partnership Strategy	NGO	Nongovernmental organization
CSA	Civil Service Agency	OECD	Organisation for Economic Co-operation and Development
DB	Brčko District	PE	Public enterprise
DeMPA	Debt Management Performance Assessment	PFM	Public Financial Management
DFID	Department for International Development (UK)	PIFC	Public Internal Financial Control
DoF	Directorate of Finance	PIMIS	Public Investment Management Information System
DPL	Development policy loan	PIP	Public Investment Programme
DSA	Debt sustainability analysis	PPA	Public Procurement Authority
EBF	Extra-budgetary fund	PPL	Public Procurement Law
EBRD	European Bank for Reconstruction and Development	PPP	Public-private partnership
EU	European Union	PRB	Public Procurement Review Board
FBiH	Federation Bosnia and Herzegovina	TA	Tax Administration
FDI	Foreign direct investment	RA	Revenue Administration
GDP	Gross domestic product	RS	Republika Srpska
GFS	Government Financial Statistics	SAI	Supreme Audit Institution
HRMA	Human Resources Management Authority	SAFE	Strengthening Accountability and Fiduciary Environment
IFI	International financial institution	SBA	Stand-By Arrangement
IMF	International Monetary Fund	SOE	State-owned enterprise
INTOSAI	International Organization of Supreme Audit Institutions	STA	Single treasury account
		TIN	Tax Identification Number
		USAID	United States Agency for International Development
		VAT	Value-added tax

CURRENCY AND EQUIVALENT UNITS

(Exchange Rate Effective as of 17, December 2013)

Currency Unit = Convertible Mark

BAM 1.00 = US\$ 0.704356

US\$ 1.00 = BAM 1.419737

FISCAL YEAR

January 1 – December 31

WEIGHT AND MEASURES

Metric System

ACKNOWLEDGMENTS

The PEFA Assessment team gratefully acknowledges the extensive cooperation and assistance of officials from across the Government of Bosnia and Herzegovina. In particular, the Bank team would like to recognize the leadership exercised by the government officials in overall coordination of this work across four levels of government in Bosnia and Herzegovina, and senior officials from relevant ministries and agencies, including the Ministries of Finance of the BiH Institutions, the Federation of Bosnia and Herzegovina, Republic of Srpska, and Brčko District. The full list of government officials and representatives met during this study is shown in Annex 5.

This PEFA Assessment received generous support and funding from the World Bank-administered trust fund for Strengthening Accountability and Fiduciary Environment (SAFE). The SAFE Trust Fund was established by the Swiss State Secretariat for the Economic Affairs and the European Commission with the aim of improving public financial management in the Europe and Central Asia region. This Trust Fund group provides support for activities to assess public financial management (PFM) performance, identify and implement actions to achieve improvements and share knowledge and good practices across countries in the Europe and Central Asia region.

The World Bank PEFA team comprised Lamija Marijanovic (team leader, Financial Management Specialist, Bosnia and Herzegovina), Rajeev Kumar Swami (Adviser to the team, Lead Financial Management Specialist, Europe and Central Asia Region/East Asia and Pacific), Andrew James Mackie (Senior Financial Management Specialist, Europe and Central Asia Region), Antonio Leonardo Blasco (Senior Financial Management Specialist, Europe and Central Asia Region), Sandra Hlivnjak (Country Economist, Bosnia and Herzegovina), Abebe Adugna (Lead Economist, Western Balkans), Simon Davies, (Economist, ECSP2), Nikola Kerleta (Procurement Specialist), Lilia Razlog (Debt Management Specialist, Public Sector Anchor), Sanja Tanic (Team Assistant, Bosnia and Herzegovina), Jamie Jill Lazaro (Junior Professional Associate), Naida Carsimamovic Vukotic (Public Financial Management consultant, Bosnia and Herzegovina), Tatjana Milisic (Tax Specialist, Bosnia and Herzegovina), and consultants from the firm PFK (U.K.).

The PEFA team received invaluable guidance, inputs, and support from Soukeyna Kane (Sector Manager, Financial Management), Anabela Abreu (World Bank Country Manager, Bosnia and Herzegovina), Lewis Hawke (Lead Public Sector Specialist), Philip Sinet (PEFA Secretariat) and Oleksii Balabushko (Public Financial Management Specialist). Patricia Rogers provided valuable assistance in report production and coordination.

BOSNIA AND HERZEGOVINA: PEFA ASSESSMENT

Accountability (PEFA) Assessment: Overview of the Indicator Set

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>BiH</i>	<i>FBiH</i>	<i>RS</i>	<i>DB</i>
A. PFM OUT-TURNS: Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C	A	A	C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B+	B+	A	C+
i)	• Extent of the variance in expenditure composition during the last three years, excluding contingency items		B	B	A	C
ii)	• The average amount of expenditure actually charged to the contingency vote over the last three years		A	A	A	A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A	A	B	B
i)	• Actual domestic revenue compared to domestic revenue in the originally approved budget		A	A	B	B
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	NR	NR	NR
i)	• Stock of expenditure payment arrears (as a % of actual total expenditure for the corresponding fiscal year), and any recent change in the stock		A	NR	NR	NR
ii)	• Availability of data for monitoring the stock of expenditure payment arrears		A	D	D	D
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5	Classification of the budget	M1	C	C	C	B
i)	• The classification system used for formulation, execution, and reporting of the central government's budget		C	C	C	B
PI-6	Comprehensiveness of information included in budget documentation	M1	B	C	B	B
i)	• Share of listed information in the budget documentation most recently issued by the central government		B	C	B	B
PI-7	Extent of unreported government operations	M1	C+	D+	D+	A
i)	• The level of extra-budgetary expenditure (other than donor-funded projects) that is unreported, i.e., not included in fiscal reports		A	D	D	A
ii)	• Income/expenditure information on donor-funded projects that is included in fiscal reports		C	C	C	A
PI-8	Transparency of intergovernmental fiscal relations	M2	NA	D	B	NA
i)	• Transparency and objectivity in the horizontal allocation among subnational governments		NA	D	B	NA
ii)	• Timeliness of reliable information to subnational governments on their allocations		NA	D	B	NA
iii)	• Extent of consolidation of fiscal data for general government according to sector categories		NA	D	C	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	D	C+	C
i)	• Extent of central government monitoring of autonomous government agencies (AGAs) and public enterprises (PEs)		A	D	C	C
ii)	• Extent of central government monitoring of subnational governments' fiscal position		NA	D	A	NA
PI-10	Public access to key fiscal information	M1	A	B	A	B
i)	• Number of the listed elements of public access to information that is fulfilled		A	B	A	B

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>BiH</i>	<i>FBiH</i>	<i>RS</i>	<i>DB</i>
C. BUDGET CYCLE						
C(i)POLICY-BASED BUDGETING						
PI-11	Orderliness and participation in the annual budget process	M2	C	B	A	C+
i)	• Existence and adherence to a fixed budget calendar		C	C	A	C
ii)	• Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)		B	A	A	A
iii)	• Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)		D	C	A	D
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D+	D+	D+	D+
i)	• Preparation of multiyear fiscal forecasts and functional allocations		C	C	C	C
ii)	• Scope and frequency of debt sustainability analysis		D	D	D	D
iii)	• Existence of sector strategies with multiyear costing of recurrent expenditure and investment expenditure		D	D	D	D
iv)	• Linkages between investment budgets and forward expenditure estimates		C	C	C	C
C(ii)PREDICTABILITY AND CONTROL IN BUDGET EXECUTION						
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C	B	C
i)	• Clarity and comprehensiveness of tax liabilities		B	C	C	C
ii)	• Taxpayer access to information on tax liabilities and administrative procedures		B	C	A	C
iii)	• Existence and functioning of a tax appeals mechanism		C	C	C	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C+	B	B	B
i)	• Controls in the taxpayer registration system		C	C	B	B
ii)	• Effectiveness of penalties for noncompliance with registration and declaration obligations		B	B	B	B
iii)	• Planning and monitoring of tax audit and fraud investigation programs		C	B	B	C
PI-15	Effectiveness in collection of tax payments	M1	C+	NR	NR	D+
i)	• Collection ratio for gross tax arrears		C	NR	NR	B
ii)	• Effectiveness of the transfer of tax collections to the Treasury by the revenue administration		A	A	A	A
iii)	• Frequency of complete accounts reconciliation among tax assessments, collections, arrears records and receipts by the Treasury		C	D	B	D
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	C+	A	B+
i)	• Extent to which cash flows are forecast and monitored		A	A	A	B
ii)	• Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitments		A	C	A	A
iii)	• Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs		A	A	A	A
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B+	B	B+	B+
i)	• Quality of debt data recording and reporting		B	B	A	A
ii)	• Extent of consolidation of the government's cash balances		A	C	B	B
iii)	• Systems for contracting loans and issuing guarantees		B	B	B	B

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>BiH</i>	<i>FBiH</i>	<i>RS</i>	<i>DB</i>
PI-18	Effectiveness of payroll controls	M1	C+	D+	D+	D+
i)	• Degree of integration and reconciliation between personnel records and payroll data		B	B	D	D
ii)	• Timeliness of changes to personnel records and the payroll		A	A	B	B
iii)	• Internal controls applied to changes to personnel records and the payroll		C	C	C	C
iv)	• Existence of payroll audits to identify control weaknesses and/or ghost workers		A	B	B	D
PI-19	Competition, value for money, and controls in procurement	M2	C+	N/A	N/A	N/A
i)	• Transparency, comprehensiveness, and competition in the legal and regulatory framework		B	N/A	N/A	N/A
ii)	• Justification for use of less competitive procurement methods		D	N/A	N/A	N/A
iii)	• Public access to complete, reliable, and timely procurement information		C	N/A	N/A	N/A
iv)	• Existence of an independent administrative procurement complaints system		B	N/A	N/A	N/A
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	C+	D+	D+	D+
i)	• Effectiveness of expenditure commitment controls		B	C	C	A
ii)	• Comprehensiveness, relevance, and understanding of other internal control rules/procedures		C	D	D	D
iii)	• Degree of compliance with rules for processing and recording transactions		B	D	D	D
PI-21	Effectiveness of internal audit	M1	C+	C+	D+	D
i)	• Coverage and quality of the internal audit function		C	C	D	D
ii)	• Frequency and distribution of audit reports		B	B	B	D
iii)	• Extent of management response to internal audit findings		C	C	C	D
	C(iii)ACCOUNTING, RECORDING, AND REPORTING					
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	A	A	B+
i)	• Regularity of bank reconciliations		A	A	A	B
ii)	• Regularity of reconciliation and clearance of suspense accounts and advances		A	A	A	A
PI-23	Availability of information on resources received by service delivery units	M1	NA	B	A	B
i)	• Collection and processing of information to demonstrate the resources that were actually received by the most common front-line service delivery units		N/A	B	A	B
PI-24	Quality and timeliness of in-year budget reports	M1	A	C+	A	C+
i)	• Scope of the reports in terms of coverage and compatibility with budget estimates		A	A	A	C
ii)	• Timeliness of report presentation		A	A	A	A
iii)	• Quality of information		A	C	A	B
PI-25	Quality and timeliness of annual financial statements	M1	C+	C+	C+	C+
i)	• Completeness of the financial statements		A	A	A	A
ii)	• Timeliness of submission of the financial statements (final accounts)		A	A	A	B
iii)	• Accounting standards used		C	C	C	C

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>BiH</i>	<i>FBiH</i>	<i>RS</i>	<i>DB</i>
C(iv)EXTERNAL SCRUTINY AND AUDIT						
PI-26	Scope, nature, and follow-up of external audit	M1	B+	C+	C+	C+
i)	<ul style="list-style-type: none"> • Scope and nature of audits performed, including adherence to auditing standards 		B	B	B	B
ii)	<ul style="list-style-type: none"> • Timeliness of submission of audit reports to legislature 		A	A	A	A
iii)	<ul style="list-style-type: none"> • Evidence of follow-up on audit recommendations 		B	C	C	C
PI-27	Legislative scrutiny of the annual budget law	M1	D+	D+	D+	D+
i)	<ul style="list-style-type: none"> • Scope of legislature's scrutiny of the annual budget law 		D	B	B	C
ii)	<ul style="list-style-type: none"> • Extent to which the legislature's procedures are well established and respected 		D	C	C	D
iii)	<ul style="list-style-type: none"> • Adequacy of time for the legislature to provide a response to budget proposals 		D	D	D	C
iv)	<ul style="list-style-type: none"> • Rules for in-year amendments to the budget without ex-ante approval by the legislature 		B	B	B	B
PI-28	Legislative scrutiny of external audit reports	M1	C+	D+	C+	D+
i)	<ul style="list-style-type: none"> • Timeliness of examination of audit reports by the legislature (for reports received within the last three years) 		B	D	A	C
ii)	<ul style="list-style-type: none"> • Extent of hearings on key findings undertaken by the legislature 		A	B	C	D
iii)	<ul style="list-style-type: none"> • Issuance of recommended actions by the legislature and implementation by the executive 		C	C	C	C
D. DONOR PRACTICES						
D-1	Predictability of direct budget support	M1	D			
i)	<ul style="list-style-type: none"> • Annual deviation of actual budget support from the forecast provided by the donor agencies 		D			
ii)	<ul style="list-style-type: none"> • In-year timeliness of donors' disbursements (compliance with aggregate quarterly estimates) 		D			
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	NA			
i)	<ul style="list-style-type: none"> • Completeness and timeliness of budget estimates by donors for project support 		NA			
ii)	<ul style="list-style-type: none"> • Frequency and coverage of reporting by donors on actual donor flows for project support 		NA			
D-3	Proportion of aid that is managed by use of national procedures	M1				
	<ul style="list-style-type: none"> • Frequency and coverage of reporting by donors on actual donor flows for project support 		D			

BOSNIA AND HERZEGOVINA: PEFA ASSESSMENT

EXECUTIVE SUMMARY OF THE ASSESSMENT

The fiscal system in Bosnia and Herzegovina (BiH) is highly decentralized, reflecting the provisions of the country's constitution. The general government sector consists of four relatively autonomous units: BiH Institutions, Brčko District (DB), and two Entities—Federation Bosnia and Herzegovina (FBiH) and Republican Srpska (RS). BiH Institutions are at the central government level (governed by the BiH Council of Ministers); and each Entity has its own government, extra-budgetary funds (EBFs), and local self-governance units. The structure in FBiH has 10 cantons that serve as a middle level of government between the government of FBiH and local self-governance units, and each canton has its own government and some EBFs. Cantons were not covered by this Report, but could be covered later as a sub-national PEFA assessment.

Indirect taxation is administered at the level of joint institutions of Bosnia and Herzegovina; whilst direct taxation is administered at the Entity level.¹ Social contributions are administered by EBFs in FBiH, while in RS, since January 1, 2010, they have been administered by the RS Tax Administration. Similarly, expenditure jurisdiction is divided among the levels of governance. According to data from the Central Bank of BiH, of the total BiH general government consolidated expenditure of around BAM 11.7 billion, BiH Institutions have a 9% share, FBiH a 58% share, RS a 32% share, and DB a 1% share.

A Fiscal Council was created in 2008, with the objective to coordinate fiscal policies for the sake of common interest of BH Institutions, Entities and Brcko District. For the most important role of fiscal coordination—preparing the Global Framework of the Fiscal Balance and Policy—in practice the Fiscal Council decides on revenues from indirect taxation and the budget of BiH Institutions, thereby creating preconditions for budget planning at lower level of governments, which are responsible for over 90% of public expenditures. Given that key government functions (social policy, subsidies, education, etc), are performed at sub-national level, timely decision making on BiH Institutions' revenues from indirect taxes is important in enabling timely implementation of their respective budgets.

Budget preparation. Budget planning procedures and calendars are broadly similar at all four levels: medium-term expenditure frameworks (MTEFs) are prepared each year and adopted in early summer, serving as a pre-draft of annual budgets, which are prepared in the fall and adopted by the parliaments by year-end. At all levels, budgets include economic and organizational classifications, while budget requests also include program formats. Only at the State level is program budgeting information, including program performance measures, a part of the budget documentation that accompanies the annual budget law in the adoption procedure.

Fiscal targets. The Global Framework of Fiscal Balance and Policies should set medium-term fiscal targets each year; however, the only fiscal goal they note is that the primary deficit and total public consumption should be reduced; while concerning debt they quote the annual ceilings for indebtedness of the budgets of institutions of: BiH, FBiH, RS, and DB, and in compliance with legal limits.²

¹ In RS, administration of direct taxes, in terms of accounting, control and collection of all public revenues, fall under responsibility of RS Tax Administration. After revenue allocation, some of revenues, namely taxes belong fully to RS Government Budget (e.g. profit tax), others belong to local self-governance unit (e.g. property tax), while some other public revenues are shared between these levels of authorities (e.g. income tax).

² Law on Fiscal Council in Bosnia and Herzegovina, 63/08 Article 5, Paragraph 3.

Reporting and audit. All four levels of government use the modified accrual basis³ for accounting, under which revenues are recognized as they become available and measurable, while expenditures are recognized when the liability is incurred. There may be concerns that not all government levels within the Entities use comparable recording. Among the four main government levels in BiH, the charts of account are generally detailed but are not harmonized. BiH Institutions, FBiH and RS are developing internal audit capabilities, and all four reviewed levels of government have an independent supreme audit institution (SAI).

Cross-cutting issues. The PEFA ratings and the justifications for them across BiH Institutions, FBiH, RS, and DB point to a number of issues that emerge as common themes across all four. While each of the four central government levels assessed has some particular weaknesses in its PFM system, for all of the four levels the process of preparing the budget and public investment programme is not well integrated with the medium-term macroeconomic outlook and overall/sectoral strategic documents (which are in many cases missing or not properly costed). Credible and comprehensive medium-term macro-fiscal strategies are lacking at all levels.

The coordination of fiscal policy is of particular importance in BiH, not only because of the decentralized fiscal structure, but also because the country's monetary policy is based on a currency board. Pursuant to the Constitution, fiscal policies and medium-term framework are defined in each Entity, while BiH Fiscal Council has fiscal policies coordination function through Global Framework of the Fiscal Balance and Policy (see discussion on fiscal targets above). In practice the BiH Fiscal Council decides on revenues from indirect taxation and the share of these revenues for BiH Institutions.

Despite some recent progress in budget execution, the lack of fully adequate internal controls (especially in public procurement) makes the PFM systems in BiH vulnerable to inefficiency and waste. In budget reporting, the fact that the charts of account of the four main government levels are not harmonized hampers access to consolidated data. Within the Entities (primarily in FBiH), consolidation of data for all general government levels—government, cantons, local self-governance units, and EBFs—is also complex, and data are generally not used to inform policy decisions. And in the context of budget scrutiny, despite recent improvements, better follow-up on external audit findings and recommendations is missing. Furthermore, the coverage/quality of internal audits and of performance audits performed by the SAIs is not comprehensive.

³Except of RS which is using full accruals basis starting from January 1, 2013

BOSNIA AND HERZEGOVINA: PEFA ASSESSMENT

I. INTRODUCTION, COUNTRY BACKGROUND, CONTEXT

A. Country Context and Economic Situation⁴

After two years of fragile recovery from the global recession, Bosnia and Herzegovina (BiH) experienced a double-dip recession in 2012 (Table 1.1). BiH grew by about 1 percent annually in 2010–11, but then GDP shrank by 1.2 percent in 2012. Deteriorating external conditions, a severe winter at the start of 2012, and wildfires in the second half of that year hit economic activity, adding to the impact from the second Eurozone economic dip. Consumption, investment, and exports were all affected. In addition, industrial production dropped sharply in 2012. The sharpest decline was in the export-oriented branches, reflecting decreased external demand. Manufacturing experienced a 7.6 percent cumulative output decline in 2012, followed by the energy and utility sector (-6.5 percent) and mining (-2.0 percent). Taken together, these factors resulted in an increase in unemployment and negative growth in 2012.

But indicators suggest a modest recovery in economic activity in 2013, supported by exports. Industrial production grew by 7.1 percent in during 2013. Manufacturing was up by 17.0 percent, intermediate goods by 10.5 percent and capital goods by 19.2 percent, all indicating a revival in the manufacturing sector. This revival was supported by export growth, with goods exports up by 6.6 percent in the year. Energy exports led the way (up 34 percent), followed by capital goods (up 12.5 percent), and consumer goods (durable up 10.6 percent, non-durable up 7.3 percent). Non-energy intermediate goods production declined, suggesting that the increase in the manufacture of intermediate goods was largely serving BiH's own manufacturing sector. Overall, the economy is estimated to have grown by 1.8 percent in 2013, following recovering exports demand, and is projected to grow by 2 percent in 2014.

Table 1.1. Key Economic Indicators for Bosnia and Herzegovina

	2011	2012	2013	2014	2015	2016
			Est.		Proj.	
GDP Growth	1.0	-1.2	1.8	2.0	3.5	4.0
Inflation	3.7	2.0	0.3	1.1	1.5	1.9
Unemployment rate	27.6	28.0	27.5
	<i>in percent of GDP</i>					
Consumption	108.7	108.6	106.2	106.4	105.4	104.6
Gross capital formation	15.6	16.0	16.6	16.3	16.4	16.2
National Savings	6.4	6.3	8.6	8.7	9.4	10.1
Saving-Investment balance	-9.2	-9.7	-7.9	-7.6	-7.0	-6.2
Fiscal Sector						
Revenue	46.1	46.2	45.9	46.2	45.7	45.7
Expenditure	48.9	49.0	48.1	47.5	47.0	46.5
Fiscal Balance	-2.8	-2.7	-2.2	-1.3	-1.3	-0.8
Public debt	40.5	45.1	44.9	42.8	40.2	37.4
External sector						
Current Account Balances	-9.9	-9.7	-5.4	-5.4	-5.4	-5.4
External Debt	49.1	52.4	53.0	53.9	52.4	49.5
FDI (Net)	2.6	1.9	1.9	2.3	2.3	2.3
Gross Official reserves (in months of imports)	5.4	5.4	5.2	5.1	4.9	4.6

Source: IMF and World Bank.

⁴World Bank Country Partnership Strategy for Bosnia and Herzegovina, for FY12-15 (Report No. 64428-BA).

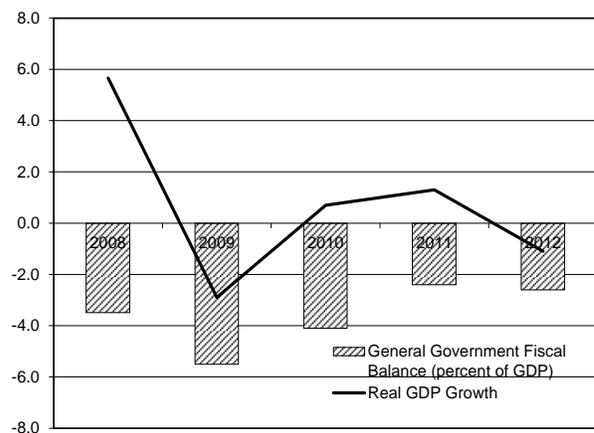
The currency board continued to support monetary stability and inflation remained low into 2013.⁵ Inflation declined from around 2 percent in 2012 (with core inflation below 1 percent) to turn negative (-1.4 percent) in 2013. International reserves, which are crucial to maintaining monetary stability, remained at a comfortable level during 2013, at around 5 months of imports. As a result of a stable nominal exchange rate and lower inflation in BiH than in major trading partners, the real effective exchange rate (REER) depreciated slightly during 2013 (-0.6 percent y-o-y). This suggests that the price competitiveness of the domestic economy increased, in comparison to its major trading partners.

After two years of large current account deficits (CADs), the external position improved during 2013, after two years of large current account deficits. The trade deficit declined from 32 percent of GDP in 2012 to 29.6 percent of GDP in 2013 thanks to higher exports of electricity and goods. Total exports of goods increased by 8.7 percent in compared to 2012, reflecting some improvement in external demand. At the same time, goods imports declined by -1.5 percent. A combination of foreign direct investments (FDI), remittances, grants and foreign credit financed the Current Account Deficit (CAD). Foreign direct (FDI) investment reached 1.8 percent of GDP in the first half of 2013, but then disappointed in the second half of the year, reaching only 1.9 percent over the whole year. The remainder of the CAD was financed by *Other Investments* (assets and liabilities of residents), and external borrowing (including from the IMF).

Remittances continue to be an important source of financial flows for BiH. Remittances held up during the crisis and remained a major part of the foreign financing, partly due to increased economic integration with the EU. In 2013, remittances in the narrow definition (workers' compensation and remittances) amounted to 10.4 percent of GDP (slightly down from 10.4 percent in 2012), and in the broader definition (narrow definition plus private current transfers) amounted to 15.6 percent of GDP (down from 16.5 percent of GDP in 2012).

While the banking sector remained stable and reduced its reliance on foreign financing, non-performing loans continued to grow during 2013. Many of the foreign-owned banks, which dominate the banking system, gradually deleveraged. Some of the largest banks in BiH contracted their balance sheets to repay deposits or loans from their parent banks. Banks' foreign liabilities, which accounted for 31 percent of total bank liabilities at end-2008 dropped to 18 percent of total bank liabilities at end-2012 and have continued declining during 2013 reaching 16.8 percent by the end of the year. The quality of credit portfolios deteriorated for the fourth year in a row alongside the stagnant economy. NPLs accounted for 13.5 percent of total loans in 2012 and reached 14.9 percent by end-September, 2013.

Figure 1.1. Fiscal Balance and GDP Growth



BiH faced significant challenges maintaining a prudent fiscal policy due to the global financial crisis. The authorities began fiscal consolidation in 2010 and reduced the deficit to 2.6 percent in 2012 (in line with the IMF program requirements) from 5.5 percent of GDP in 2009 (Figure 1.1). This consolidation was necessary due to reduced revenues (mainly due to growing VAT refunds and tax arrears) and lack of financing. In 2012, weak economic performance brought revenues down by 1.3 percent of GDP, with direct taxes and social security hit hardest. There is some concern that net indirect tax revenues have not yet picked up as projected, with large VAT refunds so far in the year. To maintain a sustainable fiscal

⁵The Bosnian convertible mark (KM) is managed by a currency board with a fixed exchange rate at a rate of KM 1.96: EUR 1.

stance in the face of declining revenues, measures were taken to reduce expenditures. Public expenditures were (and remain) excessively concentrated in non-growth enhancing areas. The authorities rebalanced expenditures by reducing spending on wages, subsidies and social protection in 2012. At the same time, capital spending increased. Total expenditure declined by 1.5 percent in 2012.

Total public debt increased slightly in 2012 but is considered sustainable. At the end of 2012, BiH public debt reached 45.1 percent of GDP and consisted of external debt (27.9 percent of GDP) and domestic debt (17.2 percent of GDP). External public debt is predominantly concessional debt to international financial institutions, while domestic public debt is in the form of long-dated bonds.

Growth in BiH is expected to pick up slowly. The medium-term macroeconomic framework is based on the assumption of a slow start to the economic recovery in both South East Europe and the EU. Over the medium term, growth is projected to increase gradually to 4.0 percent by 2016, based on increased exports, continued stable inflows of remittances, and some progress in implementing structural reforms. Still, the medium-term growth potential of BiH's economy is constrained by two main factors. The first is a weak business environment that still requires substantial reforms, and is hampering investment and growth. The second is a fiscal policy that remains focused on income redistribution rather than growth. Strengthening public financial management, including both debt management policies and practices, as well as focusing spending on growth-enhancing areas, will be an integral part of boosting economic growth. Ensuring the sustainability of the fiscal framework is the key to macroeconomic stability. Fiscal consolidation is expected to continue gradually over the medium term: from a deficit of 2.7 percent in 2012 to a deficit of 0.8 percent in 2016. Fiscal policy in 2013 targeted a reduction in the general government deficit to 2 percent. The latest of the Global Fiscal Framework for 2014-2016 (which determines the overall spending envelope and revenue share for the budget of the Institutions of BiH), is consistent with the medium term fiscal objectives and was adopted on 17 September 2013.

Revenues are expected to remain stable, but successful implementation of reforms could increase collections. Revenues are projected to remain broadly unchanged as a share of GDP (around 46 percent) over the medium term (Table 1.2). There may be scope to increase collections, including a better understanding of the cause of the current high VAT refunds. Excise taxes – notably on fuels and tobacco – may be increased over the medium term to align rates with those of the EU.

There is little room to increase expenditures over the medium term. Total expenditure is expected to decline slightly from 48.1 percent of GDP in 2013 to 46.5 percent in 2016. Better control of wages, public sector hiring, and the revision of veterans' benefits could generate savings. Spending in these areas is inefficient and fails to alleviate poverty.

External debt is expected to stay contained over the medium term. In 2012, BiH's external debt consisted of the public external debt (28 percent of GDP) and estimated private external debt (25 percent of GDP). There are no comprehensive statistics on the private external debt in BiH, but the largest share (60 percent) of this debt is owed by foreign-owned banks and mainly represents borrowing by subsidiaries from their parent banks to finance their operations in BiH. The remaining share of private external debt is owed by a number of large industrial companies (steel and aluminum manufacturers, large international retail chains) that are able to borrow directly from commercial banks abroad.

Table 1.2. General Government State of Operations 2010-2016 (percent of GDP)

	2010	2011	2012	2013	2014	2015	2016
				Est.		Proj.	
Revenue	46.5	46.1	46.2	45.9	46.2	45.7	45.7
Taxes	23.0	23.1	23.1	22.5	22.2	22.0	21.9
Direct taxes	3.6	3.5	3.6	3.7	3.5	3.5	3.5
Indirect taxes	19.4	19.5	19.5	18.8	18.7	18.4	18.3
Other taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.4	15.8	15.8	15.7	15.8	15.8	15.8
Grants	2.5	2.1	2.1	1.9	2.1	2.2	2.3
Other revenue	5.6	5.1	5.3	5.8	6.0	5.7	5.7
Expenditure	50.6	48.9	49.0	48.1	47.5	47.0	46.5
Expense	42.6	42.7	42.8	41.3	41.1	40.4	39.8
Compensation of employees	12.8	13.0	13.1	12.6	12.3	11.9	11.9
Use of goods and services	10.1	10.6	10.8	10.6	10.5	10.5	10.4
Social benefits	14.9	14.6	14.6	14.5	14.4	14.2	13.9
Interest	0.6	0.6	0.8	0.9	0.9	0.9	0.8
Subsidies	1.7	1.7	1.6	1.3	1.3	1.3	1.3
Other expense	2.6	2.1	1.9	1.5	1.3	1.6	1.6
Net acquisition of nonfinancial assets	8.0	6.3	6.2	6.7	6.5	6.6	6.7
Acquisition of nonfinancial assets	8.0	6.4	6.4	6.8	6.8	6.7	6.8
Foreign financed capital spending	4.3	3.6	3.2	4.1	4.1	4.1	4.2
Domestically financed capital spending	3.7	2.7	3.2	2.7	2.7	2.6	2.7
Disposal of nonfinancial assets	0.0	0.1	0.2	0.1	0.3	0.1	0.1
Gross / Net Operating Balance (revenue minus expense)	3.8	3.4	3.6	4.5	5.1	5.3	5.9
Net lending/borrowing (revenue minus expenditure)	-4.2	-2.9	-2.7	-2.2	-1.4	-1.3	-0.8
Net financial transactions = Net acquisition of financial assets minus Net incurrence of liabilities	-4.3	-2.9	-2.6	-2.2	-1.3	-1.3	-0.9

Source: IMF and World Bank.

On the domestic side, BiH has limited formal public debt as it did not issue bonds until 2007. They were issued to address the substantial domestic liabilities from the pre-war period, accumulated as a result of the 1992-95 war and the fiscal pressures in its wake. In response to a surge of court filings by individual claimants and vastly different court awards for similar claims, in 2004 both FBiH and RS enacted laws specifying the total amounts of liabilities, and the method of their settlement. With minor exceptions, the laws divided the claims into three large groups: general liabilities, liabilities on the basis of savings in foreign currency and liabilities on the basis of war damages. Repayment of these bonds has begun, and they will be fully repaid in compliance with terms and conditions stipulated by the Law. Given the limited development of local financial markets, all the financial resources cannot exclusively be provided from domestic sources.⁶

⁶The very first issuance, by the RS government in May 2011, was for €18.41 million of 6-month treasury bills. In the first quarter of 2013 two successful auctions of Entity T-bills were recorded: the first on the Sarajevo Stock Exchange with an average 1.89 percent interest rate, which is the record low interest rate and the second on the Banja Luka Stock Exchange, at a record high average interest rate on 6M T-bills of 3.98% in RS.

Table 1.3. Bosnia and Herzegovina - External Financing Requirements (in percent of GDP)

	2013	2014	2015	2016
	<i>in percent of GDP</i>			
Financial requirements	9.0	9.2	8.4	8.6
Current account deficit	5.4	5.4	5.4	5.4
Amortization	3.6	3.8	3.0	3.2
Government	2.3	2.6	2.0	2.4
Other	1.3	1.2	1.0	0.8
Financing	7.1	8.0	8.0	8.6
Capital transfers	1.0	1.0	1.0	1.0
FDI	1.9	2.3	2.3	2.3
Net bank financing	0.2	0.4	0.7	0.8
Foreign loans	4.3	4.7	4.4	3.6
Government	2.8	3.1	2.5	2.2
Other	1.5	1.6	1.9	1.4
Gross International reserves (+ = increase)	-0.2	-0.7	-0.4	0.2
Other	-0.1	0.3	0.0	0.7
Financing gap	1.9	1.2	0.4	0.0
IMF	1.2	0.7	0.1	0.0
EU	0.7	0.0	0.0	0.0
World Bank DPLs	0.0	0.3	0.3	0.0

Source: IMF and World Bank.

Public sector debt is expected to grow slightly in 2013, but is considered sustainable. External public sector debt is estimated to have grown from 27.9 percent in 2012 to 29.5 percent in 2013, while total public debt is projected to decrease from 45.1 percent in 2012 to 44.9 percent in 2013. External financing requirements are projected to decline slightly over the medium term, from 9 percent of GDP in 2013 to 8.4 percent by 2015 (Table 1.3). The scenario is embedded in the overall macroeconomic framework, which assumes sustained fiscal consolidation through the implementation of the planned reforms. The scenario would be vulnerable to a sharp depreciation in the currency, a non-interest CAD shock, an unexpected slowdown in GDP growth, or inadequate fiscal consolidation. In particular, a depreciation of 30 percent would imply an increase in the debt level to around 72 percent of GDP, which represents an extreme scenario with only small probability of happening.

There are external and internal risks to the macroeconomic outlook and the reform program. External risks are related to possible delays in Europe's overall economic recovery. Since the EU countries continue to be BiH's largest trading partner, delays in Europe's recovery would affect BiH's economic outlook through their adverse impact on exports, remittances, and capital flows. External economic developments and the pace of economic recovery in the key export markets are both uncertain and beyond the control of the authorities. Internally, political risks are the largest cause for concern. BiH's challenging political environment presents a tough background for reforms, particularly taking into consideration pending general elections, which bring clear risks for implementation of required reforms—including fiscal measures that are needed and that may even have to be further adjusted over time.

B. Link to World Bank Country Partnership Strategy

The World Bank's 2012-2016 Country Partnership Strategy (CPS) aims to support BiH through greater leveraging of knowledge and advisory services, and with focused and targeted financing. Additionally, the World Bank will seek to partner with the EU, including through cofinancing of operations and analytical work. The CPS supports BiH's EU aspirations.

The CPS is organized around three broad pillars: (a) Sustain Growth and Improve Competitiveness; (b) Improve Public Service Delivery and Make Growth More Inclusive; and (c) Sustainable Use of Natural Resources and Climate Change. In each of these pillars, the CPS articulates the range of advisory and financial products the World Bank is making available across a number of sectors and cross-cutting areas.

The PEFA assessment is closely related to this partnership framework. First, modernization of public financial management (PFM) in the country is of significant importance to sustain good economic management and improved governance arrangements (CPS Pillar I). Since transparent and accountable PFM is a critical element of good governance and efficient use of public resources, the findings from this PEFA Assessment will inform the PFM reform strategies that will be part of the Bank's nonlending assistance to the government.

Second, the performance of PFM systems, particularly in the areas of revenue management and national investment planning, is significant to supporting government efforts as a regulator and provider/purchaser of services to/from the private sector. Moreover, well-functioning PFM systems are also important for ensuring that resources intended for pro-poor growth and poverty reduction actually get allocated to targeted programs—for example, through improved management of resources in primary and secondary schools, improved governance in health system expenditures, and improved management to execute targeted social safety net and social benefit programs (CPS Pillar II).

The PEFA Assessment is also aligned with the CPS principles of building and deepening partnerships with European institutions. This PEFA assessment is funded by a grant from the Strengthening Accountability and Fiduciary Environment (SAFE) Trust Fund, which itself is financed with contributions from the European Commission and the Swiss State Secretariat for Economic Affairs.

C. Objectives of the PEFA Assessment

This 2013 Bosnia and Herzegovina PEFA Assessment is prepared in response to the request of the governments of Bosnia and Herzegovina for such an assessment to benchmark the country's PFM systems against international standards as a basis for improving the effectiveness and efficiency of public spending, supporting the country's efforts to modernize and better align with EU Directives. It is also intended to provide a baseline assessment of the BiH PFM system, which would contribute to revision of existing strategic documents related to the improvement of public financial management, including the revision of the public administration reform strategy. It also provides the benchmark against which future improvements in the PFM system could be measured through follow up PEFA Assessments.

D. Methodology

The analysis for the 2013 performance report is based on information collected and data reported for the year 2012 and earlier years, as required by the PEFA methodology. However specifically for the basic PI calculations, information collected during the field visits held in January to April 2013 was for the years FY 2009 to FY 2011. The basic approach was applied to each of the four governments included in this PEFA assessment:

- Collect and review existing primary information sources, including relevant laws, administrative procedures, and financial and other performance data.

- Collect additional information and conduct interviews with officials through field work and specific meetings to complete the initial draft assessment.
- Consult with government agencies and other donors to confirm the team’s understanding of the performance information and discuss the PEFA ratings.

Detailed consultations were held with other donors during the development of both the concept note for the assessment and preparation of the report itself. These donors, which have strong interest in PFM, include the European Commission, which is providing budget support across a broad range of sectors, and the Swiss State Secretariat for Economic Affairs, as well as other international partners.

Each of the four governments was closely involved in the PEFA assessment process through provision of data, interviews, and validation of the draft results of the PEFA assessment. In each government, the Ministry of Finance was the main counterpart for the report. Consultations were also held with the four SAIs, Parliaments, Taxation and Customs Services, Public Procurement Agencies, and Public Procurement Review Bodies. No non-state actors were engaged in the preparation of the Report.

The PEFA assessment took account of recent analytical work on PFM, including Public Expenditure and Institutional Reviews (2012, 2006), an OECD/SIGMA Public Expenditure Management and Control Assessment (2011) and Public Procurement Assessment (2011, 2008), and various other donor-financed studies on PFM in BiH. These reports tend to analyze the progress made in key areas of PFM as part of ongoing efforts and to suggest a menu of policy reforms. In contrast, the PEFA assessment applies a comprehensive, standardized, and indicator-driven methodology that focuses on measuring the aggregate outcome of PFM systems performance.

E. Scope

This first-ever PEFA assessment covers the four levels of government of BiH: the State, FBiH, RS, and DB. In each of the government assessments, the reviews included line ministries, services, and agencies. The assessment also captures the activities of state-owned enterprises and local governments (e.g., in FBiH), to the extent that they raise fiscal risks to the central budget, but it does not include a detailed review of PFM systems and performance at the subnational level in general. Cantons were not covered by this report, but could be subject to a separate sub-national level PEFA assessment in the future. Aspects of decentralization are covered by indicators, as they are applicable for each of the governments assessed: PI-8 (Framework for intergovernmental fiscal relations); PI-9 (Fiscal risks arising from subnational governments); and PI-23 (Availability of information on resources at front-line service delivery units).

This PEFA assessment will provide critical knowledge and technical support for the Government to assess the results achieved to date and to design a coherent, results-oriented, and realistic program for further reform. Future PFM reform might be expected to focus on the following areas: full compliance with the EU *acquis*; strengthening of programs’ results orientation and performance monitoring as part of the budget process; compliance with procurement laws and internal controls; improved capacity of internal audit; prevention and detection of corruption; and further improvements in budget execution.

F. How the Report is organized

As this is the first single, comprehensive PFM assessment of any type for the four levels of government in BiH, this report has been organized and presented in a format that differs from standard PEFA Performance Reports.

Chapter 2 presents a high-level overview of PFM responsibilities and functions in BiH and of how they are allocated across the different governments. Given the unique organization of the country, this chapter notes the legal basis for the division of responsibilities and describes which budgetary responsibilities are

divided or shared across the governments. **Chapter 3** draws from the individual assessments and presents the most important cross-cutting issues—issues that have been identified and measured through the PEFA framework as lagging and that, if left unaddressed, may pose important risks to budget integrity and national development initiatives.

Chapter 4 presents the individual PEFA assessments of each of the four levels of government in four subsections, presented so that stakeholders will be able to read the government assessment relevant to their interests. Some caveats about the application of the PEFA indicators:

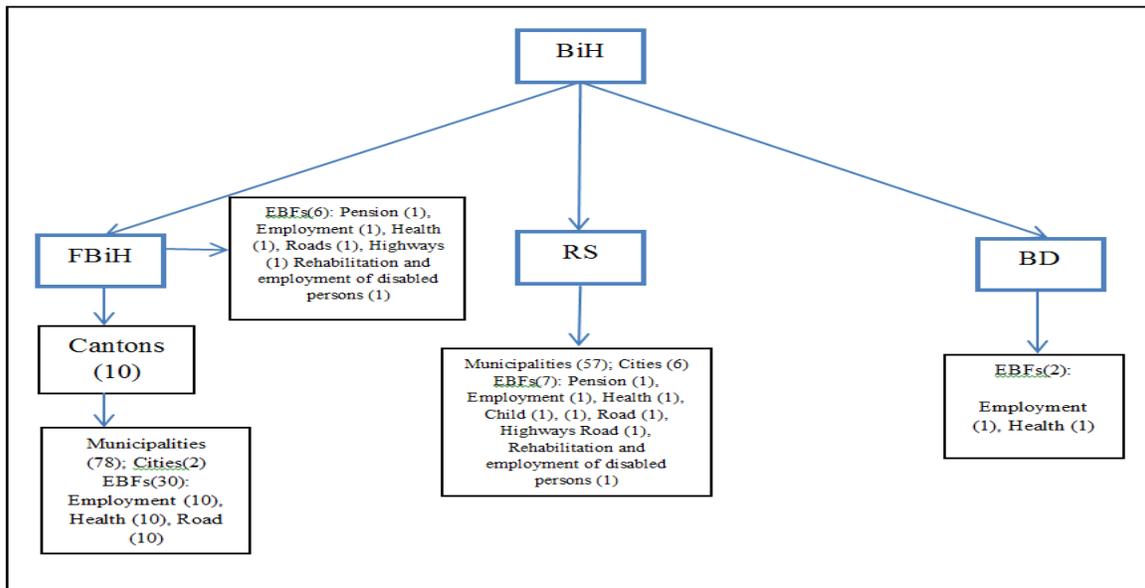
- Because of the constitutional and legal bases for the division of responsibilities across the four levels of government, some PEFA indicators cannot be measured or are not applicable at a specific level of government. Some indicators (e.g., public procurement, PI-19) are measurable at only one level (the State), even though they may affect the other governments.

In terms of the external debt (including budget support loans) and guarantees, they are for the most part contracted through the MFT BiH for all government levels in BiH. However, each government level has external donations which do not necessarily have to be contracted/authorized through the BiH Institutions for all government levels (although Ministry of Finance and Treasury does keep some data on grants which go to lower government levels, but only for few donors such as the World Bank and KfW and mostly in the cases where country-wide coordination/project implementation units are established). Furthermore, only a small portion of all donations go through government budgets (in comparison to only available estimate of total external donations) which is estimated roughly by the Central Bank within Balance of Payments based on the data on official development assistance to BiH published by the OECD-DAC and some collected directly from the donors present, external donations which go through the budgets represent a very small portion of total external donations (which were significant in earlier periods). In addition, among the four central government levels, only BiH Institutions budget includes some small donations in budget plans (only for those donations which can be planned with certainty), while Entity Government budgets essentially do not include any donations. However, budget execution reports at all levels do include review of actually executed donations which go through budgets. Thus, only a very small portion of total external donations seems to go through government budgets, out of which in turn very small portion (or nothing at all at the Entity level) is planned in government budgets due in part to lack of predictability. Overall, external donations, as opposed to external budget support loans, are not an important source of revenue for central governments in BiH, with only small portions going through the budgets. Even in the cases of external donations which goes through the budgets, they are either not planned at all in budget plans (at the Entity level) or only a small portion is planned in budget plan (BiH Institutions), implying poor predictability of inflows of external donations. Given that most of the donor funding refers to external debt and given than only small external donations are planned in the budgets (especially in the Entity budgets), the PEFA indicators measuring Donor Performance (D1-D3) in this Report are applied and measured only at the level of BiH Institutions. The flow of external debt information (among other dimensions of financial/budgetary reporting) on debt financing is not fluid across the governments of BiH and is captured by reporting on BiH Institutions Under the Stand By Arrangement (SBA) with the IMF, it is planned that the Entities will improve its reporting on foreign financed projects in 2014. Chapter 5 presents a brief overview of the different PFM reform initiatives underway across BiH.

II. PFM OVERVIEW OF BOSNIA AND HERZEGOVINA

The fiscal system in Bosnia and Herzegovina is highly decentralized, reflecting the provisions of the country's constitution. The general government sector consists of four relatively autonomous units (see Figure 2.1): BiH Institutions, Brčko District (DB), and two Entities—Federation Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). BiH Institutions are at the central government level (governed by the BiH Council of Ministers); each Entity has its own government and extra-budgetary funds (EBFs)—six in FBiH, seven in RS, and two in DB; and each Entity also has local self-governance units (78 municipalities and 2 cities in FBiH and 57 municipalities and 6 cities in RS). The structure in FBiH has 10 cantons that serve as a middle level between the government of FBiH and local self-governance units, and each canton has its own government and some EBFs. In general the assessment of public enterprises and local governments is beyond the scope of this report (and data for public enterprises and consolidation with general government sectors are generally not available in BiH); they are only reviewed to the extent that specific PEFA indicators require such a dimension to be included for measurement. Although Cantons are important (actual expenditures in 2012 according to Table 2.1: 28% of total FBH expenditures) in terms of overall expenditures at FBH level, were not covered in detail by this report.

Figure 2.1. General Government Structure in Bosnia and Herzegovina



Main revenue jurisdictions. Indirect taxation is administered at the level of joint institutions of Bosnia and Herzegovina; whilst direct taxation is at the Entity level (with differences between the Entities). In RS, direct taxes administration, in terms of control and collection of all public revenues falls under RS Tax Administration responsibility. Some of public revenues, namely taxes are allocated fully to RS Government budget (e.g. profit tax revenues), others are allocated to local level authorities (e.g. property tax revenues), while a portion of public revenues is shared between these levels of authorities (e.g. income tax revenues). Social contributions are administered by EBFs in FBiH, while in RS they have been administered by the RS Tax Administration.

Expenditure jurisdiction/government functions. State-level authorities include foreign affairs, defense, State security (through agencies such as Border Police, State Investigation and Protection Agency, Intelligence and Security Agency, and Directorate for Coordination of Police Bodies), agencies related to European Union (EU) integration (such as Institute for Standards, Institute for Intellectual Properties, Veterinary Office, Competition Council, Anti-Corruption Agency), State judiciary, election committee,

and coordinating ministries/agencies for other sectors (e.g., the State Ministry of Civil Affairs has Sectors for Education, Social Protection and Pensions, Health, Science, and Culture and Sport).

Each Entity has social security funds for pensions, health, and employment, as well as public entities for roads (in FBiH, cantons also have road, health, and employment funds). Other Entity-level functions differ between FBiH and RS. The RS government administers expenditures for education, health, local judiciary (other than the State judiciary), police (other than the State police), and social welfare, while in FBiH the cantons administer most of these expenditures. Local self-governance units are mostly in charge of local administrative services (such as birth/death certification, building permits/cadaster, and some business licensing); local utility/infrastructure for water and sewage, solid waste, and local roads; and some functions in education (in RS, preschool education and capital improvement of secondary schools; in FBiH, some expenditures for preschool and primary education in some cantons).

Expenditure jurisdiction among the government levels is not always clearly defined, and there are some overlaps, especially in FBiH between cantons and local self-governance units (and Sarajevo Canton has further complexities because of overlap between the city and the municipalities that are under city territory).

According to the Government Financial Statistics (GFS) data for 2011 (consolidated and published by the Central Bank of BiH, presented in Table 2.1), out of the total BiH general government consolidated expenditure of around BAM 11.7 billion, BiH Institutions have a 9% share, FBiH a 58% share, RS a 32% share, and DB a 2% share. In each Entity's expenditure, EBFs account for almost 50% of total expenditure (year 2012: for FBiH: 54.6%, and for RS 47%). In RS, the remainder of the Entity's expenditure is split between the RS government level, with 38% of the total in 2012, and local self-governance, with around 15% of total expenditure. In FBiH, local self-governance unit spending is 10% of the Entity's expenditure, while cantons and the FBiH government split the remaining 40% in a ratio of around 3:2.

Government employment. Data on the number of employees in the general government sector in BiH (excluding public enterprises) are not readily available, but data from the Finance Ministries (such as medium-term expenditure frameworks, or MTEFs) and other government documents suggest that the total number of employees is around 135,000, with 22,000 at the State level, 44,000 at the RS level, 66,000 at the FBiH level, and 3,000 at the DB level. Thus, according to registered employment data, every fifth registered employee in BiH (or every sixth employee, according to Labor Force Survey data) works in the general government (excluding public enterprises), representing a high burden on the BiH economy.

Table 2.1. General Government Total Expenditure in Bosnia and Herzegovina

<i>in mil BAM</i>	2010	2011	2012
BiH Institutions	1,085	1,024	1,005
Consolidated Federation of BiH	6,606	6,789	7,038
Government of FBiH	1,405	1,333	1,388
Cantons	1,947	1,946	1,983
Municipalities and cities	672	679	670
Extra-budgetary funds	2,982	3,236	3,399
Consolidated Republika Srpska	3,653	3,745	3,842
Government of RS	1,740	1,678	1,690
Municipalities and cities	594	587	619
Extra-budgetary funds	1,679	1,765	1,806
Brčko District	223	228	228
Consolidated BiH	11,474	11,680	11,987

Source: Central Bank of BiH. Includes total expenses and transactions in nonfinancial assets. Excludes foreign-financed projects, which do not go through budgets. Foreign debt servicing is presented at the State level here (since foreign debt servicing for both Entities and DB goes through the budget of BiH Institutions).

Macroeconomic and fiscal coordination. BiH's high level of fiscal decentralization, with no official harmonized methodology for fiscal reporting, presents a significant barrier to planning and monitoring fiscal policy in the country. The coordination of fiscal policy is of particular importance in BiH, not only

because of the complex fiscal structure, but also because the country's monetary policy is based on a currency board. Fiscal policy coordination is one of the ways to ensure fiscal discipline which is relevant within currency board context. Ensuring fiscal discipline and responsibility within the Entities is a precondition for ensuring fiscal discipline through fiscal policy coordination at the level of BiH Institutions, Entities and Brčko District.

After a long process of preparation and political negotiations, in July 2008 the BiH Parliamentary Assembly adopted the Law on the Fiscal Council of Bosnia and Herzegovina. The responsibilities given to the Fiscal Council⁷ in the legislation are as follows:

1. Coordinating fiscal policy in BiH.
2. Adopting the proposed document of the Global Framework of Fiscal Balance and Policy in BiH, which should contain the following parameters:
 - the proposed fiscal targets for the budgets of the institutions of BiH, FBiH, RS, and DB;
 - the proposed macroeconomic projections and the projection of the total indirect taxes and their allocation for the next fiscal year; and
 - the proposed ceiling for borrowing in the budgets of the institutions of BiH, FBiH, RS, and DB.
3. Adopting the proposed short-term and long-term macroeconomic projections.
4. Monitoring the realization of the set targets and criteria in issuing and executing the budget, as well as the taking of certain corrective measures and activities.
5. Establishing full coordination of the activities to comply with the budgetary calendars in preparing, adopting, executing, and auditing the budgets of the institutions of BiH, FBiH, RS, and DB.
6. Proposing priorities for improving the public finance sector in BiH.
7. Adoption of the budget of the Fiscal Council.

The four levels of Government's lack of credible macro-fiscal strategies is reflected in the quality of the Economic and Fiscal Programs it submits to the EU. The European Commission's assessment of the BiH 2013 Economic and Fiscal Program⁸ notes that fiscal sustainability needs to be anchored in credible medium-term strategies.

Public debt. Another general PFM issue worth noting is the public debt in BiH. According to IMF data, public debt in 2012 was around 44% of GDP in BiH—a level that is considered to be moderate in international terms. However, any analysis of debt level in BiH (both countrywide and Entity-specific) should be approached with caution, given the country's large infrastructure needs; potential large debt segments (such as restitution), which are currently excluded; and a recent trend of debt increases that

⁷ The permanent members of the Fiscal Council are the Chair of the Council of Ministers of BiH (who chairs the Fiscal Council sessions), the Prime Minister of the RS government, the Prime Minister of the FBiH, the Minister of Finance and Treasury of BiH, the Finance Minister of RS, and the Finance Minister of the FBiH. In addition to the six permanent members, sessions of the Fiscal Council also require the attendance of the Governor of the Central Bank and the Governor of Brčko District in their capacity as non-voting observers. Fiscal Council sessions may be held only if at least five members are in attendance; and decisions are valid only if five members vote in favor of them—that is, at least one representative from each of the constituent's votes affirmatively.

⁸Source: European Commission, European Economy Occasional papers 158: 2013 Economic and Fiscal Programs of Albania and Bosnia and Herzegovina: EC Commission's Overview and Country Assessment (July 2013).

include large budget support loans (spent in part for current expenditure, which still needs to undergo structural reforms).

The BiH Institutions has a major legal role in contracting of foreign debt of all levels in BiH, including the Entities and DB. After the Entity foreign loans have gone through all of the procedures at the Entity government level, the BiH Parliament must ratify all loans as the BiH is the ultimate guarantor of debt to international financial institutions (IFIs), and the BiH MFT administers all foreign debt servicing for all levels in BiH. Thus, virtually all of the countrywide foreign debt servicing (except some very small direct Entity foreign debt—around BAM 150 million in 2012) is a special part of the BiH Institutions budget (both in planned budget and in execution reports).

The BiH MFT regularly monitors all of the foreign debt servicing for the entire country, regularly exchanging information with the Entities and DB. It also monitors the implementation of such loans, including by reviewing annual project audit reports and approving any withdrawal applications. It reports monthly on debt monitoring and prepares a report on public debt in BiH (including both external and internal public debt stock and repayment projections) for the BiH Institutions' MTEF. In addition, it annually prepares a separate review of the country's total public debt, which it submits to BiH Parliament. Moreover, the regular quarterly, semiannual, and annual execution reports for the budget of BiH Institutions include a detailed overview of foreign debt servicing execution.

The Law on Borrowing, Debt and Guarantees of BiH stipulates that Advisory Committee for Debt (comprising of two representatives from Council of Ministers one of which is the Finance Minister, one representative from the Central Bank of BiH, two representatives from the Entity Governments including Finance Ministers, and Finance Directorate director from the Brčko District), which is supposed to be in charge of preparing state debt management strategy. However, in practice, this has not been implemented.

Currently, the only debt sustainability analysis is the analysis IMF prepares within their Article IV Country Reports or periodically in some of the reports in reviews under the Stand-By Arrangement (SBA) (four such analyses were prepared by the IMF in 2009-2013). The IMF debt sustainability analyses have so far been performed without active participation of the authorities in the preparation process (other than data provision) and that the authorities do not use this analysis in their strategic planning process (the debt sustainability analysis is not linked to a specific government debt strategy in terms of future borrowing policies and needs at any government level which are large, having in mind large infrastructure needs. In the forthcoming period, efforts shall be invested on the drafting of a full sustainability analysis with the assistance of the World Bank team, as well as within IPA projects.

However, it should be noted that the IMF has recently shared its methodology and instructions in terms of debt sustainability analysis with the Federal Ministry of Finance, based on the request of the Federal Ministry of Finance stemming from the conclusion of recent F BiH Debt Management Performance Assessment (DeMPA) prepared by the World Bank, which also found that no DSAs are undertaken, no sensitivity analyses are used, and no medium-term debt management strategy has been developed and it recommended that the technical assistance is provided to the FMF for the debt sustainability analysis. Thus, DSA preparation for the F BiH by the FMF can be expected in future, as it is prescribed by the new Law on Budgets in F BiH adopted in December 2013 that the debt sustainability analysis will have to be annexed to budget. The IMF DSA template has also been shared with the MFT in past years. But, currently there is no evidence that the authorities have prepared and used own or IMF DSA in their own strategic planning process.

A. Legal and Institutional Framework for PFM

The roles and responsibilities of different government levels in BiH are defined in numerous pieces of legislation, including the following:⁹

- **Constitution of BiH.** The constitution defines the main responsibilities of the BiH Institutions and Entities (Article III) and provides for the budget of BiH Institutions (Article VIII).
- **Organic Budget Legislation.** Each of the four main government levels has its own Organic Budget Law (Law on Financing of BiH Institutions, Law on Budgets in FBiH Law on Budget System in RS, and Law on Budget of DB). The laws mandate the preparation of annual budgets and of MTEFs.

BiH Institutions, FBiH, RS, and DB each adopts its own annual budget, and so do lower government levels—cantons, local self-governance units, and EBFs—separately. Each of the four main government levels also adopts a medium-term budget framework. The MTEFs for the Entities and DB are supposed to include all general government levels at that level (including cantons, local self-governance units and EBFs); however, for several years FBiH has adopted an MTEF only for the FBiH government level, while RS adopts MTEF with data covering local self-governance units as well as EBFs, projects financed by external sources, and Public Enterprises responsible of Roads and Motorways.

Using GFS methodology (only for Statement of Operations), the Central Bank of BiH, officially consolidates budget execution data for all general government sector levels (excluding only foreign finance projects, which do not go through budgets, but which IMF estimates for its own use). In addition, each month the Macroeconomic Analysis Unit (MAU) of the ITA Governing Board¹⁰ consolidates administrative fiscal execution data (excluding financing), including at the local self-governance level (with some delay in reporting at the lowest levels) in a basic format used by the IMF to monitor SBAs (not the full GFS 2011 methodology used by the Central Bank). RS reports on government activities including extra budgetary funds, some foreign-financed projects (including local government debt and the debt of entities in the ownership of RS). In FBiH not all government levels are included: road directorates, foreign-financed projects, and off-budget spending from escrow accounts are excluded. Both the Central Bank and the MAU publish historical execution data.

- **Tax Legislation.** The main indirect and direct tax legislation includes the Law on Indirect Taxation System in BiH, Law on Value-Added Tax in BiH, Law on Customs Policy and Law on Customs Tariff in BiH, Law on Excises in BiH (all countrywide and administered by the ITA), Law on Income Tax in FBiH, Law on Profit Tax in FBiH, Law on Social Contributions in FBiH, Law on Personal Income Tax in RS, Law on Corporate Profit Tax in RS, Law on Social Contributions in RS, Law on Personal Income Tax in DB, and Law on Corporate Profit Tax in DB.
- **Distribution of Revenues.** The main laws include the Law on Payments to the Single Account and Revenue Allocation, Law on Allocation of Public Revenues in FBiH, and in RS the distribution of revenues is covered by the Law on the Budget System of RS.
- **Treasuries.** State-level treasury-related provisions are in the Law on Finance of BiH Institutions; in addition, there are a Law on Treasury of FBiH, Law on Treasury of RS, and Law on Treasury of DB.

⁹ Annex 2 lists the full set of normative acts used for carrying out the PEFA assessment.

¹⁰ Although the ITA is only mandated to collect indirect taxes the MAU also reports on direct taxes collected by the Entities.

- **Debt Legislation.** Law on Borrowing, Debt and Guarantees in BiH; Law on Settlement of Liabilities from Foreign Currency Deposit Savings; Law on Debt, Borrowing and Guarantees in FBiH; Law on Borrowing, Debt and Guarantees in RS; and Law on Internal Debt of DB.
- **Internal Audit.** The Law on Internal Audit of BiH Institutions (the revised Law on Financing of BiH Institutions also includes some provisions relating to internal audit); Law on Internal Audit of Public Sector Institutions in the FBiH; and Law on Internal Audit of Public Sector Institutions in the RS (in DB, the Law on Budget of DB includes provisions about internal audit and financial control). In addition, a coordination board of all Central Harmonization Units (CHUs) in BiH (comprising managers of State and Entity CHUs), was established through the Law on Internal Audit of BiH Institutions with a view to harmonizing policies, procedures, and activities in the internal audit sphere in BiH; proposing amendments on internal audit legislation; adopting bylaws and a code of ethics for internal auditors; and developing/implementing training for and providing certification of internal auditors.
- **Public Sector Auditing.** All four main government levels have their own SAIs, each with its own laws and regulations in this area. However, the BiH Constitution does not include a clear declaration of the SAI role. The same applies to the constitution of the entities and the role of their respective SAIs. Legislation includes the Law on Auditing Institutions of Bosnia and Herzegovina, Law on the Auditing Institutions of FBiH, Law on Audit of Public Sector of RS, and Law on Audit of Public Administration and Institutions of DB.
- **Public Procurement.** Unlike other aspects of PFM in the BiH, the Public Procurement Law is unique in being enacted at the level of the BiH. All governments regulate their public procurement matters in compliance with this law; there is no separate procurement law at the level of the Entities or DB. The Public Procurement Law regulates the procurement process and defines the roles and responsibilities of different bodies such as the procuring entity, authorized agency, and complaint body. The Law still remains to be aligned with the EU *acquis*.¹¹ Under the SBA, the authorities have committed to adopt a new law on public procurement (by BiH Parliament) by the end of February 2014 to strengthen governance, enhance transparency, and bring procurement practices in BiH in line with those in the EU.
- **Fiscal Council.** The Law on the Fiscal Council of BiH.

B. Budgetary Responsibilities

This section explains budget preparation procedures, revenue sharing, fiscal rules, reallocation, data standards, budget classification, internal controls, public procurement, reporting, treasury operations, oversight/SAI, and other aspects of PFM in BiH.

Budget Preparation Procedures

The Fiscal Council of BiH and the Global Framework of Fiscal Balance and Policies in BiH are supposed to provide the main parameters (macro-fiscal projections, fiscal targets, revenue sharing, and overall fiscal and debt strategy) for preparing the MTEFs (which each of the four main government levels prepares annually). In turn, MTEFs are the basis for annual budgets. In addition to the Fiscal Council legislation, which regulates overall coordination, each of the four main government levels has its separate fiscal legislation and institutions for the budget processes and procedures.

¹¹ European Commission Staff Working Document: Bosnia and Herzegovina 2013 Progress Report (October 2013).

Budget planning procedures and calendars are broadly similar at all four levels:¹² MTEFs are prepared each year and adopted in early summer, serving as a pre-draft of annual budgets, which are prepared in the fall and adopted by the parliaments by year-end. At all levels, budgets include economic and organizational classifications, while budget requests also include program formats. Only at the State level is program budgeting information, including program performance measures, a part of the budget documentation that accompanies the annual budget law in the adoption procedure (as prescribed by the Law on Financing of BiH Institutions).

BiH Institutions. The Law on Financing Institutions of BiH defines the preparation, decision, execution, accounting, reporting, and supervision of the BiH budget, as well as public investments, single treasury account of joint institutions on the level of the BiH, and the principles, system, and harmonization of financial management and control in BiH Institutions. The law presents a detailed budget calendar, including the preparation of an MTEF covering the next budget year and the two following years (which should be adopted each year by June 30 by the Council of Ministers of BiH) and the adoption of an annual budget for the BiH Institutions (which is based on the medium-term budget framework and should be adopted by December 31 of each year by the BiH Parliament).

Federation Bosnia and Herzegovina. The legal basis for preparing the annual and medium-term budgets is the Law on Budgets in FBiH, which regulates preparation of the MTEFs and annual budgets and covers all general government levels in FBiH (FBiH government, cantons, local self-governance units, and EBFs). The new Law on Budgets in FBiH adopted in December 2013 strengthened legal prescription of the preparation of MTEFs and annual budgets. Some improvements in this new legislation include provision of more detail budget documentation; annexing financial plans of state-owned enterprises to the MTEF, annexing debt sustainability analysis to the budget documentation; strengthening procedures for adoption of budgets of extra-budgetary funds; introduction of better connection between economic policy and MTEFs; introduction of fiscal rule in terms of current budget balance; and establishment of Fiscal Coordination Body for FBiH. However, preparation of MTEFs of Cantons and local self-governance units is vaguely prescribed, and the preparation of comprehensive MTEF for entire general government sector in FBiH by the FMF does appear to be prescribed. Furthermore, the Law prescribes procedures for the FBiH government and briefly prescribes that the Federal Ministry of Finance also consolidates budget data for the lower government levels in FBiH, using data that cantons, municipalities, cities, and EBFs are obliged to submit to the FMF 15 days before adoption. Furthermore, while Law prescribes that the lower government levels send their budget execution reports to FMF (via Cantons in the case of local self-governance units), the usage of such consolidated data by the FMF is not clearly defined (as the annual budget execution report which FMF submits to Government and Parliament does not consolidate the data on execution of all general government sector levels in FBiH).

Republika Srpska. The new Law on Budget System in RS, adopted in December 2012, regulates preparation of the MTEFs and annual budgets and covers all general government levels in RS (RS government, local self-governance units, and EBFs). This law includes separate detailed budget calendars for the RS government, local self-governance units, and EBFs (local self-governance units and EBFs do not send inputs for the RS MTEF, but the RS government includes projections for these lower government levels in the RS MTEF).

Brčko District. The Law on Budget in DB regulates preparation of the MTEFs and annual budgets, covering the DB government and EBFs. It prescribes a detailed budget calendar.

Tax System and Revenue Sharing

¹² DFID's project *Strengthening Public Expenditure Management in BiH* provided technical assistance to help the Finance Ministries introduce broadly harmonized budget calendars and budget instructions, medium-term expenditure planning, and basic introductory principles of program budgeting at all levels.

Indirect Taxation. Indirect taxation is at the State level. Revenues from indirect taxation (VAT, customs, excises, and road tariffs) are shared among the State, the Entities, and DB. In the Entities they are further distributed according to different formulas among the Entity government, local self-governance units, and public entities for roads in both Entities and also to the cantons in FBiH. The indirect taxation legislation prescribes that out of total revenues, the revenues needed for BiH Institutions, defined by annual Budget Law (which is based on Fiscal Balance and Policies Global Framework) are subtracted first as well as revenues that are reserved for the refunding of indirect taxes (in 2013, 24% of total VAT collected). Then (based on a decision by the Office of the High Representative), DB gets 3.55% of remaining funds, or a minimum of BAM 124 million. Using a formula derived from the final consumption data on VAT forms, the remaining funds are divided between the two Entities: 63.93% for FBiH and 32.52% for RS (as of August 2013).¹³ In practice, in the past five years there have been political problems and delays in decisions about the amount BiH Institutions will get from the indirect taxation revenues and disputes about final consumption data, with consequent delays in decisions on the formula for sharing indirect taxation revenues between the two Entities.

From the funds available for each Entity, the resources required for servicing the relevant foreign debt of the entities are subtracted, and the remaining funds are distributed among the government levels within the Entities according to Entity laws. In FBiH, 36.2% belongs to the FBiH government, 51.48% to cantons (based on population, area, number of students, and development level of the canton), 8.42% to local self-governance units (also based on population, area, number of students, and development level), and 3.9% to public entities for roads. In RS, 72% belongs to the RS budget, 24% to budgets of local government (based on population, area, and number of students), and 4% "RS Roads" Public Enterprise.

Direct Taxation. Direct taxation is administered at the Entity level. In RS, personal income tax is shared among the government and local self-governance units: the government receives 100% of income tax on copyrights and intellectual property, capital income, and capital gains; 75% of personal wages and allowances and income from independent work); and 100% of corporate profit tax. In FBiH, personal income tax is shared among the cantons and local self-governance units, with cantons receiving 65.54% and local self-governance units receiving 34.46% (except in Sarajevo Canton, where the municipalities get only 1.79% of these revenues). Corporate profit tax belongs to the cantons, except for the sectors of electricity distribution, post offices, telecommunications and games of chance, which belong to the FBiH government. New amendments to the Law on Distribution of Revenues in FBiH, which are now in the parliamentary adoption procedures, envisage a decrease of cantons' share in personal income tax to 59% and simplify the revenue sharing in Sarajevo Canton.

Property/real estate¹⁴ tax revenues (including taxes on transfer of immovable property and rights) belong to local self-governance units in both Entities. In addition to that, in RS all the real estate in the ownership of citizens is being taxed, however transfer of ownership has not been subject to taxation since January 2012, when the Real Estate Fiscal Register was established in RS providing all necessary information on the tax base for this type of tax. In FBiH the property tax is being paid only on weekend homes and the sales, i.e. the transfer of ownership over property. The system providing information on the tax base for this type of taxes is incomplete, as it does not contain all the potential property / real estate that should be taxed, especially in FBiH.

Other Revenues. In addition to the indirect taxation revenues (which constitute around 70% of the revenues of BiH Institutions), other revenue belonging to the BiH Institutions includes administrative fees from BiH Institutions, revenue from State-level regulatory agencies (such as the Communications Regulatory Agency), and a share in the profit of the Central Bank of BiH.

¹³ Available at: http://www.uino.gov.ba/b/Poslovne_usluge/Jedinstveni_racun.html.

¹⁴ In RS this tax is called tax on real estate.

In addition to tax revenues, other revenues to the FBiH government include administrative, service, and penalty fees from federal government institutions, as well as revenues from FBiH assets or natural resources, including revenues from dividends and profit-sharing from public enterprises. Cantonal governments, in addition to the tax revenues described above, also have administrative, service, and penalty fees from cantonal government institutions and revenues from assets or natural resources owned by the cantons. Local self-governance units in FBiH, in addition to the tax and other revenues they share with the government of FBiH, also have municipal/city administrative, service, and penalty fees, communal fees, water protection fees, fees for use of assets or natural resources owned by the unit, sojourn taxes, and taxes on games of chance.

In addition to the tax revenues described above, the RS government shares some other revenues with local self-governance units: 70% of fees from the change of agricultural land purpose, 50% of rent fees for land owned by the government, 70% of concession fees for mineral raw materials, revenues from special water fees (with different shares for different types, most of which are shared in a ratio of 70:30 with local self-governance units), and 30% of revenue from confiscated assets. Other revenues of the RS government include administrative taxes and service and penalty fees from RS government institutions. Local self-governance units in RS, in addition to tax revenues, also have municipal/city administrative and service fees and cash penalty and revenues from assets or natural resources they own.

In both Entities and in DB, revenue for EBFs includes social contributions relevant to the specific fund and part of the indirect taxation revenues for public entities for roads, as well as other road fees and transfers from the entity governments for some funds.

Table in Annex 2 shows total revenues and expenditure for the general government sector in BiH, consolidated and published by the Central Bank.

Fiscal Rules

As of recently, both Entity Governments introduced legal fiscal rules that satisfy the usual definition of fiscal rules (being numerical, serving as a permanent constraint on fiscal policy, and relating to expenditure or debt levels). In RS, the fiscal rule has been introduced in 2012, when the new Law on Borrowing, Debt and Guarantees of RS was adopted, which prescribes that the total debt of RS, which covers the public debt of RS, the debt of public enterprises, the debt of the RS Investment Development Bank, and the debt of other public sector institutions, cannot exceed the level of 60% of GDP, while the public debt of RS (which covers the debt of Republika Srpska, debt of units of local self-governance, and the debt of the EBFs for social insurance) cannot exceed 55% of GDP.

The newly adopted Law on Budgets in FBiH (adopted in December 2013) stipulates a fiscal rule that the planned current budget must be balanced and, if a current deficit is executed, the government must plan for a current surplus in the next three years.

There are no fiscal rules for BiH Institutions or DB.

Debt Service. The Law on Borrowing, Debt and Guarantees of FBiH stipulates that future servicing of FBiH public debt cannot exceed 18% of current revenues, while future servicing of cantonal and local self-governance units' public debt in FBiH cannot exceed 10% of current revenues. The new Law on Borrowing, Debt and Guarantees of RS, adopted in 2012, stipulates that the public debt of Republika Srpska cannot exceed 55% of the GDP executed in that year, the total debt of Republika Srpska cannot exceed 60% of the GDP executed in that year, that units of local self-governance may borrow in long-term only if in the course of the period of the onset of debt the total amount that accrues for repayment, on the basis of the proposed debt and the total of accrued, outstanding existing debt, in any of the subsequent

years, does not exceed 18% of the amount of its regular revenues executed in the preceding fiscal year, etc.¹⁵

Fiscal Targets. The Global Frameworks of Fiscal Balance and Policies, adopted by the Fiscal Council each year, are expected to set medium-term fiscal targets each year (such targets could in theory be changed each year or set for the longer term). However, the Global Frameworks that have been adopted so far include illustrative aggregate tables of expenditures, revenues, and financing without explanations; text that sets the ceiling for the budget of BiH Institutions and establishes the State’s share of indirect taxation revenues; and briefly mention a target to reduce the primary fiscal deficit and total public consumption in BiH. The latest Global Framework adopted—that for 2014-2016—notes that the fiscal goal for 2013 is a continuing reduction of the primary deficit, expressed as the difference between current revenues and current expenditures corrected by net interest¹⁶, and that total public consumption should be reduced to below 40% of GDP by 2015. It should be noted that the previous Global Framework for 2013-2015 used exactly the same wording and format for fiscal targets. The Global Framework for 2011-2013 also noted the same fiscal target in terms of reduction of public consumption, while the primary deficit level was targeted at 2% of GDP for 2011. However, the consolidated report covers a different scope of data by individual levels of government, specifically¹⁷:

- Revenues and expenses of the budget of the Institutions of BiH,
- Revenues and expenses of the budget of F BiH, cantons, municipalities, funds, and cantonal directorates for roads in F BiH,
- Revenues and expenses of the budget of Republika Srpska, revenues and expenses of the users of the budget of the Republic that operate through their own bank accounts outside of the Main Treasury Ledger, of municipalities, cities, and funds in Republika Srpska, as well as external projects, funds on the “escrow” accounts and road toll, and
- Revenues and expenses of the budget of the District of Brčko and funds in the District of Brčko.

Debt Strategy. All the Global Framework that have been adopted quote annual limits for borrowing for the budgets of; BiH, F BiH, RS, and DB, in compliance with legal limits.

Reporting

All levels use the modified accrual basis for accounting, under which revenues are recognized as they become available and measurable, while expenditures are recognized when the liability is incurred, except in RS. At the level of RS, from January 1, 2013, IPSAS 23 – Revenues that do not originate from exchange (taxes, contributions etc.) has been adopted and is being applied; as a result the 2013 financial statements state revenues on an accruals basis. As the European Commission’s latest assessment of the BiH 2013 Economic and Fiscal Program¹⁸ notes, there may be concerns that not all government levels within the Entities (especially in F BiH) use comparable recording.

Among the four main government levels in BiH, the charts of account are generally detailed but are not harmonized. Lower levels of the general government sector report their budget execution data to the Entities’ and DB Ministries of Finance, but no consolidated budget data are presented to Parliament, because legal grounds for that have not been established. Furthermore, there are no publicly accessible, detailed and fully consolidated data on budget plans for all levels of government in BiH; the only

¹⁵The Law on Borrowing, Debt, and Guarantees of Republika Srpska, Articles 15, 40, 59, 60, and 61.

¹⁶Law on the Fiscal Council of Bosnia and Herzegovina. BiH Official Gazette, 63/08, Article 1, Line (2)

¹⁷Source; RS MoF

¹⁸Source: European Commission, European Economy Occasional papers 158: 2013 Economic and Fiscal Programs of Albania and Bosnia and Herzegovina: EC Commission’s Overview and Country Assessment (July 2013).

consolidated execution data on the general government sector in BiH are prepared and published by the Central Bank of BiH. However, efforts are being undertaken to make Fiscal Balance Global Framework a public document, available at web sites of the Ministries of Finance (BH MFT, RS MF, and FBH MoF). This fiscal reporting to the Central Bank of BiH is based on the bridging tables between the individual charts of account and GFS methodologies. It includes budget execution data consolidated for all general government sector levels (excluding only foreign-financed projects, which do not go through budgets, but which IMF estimates for its own use) by the Central Bank of BiH using GFS methodology (only for Statement of Operations), as shown in Table in Annex 2.

Reporting to the Central Bank (which has the exclusive mandate to collect, compile, and disseminate monetary, balance of payments, and GFS data) is based on a formal Memorandum of Understanding between the Central Bank and the Bosnia and Herzegovina Agency for Statistics. In addition to this consolidation of GFS data by the Central Bank, which is primarily statistical in nature, in terms of consolidating GFS data fiscal information GFS data provided by the Central Bank, each month the MAU of the ITA Governing Board consolidates administrative fiscal execution data (excluding financing), including for the local self-governance level, in a basic format used by the IMF to monitor SBAs (not the full GFS 2011 methodology used by the Central Bank). Not all government levels are included: public entities for roads, foreign-financed projects, and off-budget spending from escrow accounts are excluded. Thus, both the Central Bank and the MAU of the ITA Governing Board publish historical execution data; budget plans and the medium-term outlook are approximated for aggregate categories for the purpose of Global Frameworks and Economic and Fiscal Programs. The MAU with the ITA Governing Board does not have a clear mandate determined on this issue. IMF has been supporting the strengthening of fiscal reporting at all levels of government, which included technical assistance to help the authorities improve their capacity to produce consolidated fiscal reports on a general government basis by providing detailed bridging tables between the existing Charts of Accounts (which differ among different government levels) and the GFS reporting. This resulted in significant progress in terms of fiscal reporting, however, all the steps are not in place yet. The most important remaining step is to identify an institution that will be given full responsibility for preparing the consolidated reports, hence the necessity of establishing a clear legal framework.

Internal Audit and Control

Each State and Entity-level Finance Ministry has a Central Harmonization Unit (CHU), and their work is coordinated through a Coordination Board of Central Harmonization Units, whose members are the Directors of the three CHUs. The last meeting of the CHU Coordination Board was held in late 2011.

The CHU of the Ministry of Finance and Treasury of BiH (BiH CHU) was established in 2010 and charged with coordinating internal financial control and internal audit across all BiH Institutions which are financed from the budget. The Unit is mostly staffed, and the necessary rules and procedures have mostly been adopted by the BiH Institutions. The CHU's objective is that effective financial management and control arrangements, including internal audit, should be fully operational throughout the BiH Institutions, with all the necessary staff in place, by the end of 2016. BiH CHU has published two annual consolidated internal audit reports. The 2012 Consolidated Report on Internal Audit of BiH Institutions¹⁹ notes that significant progress was made in 2012: as of March 2013, internal audit is established in five BiH Institutions (with a total of 10 internal auditors). BiH CHU coordinates the work of all internal auditors and reports on the consolidated internal audit reports. In 2012, internal auditors at the level of BiH Institutions performed 50 internal audits (with 195 recommendations, mostly in the area of planning systems, public procurement, and travel expenses).

The Federation CHU (FBiH CHU) is charged with coordinating and strengthening financial management and control throughout the FBiH government, and organizing the internal audit function. FBiH CHU has

¹⁹ Available at: <http://www.mft.gov.ba/bos/images/stories/chj/izvjestaji/CHJ%20GKI%20IR%20za%202012.g..pdf>

published on its website one consolidated annual report, for 2011,²⁰ noting some progress (through the Coordination Board with the BiH Institutions and RS) in developing common rules for strengthening financial management and control; however, the necessary decisions to implement these rules are still pending, and the CHU is not sufficiently staffed. As of 2011, internal audit was established in nine institutions at the FBiH government level, with total of 11 employees. Furthermore, in seven cantons, some kind of internal audit role was established, although in some cases changes of organizational characteristics are needed to align with the internal audit legislation. In 2011, a total of 66²¹ internal audits at the FBiH government level were performed, as well as 93²² internal audits at the canton level (there is no information about internal audits at the local self-governance level). The internal audits included recommendations in the areas of allowances, travel expenses, expenses for education, contracted services, public procurement, and vehicle expenses. However, in 2013, on the basis of an announced vacancy tender, two employees were recruited (one economist and one lawyer), which made it possible to intensify the operations of FMF CHU. As of the end of 2013, the state of affairs concerning the establishment of internal audit units was as follows: out of 18 ministries that meet the criteria for the establishment of internal audit units, 10 have internal audit established, and out of 30 systematized positions, 15 internal auditors are working; out of 18 institutes that meet the criteria for the establishment of internal audit units, 7 have internal audit established, and, according to data they have submitted to us, 12 positions are systematized, while 14 internal auditors are working; in 30 municipalities that meet the criteria for the establishment of internal audit units, 9 of them have internal audit established, but out of 10 systematized positions, 6 internal auditors are working; out of 10 cantons that meet the criteria for the establishment of internal audit units, 6 have internal audit established, and out of 30 systematized positions, 15 internal auditors are working. Further on, in the year 2013, upon a proposal of the FMF CHU, FMF adopted and published bylaws that created additional preconditions necessary for the development of public sector internal audit in FBiH.

In RS internal audit has been established in 18 institutions of the public sector (5 RS government ministries, 9 local self-governance units, 3 EBFs, and 2 health institutions/hospitals), with 27 internal auditors in total. RS has made a start on the introduction of internal audit, and reports are being produced in some ministries and local self-governance units. The principal legislation, regulations, and operating instructions are all in place, and they provide for work to be done in accordance with international professional standards. Training is being given to internal audit staff. RS CHU has published on its website one consolidated annual report, for 2011.²³

DB is not a part of the CHU Coordination Board and does not have an internal audit department. Guidelines for internal audit legislation in DB are being developed. The legislation is expected to be adopted by end-2013 and a CHU for DB established.

Under the Instrument for Pre-Accession Assistance (IPA),²⁴ the EU is supporting the training and other steps needed to implement strengthened internal financial control and internal audit at the Entity and BiH Institutions levels, so further progress is expected.

Supreme Audit in BiH

SAIs are independent of the legislature and the executive. Unlike most other countries, BiH has four SAIs—one each for the BiH Institutions, the Entities, and DB. Since 2000 the four SAIs have gradually

²⁰ Available at: <http://fmf.gov.ba/pdf/Konsolidirani%20Izvjestaj%20interne%20revizije.pdf> (Annual consolidated internal audit report for the public sector of Federation Bosnia and Herzegovina for 2011)

²¹ Same as previous footnote.

²² Same as previous footnote.

²³ Available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Servisi/Poslovanje/Documents/Konsolidovani%20godisnji%20izvjestaj%20o%20uspostavljanju%20i%20razvoju%20IFK%20u%20JSRS%20sa%2031.12.2011.pdf>

²⁴ EC-financed project *Strengthening Public Financial Management in Bosnia and Herzegovina*.

improved their audit capacity and enhanced their audit coverage—though coverage is uneven across the two Entities, since in FBiH not all units of the general government sector are regularly audited—contributing to strengthening the accountability, transparency, and efficiency of financial management in all of BiH.

Some of the SAIs' audits have led to court proceedings against officials, and SAI reports receive considerable public interest. The SAIs also cooperate with the internal audit function. All four SAIs have formally adopted the standards of the International Organization of SAIs (INTOSAI). All four SAIs have carried out several initial performance audits, but as with any new initiative, this is a work in progress as the application of performance audits across governments has been uneven. More information on performance audits is contained in Chapter 4, in specific reports on the four governments.

A Coordination Board of SAIs is attended by the Auditor Generals and the Deputy Auditor General from the three SAIs in BiH, that are authorized for audit at the level of joint institutions of BiH, FBiH, and RS. Namely, the auditor general and its deputies from the Audit Office in Brčko District of BiH do not have the status of coordination board members. However, all four SAIs cooperate with the Coordination Board, and the work of the Coordination Board continues to have a positive impact on the SAIs and on the development and implementation of common approaches. Following the establishment of Committees for Audit in all three parliaments (DB excluded—in DB audit reports go directly to the Parliament instead of through Committees), which are specifically dedicated to the examination and follow-up of SAI audit reports, there has been an improvement in the use of audit reports and in Parliament's recognition of the roles of SAIs.

The BiH Tax System

The administrative function for the collection of tax revenue is carried out by tax administration offices in the entities and the ITA, which are also responsible for supervising the self-assessment system (self-reporting of taxes) and agreeing on tax liabilities. There are four Revenue Authority (RA) bodies in BiH:

- The Indirect Tax Authority (ITA) is responsible for collecting VAT, excise duties, customs duties, and road fees. ITA has four regional branch offices (Sarajevo, Banja Luka, Mostar, Tuzla), and its central office is located in Banja Luka.

The FBiH, RS, and DB Tax Authorities (FBiH RA, RS RA, and DB RA) are responsible for the collection of direct taxes and other non-tax revenue: corporate income tax, personal income tax, and property taxes (the RS RA also administers the collection of other non-tax revenues). The FBiH RA has a central office in Sarajevo, and a branch (cantonal) office in each of the 10 cantons. The RS RA has a central office in Banja Luka, and seven branch (regional) offices in the larger towns of RS (Prijeđor, Banja Luka, Doboј, Bijeljina, Zvornik, I.Sarajevo, Trebinje).

The RAs function as four separate bodies in all respects—taxpayer registration, revenue collection and reconciliation, supervising and agreeing on tax liabilities, reporting, and so on. Table 2.2 shows the main types of tax revenue.

Table 2.2. Main Types of Tax Revenue in BiH

<i>Revenue</i>	<i>Administrative level</i>	<i>Rates</i>
VAT	State	17% standard rate; 0%
Excise duties	State	Applicable on alcohol, tobacco, oil derivatives, etc.
Customs duties	State	Import of goods (customs tariffs apply)
Personal income tax	Entity	10%
Property taxes	Entity	average 5% ²⁵
Corporate income tax	Entity	10%

²⁵ For RS, the tax on real estate ranges between 0.05% and 0.50% of the assessed market value of the real estate (Official Gazette of RS, issue No. 110/08, Law on Tax on Real Estate, Article 8, Paragraph 1)

III. THE FOUR PEFA ASSESSMENTS: CROSS-CUTTING ISSUES

A review of the PEFA ratings and the justifications for them across BiH Institutions, F BiH, RS, and DB points to a number of issues that emerge as common themes across all four. This section outlines these issues in broad terms and discusses the extent to which they are likely to affect the credibility and performance of the overall PFM system in BiH.

While each of the four central government levels assessed has some particular weaknesses in its PFM system, for all of the levels the process of preparing the budget and public investment programme is not well integrated with the medium-term macroeconomic outlook and overall/sectoral strategic documents (which are in many cases missing or not properly costed). Credible and comprehensive medium-term macro-fiscal strategies are lacking at all levels.

The Fiscal Council was established in 2008, and responsibilities assigned to it by Law, provide for coordination of the common fiscal policy issues. The Fiscal Council's specific actions reflect political willingness to coordinate policies among governments in BH. In terms of fiscal coordination's most important roles include: 1) development of Fiscal Balance and Policies Global Framework, 2) decision on indirect taxes revenues and 3) decision on BiH Institution's Budget, which are preconditions for budget planning at lower levels of government. Timely decisions on BiH institution's revenues are particularly important given that the key government functions (social policy, subsidies, education, etc.) are performed at sub-national level.

Despite some recent progress in budget execution, the lack of fully adequate internal controls (especially in public procurement) makes the PFM systems in BiH vulnerable to inefficiency and resources wasting. In budget reporting, the fact that the charts of account of the four main government levels are not harmonized complicates the overall consolidation of BiH fiscal data and hampers the policy decision-making process at the country level. Within the Entities (primarily in F BiH), consolidation of data for all general government levels—government, cantons, local self-governance units, and EBFs—is also complex, and data are generally not used to inform policy decisions. And in the context of budget scrutiny, despite recent improvements, better follow-up on external audit findings and recommendations would be desirable, and of performance audits performed by the four SAIs, as well as a more comprehensive coverage and quality of internal audits performed by internal auditors.

A. Budget Planning and Fiscal Coordination

In 2009-2011, budget execution was generally under the original budget plans, primarily because of lower than planned revenues/receipts (primarily at the Entity level) and partially also because of some within-year savings measures carried out under the SBA with the IMF (e.g., planned savings from a wage bill reduction at the BiH Institutions in 2009). Delays in budget adoption (at the BiH Institutions level) and in some political decisions necessary for part of budget spending also affected budget execution levels and slowed public procurement procedures, especially for large capital projects at all levels. Furthermore, at least some levels delayed their accrued payments from previous years to the following year (e.g., F BiH government and RS Health Fund). In addition, there were generally significant reallocations within the expenditure structure. Besides these technical issues related to budget planning in recent years, the main weakness of budget planning at all levels in BiH is a lack of credible and comprehensive mid-to long-term policy planning, which would be clearly costed in overall/sectoral strategic documents and integrated in the budget planning process. Despite some recent technical improvements, the budget planning system at all levels mostly reflects expenditure legal obligations within the available budget envelope, rather than strategic targeting of the allocation of resources toward social and economic development objectives. Furthermore, despite some steps toward program budgeting, BiH does not use results-based budgeting in the budget planning process. Budget planning is largely based on (mostly short-term) measures agreed annually with the IMF under the SBA. The share of current expenditure

remains high in all budgets, with an especially high wage bill and large general government sector employment. Parliaments are not sufficiently involved in the budget planning processes, and they generally lack capacity for thorough budget analysis.

In addition, while legal provisions at all levels demand that all proposed legislation/acts must be approved by the finance ministries from the perspective of the financial resources needed for implementation, in practice adopted legislation/acts/strategies are mostly not clear in terms of costing or are adopted although the full financial needs have not been provided for. This at times results in litigation over legislation that has been adopted but not implemented.

The process of budget planning is additionally burdened by increasing problems of liquidity and arrears in the extra-budgetary social funds in both Entities, as well as by revenue shortfall and exceptionally high (and growing) unemployment—the general effects of the economic downturn, from which the BiH economy has not recovered yet.

Revenue on BiH depends heavily on indirect tax revenues, which make up almost half of the country's total general government revenues. The sharing of indirect taxation revenues among the four main government levels (BiH Institutions, two Entities, and DB) has often caused budget delays when political agreement could not be reached on the share of revenues for BiH Institutions. The data and information captured in VAT return forms the basis for revenue sharing between the Entities. Political disputes over the data on final consumption from VAT forms have often delayed regular decisions on revenue sharing and revenue reconciliation.

Indirect Taxes. Reflecting the legislative set-up of indirect taxation and debt, Entity wide distribution of indirect taxation is performed in such a manner that, after setting aside the funds in the reserve account, from which the refund of indirect taxation is performed/primarily VAT refund, the funds are allocated for the financing of BiH institutions, after which the amount of 3.55%, or BAM 124 million at the minimum is allocated for the financing of Brčko District, and then the remainder is divided between the entities, according to the share of each of the entities in final consumption. From the corresponding share of indirect taxation revenues of each of entities the funds necessary to finance external debt are set aside first, and transferred to special subaccounts with the Central Bank of BiH, and the remainder is transferred to the entities. The funds remaining in each of the entities are allocated according to the same principle between entity governments, units of local self-governance, public enterprises for roads, and in FBiH also to the cantonal level local self-governance. The debt of the entities, including for budget support loans for Entity government budgets, has increased almost threefold since 2005/2006, but it remains within the range of the relevant legislated constraints; thus, debt service significantly influences the budgets of lower government levels (cantons and units of local self-governance), even though foreign debt receipts are used almost exclusively by the Entity governments.

Coordination On June 12, 2013, within SBA, the four Tax Administrations in BH signed Memorandum of Understanding on tax payer's data exchange, aimed to enable continuous, smooth and automatic exchange of records on tax payers. However, at the moment of this assessment there was no effective information-sharing among the main tax authorities, and the databases of taxpayers, property, and liabilities were not integrated and were incomplete in some cases. All this hampered tax collection, especially for property taxation (which is essentially the only tax revenue under municipal jurisdiction in both Entities). Furthermore, in FBiH a complex revenue sharing arrangements can result in overlapping expenditure in some areas, while in others the costs may be underestimated.

Expenditures. On the expenditure side, in addition to the long-standing issue of the high share of current expenditure (especially the wage bill) in the budgets of central governments, the management of Entity social funds seems to be increasingly difficult. This is particularly the case for health funds, expenditures have increased over the last three years while arrears have accumulated. For example, in FBiH, the

Solidarity Health Fund has been incurring an increasing amount of arrears as demands for specialist medical services increase.

Overall, arrears are problematic not only because of their growing amounts but also because comprehensive, good-quality data on arrears are not available yet (excluding BiH Institutions), and Treasury systems are just starting to monitor payment due dates, as of end 2013). The Treasury systems of both Entities do not include all social funds and, in FBiH, do not include all local self-governance units. Generally, social fund management and fiscal sustainability constitutes a growing risk for the overall solidity of the PFM system. The Entities differ on the interconnectedness of their single treasury accounts (STAs): EBFs, cantons, and local self-governance units are not integrated into the FBiH government STA and in fact not all local self-governance units in FBiH have treasury systems, making arrears monitoring difficult. By contrast in RS, all local self-governance units (but not EBFs) have been integrated into one STA since January 2013.

Medium-term budgeting. While each of the main government levels (BiH Institutions, Entities, and DB) produces its own three-year outlook, in practice these documents are at times delayed (especially for BiH Institutions and FBiH), do not clearly lay out policy priorities and distinguish between baseline and new expenditure, and are not sufficiently based on strategic socioeconomic documents. In addition, the MTEFs mostly serve as a pre-draft of the next annual budget, rather than as a true multiannual framework, with estimates for the second and third years. Neither Entities (FBH, RS), nor BD use the previous year's estimate as a starting balance for the current year. Furthermore, even though all levels also produce public investment programs, the costing and feasibility of the projects included in these plans do not seem to be realistic, are not well integrated with the MTEFs, and do not pay enough attention to the recurrent costs of investment maintenance. Finally, in FBiH the MTEFs do not provide a comprehensive picture of expenditure in FBiH; in recent years, the FBiH has adopted medium-term budgets without consolidating with cantons and local self-governance units.

The absence of fully integrated medium-term planning for capital investment projects within the medium-term and annual budgeting, and the general lack of strategic vision and credible longer-term perspective (beyond an annual perspective) within the budgeting process negatively affects not only the comprehensiveness of the medium-term budgeting process, but also the medium-term growth and development prospects of the country itself.

Fiscal Coordination. The Fiscal Council of BiH is charged with the annual adoption of Global Framework of Fiscal Balance and Policies that include the following parameters: (a) the proposed fiscal targets of the budgets of the institutions of BiH, FBiH, RS, and DB, (b) the proposed macroeconomic projections and the projection of the total indirect taxes and their allocation for the next fiscal year; and (c) the proposed borrowing ceiling in the budgets of institutions of BiH, FBiH, RS, and DB. However, in practice, the Global Frameworks that have been adopted so far include (a) overall macroeconomic projections and projections of statewide indirect taxation revenues; (b) illustrative aggregate tables of expenditures, revenues, and financing without explanations; and (c) set the ceiling for the budget of BiH Institutions and the State's share of indirect taxation revenues and mention a vague target to reduce the primary fiscal deficit and total public consumption in BiH. None of these targets is supported by explanation of measures or distribution among different government levels, none is monitored or enforced, and none is placed within the macroeconomic framework outlined within the same document. Furthermore, in terms of debt strategy, all the Global Framework adopted so far propose a ceiling for the borrowing of the budget of institutions of: BiH, FBiH, RS and BD.

Within the Entities, lower government levels are not sufficiently included in the process of fiscal planning in FBiH, and do not receive the information they need for timely budget planning. While in RS there is fiscal coordination, the FBiH government's coordination with the lower general government levels is extremely weak. The coordination in FBiH is further hampered by unclear division of jurisdiction,

especially between the cantons and local self-governance units, and within Canton Sarajevo among the cantons, municipalities, and City of Sarajevo administrations. For the state-owned enterprises, including the utility companies, their financial management is neither consolidated nor sufficiently monitored and integrated.

B. Budget Execution

In executing the budget, for which the majority of transactions involve salary and benefit payments and payments to contractors for goods and services, all levels lack, in varying degrees harmonized internal controls and internal audit procedures that would guarantee that funds are being used for the intended purposes. The CHUs for the BiH Institutions and the Entities, which are responsible for harmonizing internal procedures largely in line with Public Internal Financial Control (PIFC) standards, have recently made some progress in ensuring the passing of the laws needed to establish internal audit units, and some internal audits have taken place. However, the coverage of these audits seems to emphasize compliance rather than performance. Most of the findings so far focus on planning systems, public procurement, and travel expenses.

At all four of the main central government levels, there seems to be no reason to doubt the accuracy of the financial transactions performed, as transactions are processed automatically through the STA of each level. What is not monitored regularly, however, is the substance and nature of these transactions. SAI reports suggest some questions on the substance of some transactions and the methods followed in processing them. At lower government levels (cantons in FBiH and local self-governance units in both Entities), more substantial issues with the substance of recordings are likely, as different methodologies for some transactions are used. All this hampers the ability to consolidate fiscal data.

Another common area of concern is the public procurement process. While the PEFA findings are not able to distinguish the performance of each individual government in conducting public procurement in line with the law and regulations, the general information received suggests certain common trends that warrant attention, especially as they relate to the principles of competition and transparency in public procurement. The public has access to bid opportunities and awards, but not to procurement plans and decisions on complaints. Entities seem to use less open competition methods at times. Even though contracting authorities notify the Public Procurement Agency (PPA) of their justification for less than open competition, the PPA is not obliged to review these justifications for validity unless the procurements are over the threshold or there is a complaint. The high incidence of complaints that come to the independent Procurement Review Board (PRB), and the fact that a large number of these complaints are resolved in favor of the complainant, seems to suggest that it is largely the contracting authorities' conduct of public procurement procedures that is problematic, and that improper justifications for less than open competition are used in many cases. There is a backlog of complaints, because the PRB is understaffed, and therefore most decisions on complaints are issued after the contract is already awarded; thus the compensations that the governments must provide to complainants for whom the PRB rules in favor end up imposing a significant cost on the Treasury that could be avoided.

C. Budget Reporting and Scrutiny

The Chart of Accounts (CoA) is not harmonized across the main four government levels. Within the Entities, the consolidation of central with lower government levels is complicated by at times inconsistent recording of transactions at lower levels (primarily in FBiH, where not all local self-governance units even have established Treasury systems). Only countrywide budget execution at an aggregate level is consolidated by the Central Bank of BiH using GFS, while consolidated budget plans and medium-term frameworks are approximated for illustrative purposes for the Global Framework adopted by the Fiscal Council and for the Economic and Fiscal Programs submitted to the European Commission. In addition, each month the MAU of the ITA Governing Board consolidates administrative fiscal execution data (excluding financing), including for the local self-governance level, in a basic format used by the IMF to

monitor SBAs (not the full GFS 2011 methodology used by the Central Bank²⁶). At the Entity level, budget reporting to parliaments does not include lower government levels. All this implies that any effort governments have made to consolidate countrywide or Entity wide fiscal information falls short of getting to a point that informs policymaking and analysis in a meaningful way.

Budgets are mainly presented only in administrative and economic classifications. Although reporting rulebooks at most levels prescribe functional classifications (which are used in MTEFs at all levels and in annual budget execution reports at some levels, and are mostly not a part of the Treasury system), in practice functional data are only approximate and are not fully reliable (especially at the local self-governance level). Program classification (based on program/program budgeting) was roughly introduced several years ago, but at all levels it still remains underused for budget allocation decisions and spending accountability; and the quality of programs, and especially of performance measures, is mostly poor (especially in FBiH). Budget documentation (except in DB) mostly does not provide enough information on previous years' data and on financial assets.

Furthermore, only MFT develops supplemental programmatic budget report, based on information provided by beneficiaries. It includes statements on program objectives and performance indicators. The proposed budget in programmatic classification is submitted to BiH Parliament as an annex to the budget documentation, however the adopted budget is based on economic and institutional classification. Furthermore, budget execution reports are also based on economic and institutional classification.

And in the context of budget scrutiny, despite recent improvements, follow-up on external audit findings and recommendations could be better. Furthermore, the coverage and quality of internal audits performed by internal auditors and of performance audits performed by the four SAIs are not comprehensive.

Because BiH's PFM system as it stands does not seem to lend itself to an easy way of producing reports and analyses that would enable the identification of trends and policy priorities, it is perhaps not surprising that no particular emphasis seems to be placed on providing individual parliaments with enough time and resources for debating and deliberating on the particular government's budget proposal. The PEFA findings indicate that the parliaments' budgetary committees note lack of both time and technical capacity/expertise to understand and analyze budget content as the main reasons for lack of sufficient scrutiny of budget proposals. The review of the budget at the end of the year seems somewhat more structured: the assemblies seem to review SAI reports carefully, and hearings are mostly held with those budget users whose audit reports indicate most issues. However, at all levels, the follow-up on these hearings is low: it is not uncommon for the same budget user to be called out on the same issues year after year. The parliaments usually do not impose sanctions, although in a few instances users with repeated problems in audit reports were sanctioned by a small reduction in their budget for the next year (in BiH Institutions and FBiH). However, overall, the environment is such that users of public funds are largely not held accountable, so the PFM system is vulnerable to ad hoc initiatives and course corrections that are largely at the discretion of the governing authorities.

²⁶ The role of the Central Bank is primarily statistical in nature.

IV. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

BiH INSTITUTIONS

Executive Summary – BiH

For the purposes of applying the PEFA performance indicators, data and information from FY 2009 – 2011 were used in the calculations and for scoring the indicators, with more current information used for some indicators where such information was available.

I. Integrated Assessment of PFM Performance

A. PFM Out-Turns: Credibility of the budget

The performance of the last three fiscal years (2009 -2011) shows a general aggregate underspend due principally to the complex political context which resulted in frequent delays in budget adoption and prolonged use of temporary financing. In 2011 no budget for BH Institutions was passed at all and was formally adopted in 2012, based on actual budget execution. Despite the underspend the composition of the budget was broadly in line original approved budget; under the PEFA methodology 2011 is treated as an outlier and had no impact on the overall score for PI-2.

BiH Institutions is largely financed through a block allocation of indirect taxes collected by the ITA (81 percent of total revenues in 2011). As the amount of indirect taxes is defined by democratic agreement the execution is always the same as the plan, defined by annual BiH Institutions Budget Law. Given that the 2011 budget was approved only after the event, in effect there was no budget forecast and that year is treated as an outlier under the PEFA methodology.

The budget is prepared cautiously on the basis of obligations, and there is no evidence of expenditure arrears.

B. Key Cross-Cutting Issues: Comprehensiveness and Transparency

Budget formulation and execution are based only on administrative and economic classification, which is not in line with IPSAS or COFOG in official budget plans and execution report—the MFT only sends budget execution reports to the Central Bank in GFS format, based on existing bridging tables between the official chart of accounts and the GFS, which was prepared with the assistance of the Central Bank and IMF. The CoA is not harmonized with the chart of accounts of the other governments. The information included in the budget documentation is fairly comprehensive. As result the budget documentation includes: (i) macroeconomic assumptions, including at least aggregate growth, inflation, and the exchange rate, (ii) fiscal deficit (according to IMF GFS 2001), (iii) deficit financing (composition of domestic and external financing), (iv) debt stock for the current year and (v) the current year's budget. However the BiH Institutions budget documentation do not contain information on the financial assets (although such information is available in internet in the form of various execution reports, as well as audited annual reports) and no information on the prior year's budget out-turn is presented in the same format as budget proposal.

All key fiscal information, including budget documentation, execution and audit reports as well as contract awards are made available to the public in a timely manner.

C(i). Policy-Based Budgeting

Despite a well-defined budget calendar approval of the budget is not always done on a timely basis. Technical work carried out by the executive are carried out on a timely basis however political problems can arise early in the budget cycle, for example determining the policy framework; as well as later when detailed proposals are submitted to ministers. The approval of the 2011 and 2012 budget was subject to significant delays.

Multiyear fiscal forecasts are produced as part of the process leading to the preparation of the MTEF, including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and the two following fiscal years). Once approved by the Council of Ministers, the budget year estimates establish the budget users' budget ceilings for the forthcoming budget year. These forward estimates are used to anchor the preparation of the following year's budget ceilings.²⁷ No comprehensive debt sustainability analysis has been undertaken by the Government.

Sector strategies with full costing are not formally developed either for BiH as a whole or for the BiH Institutions. A Draft Development Strategy for BiH (with separate action plans for BiH Institutions, FBiH, RS, and DB) was prepared by the Directorate of Economic Planning of the BiH Council of Ministers and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. The Fiscal Council seems to have little political appetite to endorse or even discuss such countrywide strategic documents.

All four levels of government prepare a rolling three-year Public Investment Programme (PIP). In addition, the BiH MFT Sector for Coordination of International Economic Assistance prepares a consolidated country PIP but also a PIP for BiH Institutions. All PIP proposals and funded investment projects are captured by the Public Investment Management Information System – PIMIS. That system is maintained by the Sector for Coordination of International Economic Assistance. PIMIS is an information management system for the management of public developmental investments that facilitates all entity and state budget users on line access to planning and monitoring of all projects/programmes that are defined in the Strategic framework and the mid-term and annual plans and contribute to the realization of development objectives. PIP database is designed to match public investment proposals with the Development Strategy for BiH once the strategy is endorsed. The Sector for Coordination of International Economic Assistance also maintains a donor-mapping database covering donor-funded projects in BiH.

C(ii). Predictability and Control in Budget Execution

The legislative framework for major taxes is generally clear and comprehensive, and there are clear laws governing administrative procedures. Taxpayers have web access to information regarding tax obligations, explanatory notices, and administrative procedures and electronic access to their tax records. The tax appeals system is set up and functional, however decisions are often not issued within the prescribed timeframe.

VAT taxpayers are registered in a complete database but the database is not linked to other relevant government databases. There are penalties for noncompliance with registration and declaration obligations, but they may not always be an effective deterrent. There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations.

²⁷ This particularly is evident from the MTEF that provides comparable amounts for the 3 year forward estimates which compare fairly similar to the previous year budget and execution, information which is also available in the MTEF.

The VAT debt collection ratio was 64% in 2011 and 65% in 2012 and tax in arrears represented 7% and 9% for 2011 and 2012, respectively. All tax revenue is collected in bank accounts controlled by ITA and is transferred daily to Treasury. Complete accounts reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least quarterly. The BiH Supreme Auditor has noted that account reconciliation reports are not always timely and accurate; nor do they provide a complete record of tax arrears.

Cash flow forecasts are prepared for the year and updated on a monthly basis. Because of the highly predictable amount of the revenue stream and the practice of prudent budgeting, BiH Institutions have been able to enter into commitments up to the amount provided in the budget for each spending unit at any time during the year. No in-year adjustments were imposed on budget users in 2009-2012.

There is complete reporting of the small amounts of BiH Institutions debt. The amount of guarantees is small and are always approved by the BiH Council of Ministers and BiH Parliament.

The MFT Treasury operates the payroll for all employees of the BiH Institutions except the armed forces. The Civil Service Agency (CSA) controls all appointments to and promotions in civil service positions however, there is a complete personnel database, and personnel records and payroll data are regularly reconciled. While the arrangements provide an audit trail there is less assurance of the accuracy of records relating to salary supplements. Since appointments can only take effect once all the necessary notifications have been given, changes to personnel records and the payroll are made without delay, and retroactive adjustments are rare. Internal and external audits of payroll are undertaken on a regular basis.

Public procurement was assessed at the level of the BiH country since the legislation and institutions involved in the public procurement are common for all 4 governments. The legal framework for procurement is clear and readily accessible to the public. Open competition is the default method. The publication of tender notices and contract awards is transparent, with information publicly available via the PPA's website. However, there is no public access to procurement plans or to results of recent complaints.

Since there is widespread criticism by auditors, and frequent complaints by tenderers are upheld by the Public Procurement Review Board (PRB), it is clear that the exceptions to open procedures are not properly justified in many cases. Information is limited to bidding opportunities in the form of procurement plans (though these plans are not usually published) and contract awards. No information is available on results of complaints in spite of legal requirements. Although the PRB has managed to issue many decisions, it lacks sufficient human resources to fulfil all its functions quickly and efficiently.

The expenditure commitment controls over non-salary expenditure are effective and the payments system works in an orderly manner; however audit reports confirm the need to ensure the operation of stronger rules and procedures, and to train staff in their operation.

The legal framework for internal audit is in place at the BiH Institutions level, and the criteria for the establishment of internal audit units have been published. However at present, only 12 auditors are currently in place in the Ministries of Finance and Treasury (MFT), Defense, and Justice. As a result there is currently limited coverage of internal audit within the BiH Institutions, the main focus of the reports remains compliance audit rather than the performance of systems or the achievement of intended results. Reports issued regularly and are distributed to the audited entity, MFT and (upon request) the SAI. Many managers do not yet respond to recommendations made in internal audit reports.

C(iii). Accounting, Recording and Reporting

Daily reconciliations of the STA and advances are cleared within 7 days of the end of the period for which they are given.

In-year reports are complete and comprehensive covering revenues and expenditures, information on debt servicing and stock of debt, and a balance sheet. Data in the report are prepared in the same format as the annual budget - by economic and administrative classifications. Reports are prepared on a modified accruals basis covering both commitments and cash expenditure. While these reports are not published they are used internally.

The Annual Report on the Budget Execution of BiH Institutions and International Obligations contains full information on BiH Institutions revenue and expenditure, and assets and liabilities, together with detailed information on external debt financing. The Report is published on the MFT website. Ministry of Finance and Treasury has to prepare and submit the annual budget execution report to the Parliament after it has been submitted to the Council of Ministers and BiH Presidency, within 180 days from the end of the fiscal year. The statements are submitted for audit as soon as they are completed, and the BiH Institutions SAI completes the audit within 90 days. The annual statements are prepared in accordance with rules which are available on the BiH MFT website. These are consistently applied, however there are gaps between the national rules and IPSAS.

C(iv). External Scrutiny and Audit

There is good coverage of financial audit (FY 2011: 97.3% of BiH Institutions expenditure was audited) that meets professional standards, and according to the Law the BiH Institutions Audit, SAI is obliged to audit all BiH Institutions but there is scope for further development of performance audit and for the application of information technology (IT) audit techniques. Audit reports are submitted to legislature within 3 months of the receipt of budget execution statements from BiH MFT. There is some evidence of the follow up on audit reports; more budget users received an unqualified audit opinion for 2011 than for 2007.

The Assembly has not adopted specific procedures for review and approval of the BiH Institutions budget proposals. The amount of time available for consideration of the budget is, in practice, much less than that prescribed by the law. Neither the BiH Global Framework nor the MTEF is submitted to the Parliamentary Assembly for approval, which is in line with current laws. The Global Framework data provides the basis for Medium-Term Expenditures Framework and is an integral part of budget documentation, based on which annual Budget Law is adopted. There are clear rules for in-year budget amendments within overall totals, which allow extensive administrative reallocations.

The Assembly usually completes its work on audit reports within three to six months after receiving them. Delays occurred only in the review of the audit report for 2009 because of the 2010 general elections and subsequent political stalemate. Hearings regularly take place with responsible officers from audited entities. The Assembly makes conclusions and seeks to apply sanctions against spending units that ignore issued recommendations. These sanctions have been only partially effective, since the executive can ignore recommendations by the SAI and the Assembly has not sought to enforce its recommendations.

The table below presents the overall scoring of the performance indicators.

BiH: PEFA ASSESSMENT

Accountability (PEFA) Assessment: Overview of the Indicator Set

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>BiH</i>
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	M1	C
PI-6	Comprehensiveness of information included in budget documentation	M1	B
PI-7	Extent of unreported government operations	M1	C+
PI-8	Transparency of intergovernmental fiscal relations	M2	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A
PI-10	Public access to key fiscal information	M1	A
C. BUDGET CYCLE			
C(i)POLICY-BASED BUDGETING			
PI-11	Orderliness and participation in the annual budget process	M2	C
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D+
C(ii)PREDICTABILITY AND CONTROL IN BUDGET EXECUTION			
PI-13	Transparency of taxpayer obligations and liabilities	M2	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C+
PI-15	Effectiveness in collection of tax payments	M1	C+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B+
PI-18	Effectiveness of payroll controls	M1	C+
PI-19	Competition, value for money, and controls in procurement	M2	C+
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	C+
PI-21	Effectiveness of internal audit	M1	C+
C(iii) ACCOUNTING, RECORDING, AND REPORTING			
PI-22	Timeliness and regularity of accounts reconciliation	M2	A
PI-23	Availability of information on resources received by service delivery units	M1	NA
PI-24	Quality and timeliness of in-year budget reports	M1	A
PI-25	Quality and timeliness of annual financial statements	M1	C+
C(iv)EXTERNAL SCRUTINY AND AUDIT			
PI-26	Scope, nature, and follow-up of external audit	M1	B+
PI-27	Legislative scrutiny of the annual budget law	M1	D+
PI-28	Legislative scrutiny of external audit reports	M1	C+

II. Assessment of the impact of PFM weaknesses

This section of the Report analyses the extent to which the performance of the assessed PFM system appears to support the three high level objectives. These are:

- Effective controls of the budget totals and management of fiscal risks contribute to maintain **aggregate fiscal discipline**.
- Planning and executing the budget in line with government priorities contributes to implementation of government's objective (**strategic allocation of resources**).
- Managing the use of budgeted resources contributes to **efficient service delivery** and value for money.

1. Aggregate Fiscal Discipline

While technical aspects of the budget preparation process are reasonably well organized this is undermined by the complex context which results in frequent delays in budget adoption and prolonged use of temporary financing. Political problems can arise early in the budget cycle and these result in delays in preparing the policy framework and when detailed proposals are submitted to ministers. All these factors may explain the persistent under-performance of the BiH budget. Nevertheless a strong treasury function effectively constrained expenditures are minimal, and there are no expenditure arrears.

2. Strategic Allocation of Resources

The existing budget process does not have a strong policy or strategic focus. A medium term fiscal framework exists but is not harmonized with BH strategy; and forward estimates are used to anchor the following year's budget ceilings. Sector strategies with full costing are not formally developed either for BiH as a whole or for the BiH Institutions. There is little political appetite to endorse or even discuss countrywide strategic documents. Improvements in linking sector development strategies to the PIP and in preparing realistic estimates of financial resources (both capital and recurrent costs) would better ensure that limited resources are targeted to strategic priorities.

3. Efficient Service Delivery

Weaknesses in the budget process do not allow sufficient discussion on the effective use of resources. The expenditure commitment controls over non-salary expenditure are effective and the payments system works in an orderly manner; however audit reports confirm the need to ensure the operation of stronger rules and procedures, and to train staff in their operation. Internal audit as a function is in its infancy and audit coverage needs to improve as does the response of management to audit recommendations. Non observance of competitive tendering processes may create the opportunity for inefficient procurement, corruption and leakages. While work on performance audits has begun more work focused on the efficient, effective use of resource would hold the government to account. The legislature could improve the extent to which it holds the executive to account for audit report recommendations.

III. Prospects for PFM Reforms

All four main levels of government (BiH Institutions, two Entities, and DB) are at the time of this assessment in the final phases of introducing a Budget Management Information System that should simplify the budget planning process (including the performance-budgeting/program format) and provide data sharing between the budget planning and treasury.

Other planned improvements include (a) signing of a Memorandum of Understanding by the four tax administrations on the exchange of taxpayer information (with a view to facilitating the permanent, unfettered, and automated sharing of taxpayer records); (b) the planned submission of a new law on public procurement to the BiH Parliament to strengthen governance, enhance transparency, and bring procurement practices in BiH in line with those in the EU); (c) continued expansion of treasury systems in both Entities to cover all cantons, local self-governance units, and EBFs, and (d) establishment of a common definition of spending arrears by the BiH Institutions and Entity governments and a requirement that all due dates of invoices are entered into the treasury system to facilitate the production of arrears data according to the legal definition.

The BiH Ministry of Finance and Treasury has, in cooperation with the Republika Srpska Ministry of Finance and the Federal Ministry of Finance, developed and commissioned the new system for public investment management, PIMIS, and the new form for identification, registration, and monitoring of projects/programmes. PIMIS is accessible at www.mft.gov.ba. The form for identification, registration, and monitoring of projects/programmes was designed to meet the highest standards for public/developmental investment planning. The form facilitates the collection of data of significance for the process of strategic development planning, as well as for the processes of European integrations. PIMIS facilitates standardized presentation of projects and includes developed systems for project prioritization, the monitoring of financial implementation and reporting in several standard and special user formats. By linking of the PIMIS with the electronic system for budget planning and monitoring, the BIMIS, the integration of the system of financial monitoring of projects on all the levels of planning shall be achieved.

On its 94th session, held on May 9, 2014, the BiH Council of Ministers adopted the Information on the Public Investments Information Management System (PIMIS) and adopted the following conclusions in connection with that: (i) all budgets users of the Institutions of BiH shall be under obligation to perform the planning and delegating of projects on line through the electronic form for identification, registration, and monitoring of projects / programme in the PIMIS system; (ii) at the same time, all budgets users, i.e. institutions of BiH, shall be under obligation to enter all their projects into the PIMIS system through the forms, regardless of their type, status, source, and method of financing, and to update them regularly.

Assessment of PFM Systems, processes and institutions – BiH

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for the BiH Institutions for the last three fiscal years (2009-2011). It is intended to measure the government's ability to adhere to its planned total expenditure. Interest payments and expenditure financed from external sources are excluded because they are largely outside the government's immediate control. Direct debt of the BiH Institutions is small (around BAM 29 million) for a few direct loans of State institutions, such as the Air Navigation Services Agency. It should be noted that, while all of the country's foreign debt servicing goes through the budget of BiH Institutions, the ultimate guarantor of the debt, this report analyzes the debt of the Federation of BiH (FBiH), Republika Srpska (RS), and District Brčko (DB) in the analyses of those government levels. The BiH Institutions are largely financed through a block allocation from indirect tax revenues collected by the countrywide Indirect Tax Authority (ITA); in the BiH Institutions' 2011 budget execution, 81% of revenues came from indirect taxation. The BiH Institutions generally underspend their budget for several reasons—frequent delays in budget adoption, resulting in temporary financing; delays in the political decisions that are necessary for spending; cautious budget planning; tight discipline in terms of approving payments—and also because the modified accrual accounting basis used for the budget execution report shows unspent earmarked revenues (which are high for BiH Institutions—for example, donor funds, funds from regulatory agencies, and those for the Refugee Return Fund), which are carried over to the following years to be spent for those earmarked purposes.

The figures for 2009 and 2010 (Table 4.1.1) are derived from the approved budgets and actual out-turns. Because of the prolonged political stalemate after the 2010 elections, no budget was adopted for 2011, and the actual expenditure out-turn was executed on temporary financing based on the 2010 budget execution. Thus, during 2011 the BiH Institutions continued to spend on established activities at the 2010 rate, in accordance with the temporary financing provisions of the budget law, but no new activities could be initiated. The implementation of the 2011 fiscal plans was very complicated because of the prolonged process of passing the budget. BiH Institutions budget was not passed at all in 2011 and was formally adopted only in February 2012 based on actual budget execution. As result, the 2011 figures are considered as an outlier in relation to the PEFA criteria. Since the deviation between budget and out-turn exceeded 10% in one year and FY 2011 is considered an outlier, the rating is C. It should be noted that the temporary financing was in force until February of 2009 in that year and also that, under the 2009 SBA with the IMF (SBA), BiH Institutions decreased wages and salaries in 2009 to carry over savings to 2010; thus the lower budget execution was due, at least in part, to a deliberate policy measure.

Table 4.1.1. Percentage Difference between Out-turn and Budget

<i>Year</i>	<i>Original budget (BAM million)</i>	<i>Actual out-turn (BAM million)</i>	<i>Percentage difference</i>
2009	1,017.7	911.5	-10.4%
2010	1,010.3	925.2	-8.4%
2011	895.4	895.4	-

Source: Information received from the MFT.

Table 4.1.2.PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C	Expenditure fell more than 10% short of budget in only year under review (2009), while 2011 was considered as an outlier.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the extent to which the composition of the budget changes from that originally planned by the Ministry of Finance and Treasury (MFT) and agreed by Parliament. The PEFA Secretariat has set out a formula for calculating the variance between the out-turn and the approved budget. The original provision on each main budget head is adjusted by the overall percentage difference between budget and out-turn as measured by PI-1, and the differences between these adjusted figures and the actual out-turns on each line are then summed. This measure of total variance is then represented as a percentage of the total expenditure out-turn.

The second dimension of the PI looks at the amount of expenditure charged to the contingency reserve; the larger the amount charged to the reserve rather than reallocated to specific budget lines, the less transparent the budget, and the lower the rating. The tables containing calculations for the BiH Institutions are set out in Annex 3 of this report.

(i) Additional variance of expenditure composition after allowing for overall variance as measured by PI-1

The formula measures the additional variance over and above the overall variance calculated in PI-1 as a result of resources being reallocated between spending units during budget execution. There can be a good score on this indicator even if there is a substantial overall difference between the budget estimates and out-turn as measured under PI-1, provided that the proportionate changes are similar on each budget head.

The BiH MFT submits the budget and execution tables by organizational code. In accordance with the PEFA criteria, the variance has been calculated by reference to the 20 largest spending units each year, with the remainder of the spending units aggregated into an “other” line. In general, the BiH Institutions do very little reallocation from one spending unit to another, although there is an overall tendency toward aggregate underspending. As in PI-1, the 2011 figures are considered as an outlier in the PEFA context, however there is no impact on the score. The results are shown in Table 4.1.3.

Table 4.1.3. Percentage Variance in Out-turn Composition compared to budget
(in BAM million)

<i>Year</i>	<i>Expenditure out-turn</i>	<i>Sum of variances</i>	<i>Variances as % of out-turn</i>
2009	911.5	59.3	6.6%
2010	925.2	73.0	7.9%
2011	895.4	-	-

Source: Information received from the MFT.

Dimension rating: B

(ii) Amount of expenditure charged to contingency reserve

The amount charged to the contingency reserve was 0.9% and 0.2% of total expenditure for 2009 and 2010, respectively. For 2011 it was 1.0%. Thus for the three years, the expenditure charged to the contingency reserve was always below 3% of total expenditure.

Dimension rating: A

Table 4.1.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B+	
Additional variance of expenditure	B	The variance is less than 10% for 2009 and 2010. The 2011 figures were considered as an outlier.
Amount of expenditure charged to the contingency reserve	A	The contingency reserve was less than 3% of total expenditure for each of the three years.

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares actual total domestic revenue to the originally budgeted domestic revenue estimates. It is not possible to assess this indicator for the BiH Institutions without a clear understanding of tax policy and administration for the country as a whole (the overall tax system and revenue sharing are explained in more detail in Chapter 2).

BiH largely depends on indirect tax revenues to fund its operations. In 2011 indirect tax proceeds accounted for some 45% of all revenues collected by the general government sector in BiH. Other major sources of revenue are social contributions—pension, health, and unemployment insurance contributions—which accounted for about 35.5% of all revenues collected by the government in 2011, and personal and corporate income tax. In addition, each level of government collects various administrative fees and charges.

Table 4.1.5. 2011 Annual Statement of Operations for BiH
(million BAM)

<i>GFS Code</i>	<i>Description</i>	<i>Consolidated BiH</i>	<i>BiH budget</i>	<i>Consolidated BiH Entities: F BiH</i>	<i>Consolidated BiH Entities: RS</i>	<i>DB</i>
1	Revenue	11,357.06	968.61	6,571.24	3,685.61	237.37
11	Taxes	6,032.21	721.72	3,222.37	1,918.85	169.27
111	Taxes on income profits and capital gains	795.04	00.0	388.89	390.53	15.62
112	Taxes on payroll and workforce	13.93	00.0	13.93	0.00	0.00
113	Taxes on property	89.12	00.0	67.74	20.25	1.14
114	Taxes on goods and services and international trade and transactions	5,101.27	721.72	2,726.47	1,500.57	152.51
116	Other taxes	32.84	00.0	25.34	7.50	00.0
12	Social contributions	4,036.39	00.0	2,650.80	1,351.08	34.51
13	Grants	46.75	36.18	10.15	2.34	0.1
14	Other revenue	1,241.71	210.71	687.92	413.34	33.59

Source: Central Bank of Bosnia and Herzegovina.

Note: Administrative data were collected from the Ministries of Finance of all levels of government, social security funds of all levels of government, and Entities' funds for reconstruction and maintenance of roads. Consolidated F BiH includes F BiH government, cantons, local governments (municipalities and cities), social security funds, PE Highways and PE for road reconstruction and maintenance, Tuzla, and Central-Bosnia Canton. Consolidated RS includes RS government, local governments (municipalities and cities), social security funds, PE Highways, and PE for road reconstruction and maintenance. Since 2007 Consolidated DB includes DB government, DB Health Insurance Fund, and DB Employment Fund.

The system of collection and allocation of indirect taxes has been in force since 2005 when the ITA was established and relevant mandates for collection of indirect taxes were transferred from the two Entities and DB to the ITA.

Indirect taxes (taxes on goods and services) consist of VAT proceeds, customs, excise taxes, and road fees. All such indirect taxes are collected by the ITA and are divided among the BiH Institutions, the two Entities, and DB according to a set of rules prescribed by the Law on the System of Indirect Taxation. Article 21 of that law prescribes that the collected revenues are first allocated to the BiH Institutions (as per adopted budget for the relevant fiscal year) to fund its expenses.²⁸ DB receives a fixed 3.55% of the balance, or BAM 124 million, at the minimum, with the remainder then divided between the two Entities according to coefficients that are determined on the basis of the data on the final consumption (as per VAT filings by each taxpayer). External debt service is a first charge on the amounts of revenue from the ITA Single Account accruing to the Entity governments.

²⁸Further details are covered by the Law on Payments into the Single Account and Allocation of Revenues (Articles 11 and 12).

The coefficients for FBiH and RS, which are variable and are periodically adjusted to reflect changes in the final consumption, are formally adopted by the ITA Governing Board;²⁹ as of August 2013 they are 63.93% for FBiH and 32.52% for RS.³⁰ BiH Institutions received a fixed amount of BAM 750³¹ million from indirect taxation revenues in 2013.

In FBiH indirect tax revenue is then shared with the cantons, local self-governance units, and public entities for roads: 36.2% belongs to the FBiH government; 51.48% to cantons based on population, area, number of students, and development level; 8.42% to local self-governance units, also based on population, area, number of students, and development level; and 3.9% to public entities for roads. Indirect tax revenue is similarly shared in RS: 72% belongs to the RS budget; 24% to local self-governance units based on population, area, and number of students; and 4% to Public Company JP Putevi RS.

The Entities and DB have their own mandate over direct taxes (the overall tax system and revenue sharing are explained in more detail in Chapter 2).

The Macroeconomic Analysis Unit (MAU) of the ITA Governing Board is responsible for forecasting indirect tax revenues, taking into account the macroeconomic projections prepared by the Department for Economic Planning under the Council of Ministers. The forecasts are taken into consideration by the BiH Fiscal Council (see Chapter 2 for more details). Forecasting of revenue from direct taxes and other sources is the responsibility of the different Ministries of Finance.

Though consolidated revenue data from budget execution—collected and published by the Central Bank of Bosnia and Herzegovina (CBBiH)—are available for the entire country as well as for individual levels of government, they are available only for out-turns and not for budget plans, so it was not possible to use them in performing indicator calculations for each government (CBBiH does not consolidate budget plans, as Chapter 2 explained). Hence, calculations are based on the data received directly from the MFT. ITA publishes projections of indirect tax revenues for the country as a whole, which the Entity and DB governments can use when planning their budgets; however, they are not legally obliged to base their budget estimate of indirect tax revenues on their allotted share of ITA revenues as forecast by the ITA MAU (table 4.1.6). Only BiH Institutions are obliged, under the Law on Financing of BiH Institutions, to set the fixed amount from indirect taxation revenues that will belong to BiH Institutions within the medium-term expenditure framework (MTEF). However, the legal basis for the State's share in indirect taxation revenue is ultimately set only in the actual annual budget of BiH Institutions adopted by the BiH Parliament.

Table 4.1.6. Actual ITA Revenues vs. MAU Projection

(Note that each projection was taken from the time when the budget plans were prepared)

	2009		2010		2011	
	Projection	Out-turn	Projection	Out-turn	Projection	Out-turn
Total ITA revenue (BAM million)	5,168.03 ^a	4,437.0 ^b	4,663.2 ^c	4,802.9 ^d	4,999.5 ^e	4,996.8 ^f
% difference between budget and out-turn	-14.0 %		3.0%		-0.1%	

Source: ITA. ^aMAU Bulletin 44-45, p.6; ^bMAU Bulletin 64-65, p.4; ^cMAU Bulletin 54, p.4; ^dMAU Bulletin 76-77, p.9; ^eMAU Bulletin 64-65, p.4; ^fMAU Bulletin 88-89, p.4.

BiH Institutions get a fixed amount of indirect taxes, defined before budget adoption and based simply on a democratic agreement, and execution is always the same as plan. In practice, the amount of indirect taxation

²⁹In accordance with the Law on the changes and amendments to the Law on Payments into the Single Account and Allocation of Revenues that was adopted in 2007 following a decision by the Office of the High Representative.

³⁰http://www.uino.gov.ba/b/Poslovne_usluge/Jedinstveni_racun.html

³¹“Official Gazette of BiH”, issue No: 100/12.

revenue planned in the budget of BiH Institutions is divided into daily payments, and transfer is made to the BiH single treasury account (STA). Because there was no agreed budget for 2011, BiH Institutions received the same overall amount as they received in 2010. Since the 2011 budget was approved only after the event, and in effect there was no budget forecast, that year is considered as an outlier (Table 4.1.7).

Table 4.1.7. Actual Revenues of BiH Institutions vs. Originally Approved Budget

<i>Revenues of BIH institutions</i>	<i>2009 budget</i>	<i>2009 actual</i>	<i>Variation</i>	
			<i>BAM</i>	<i>%</i>
Revenue	928,065,000	933,108,536	5,043,536	0.54%
Tax revenues	729,000,000	729,000,000	0	0%
Indirect taxes	729,000,000	729,000,000	0	0%
Non-tax revenue	199,065,000	204,108,536	5,043,536	2.53%

<i>Revenues of BIH institutions</i>	<i>2010 budget</i>	<i>2010 actual</i>	<i>Variation</i>	
			<i>BAM</i>	<i>%</i>
Revenue	849,273,000	851,074,038	1,801,038	0.21%
Tax revenues	689,000,000	689,000,000	0	0%
Indirect taxes	689,000,000	689,000,000	0	0%
Non-tax revenue	160,273,000	162,074,038	1,801,038	1.12%

<i>Revenues of BIH institutions</i>	<i>2011 budget</i>	<i>2011 actual</i>	<i>Variation</i>	
			<i>BAM</i>	<i>%</i>
Revenue	810,700,784	810,700,784	0	0%
Tax revenues	689,000,000	689,000,000	0	0%
Indirect taxes	689,000,000	689,000,000	0	0%
Non-tax revenue	121,700,784	121,700,784	0	0%

Source: MFT of Bosnia and Herzegovina.

Table 4.1.8.PI-3: Aggregate Revenue Out-turn compared to Originally Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	Total revenues of BiH Institutions were between 97% and 106% of the budget estimates in 2009 and 2010. 2011 is considered an outlier, however it did not impact the overall score.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

This indicator examines whether there are significant expenditure arrears, and whether there is a system that enables expenditure arrears to be effectively monitored. At the level of BiH Institutions, any obligation that needs to be paid and that has not been settled fully on the date of accrual is treated as an arrear.³² However In February 2014 the Fiscal Council of BiH adopted a definition of an arrear based on any amount that is not paid within a maximum of 90 days (or as specified in the law). As of end 2013, the payment due data have started to be recorded in the Treasuries at the BiH Institutions and Entity Government level (however, the complete 2013 reports on arrears have not been ready in time to be included in this Report) Each government levels will adjust their legislation (e.g. FBiH has prepared Draft Law on Financial Operations which prescribes that contracted payment deadline can be up to 60 days).

³²Law on Financing of BiH Institutions, Official Gazette of BiH 131/04, /Article 2. Paragraph 1., Item p)

(i) Stock of expenditure payment arrears

BiH Institutions receive from the single account of the ITA a defined transfer amount that was adopted by the BiH Parliament in the annual budget. Indirect taxation revenues comprise around 75-80% of the revenues of BiH Institutions (with the remaining revenues mostly being fees for services of BiH Institutions and other non-tax revenues), and since this is a pre-determined fixed amount, it does not fluctuate during the year. In practice, BiH Institutions plan the budget cautiously on the basis of all obligations, and it exercises tight discipline in terms of payments. Thus, no question of expenditure arrears has arisen at the BiH Institutions level; during 2011, when no budget was agreed and actual execution was based on temporary financing throughout the year, no arrears were accumulated since only established expenditure programs could be continued at the 2010 level.

Dimension rating: A*(ii) Availability of data for monitoring the stock of expenditure payment arrears*

The Budget of BiH Institutions is very specific and mostly includes staff expenses (2011 budget: staff expenses amounted 79.92% of the total expenses for that year). While there is no ageing list of liabilities being prepared regularly, the BiH Institutions have a system for monitoring all liabilities entered in the treasury which are due to be paid on a regular basis. Also given that there are strict procedures for monitoring the payments of liabilities and the fact that there are no arrears on the level of BiH institutions it can be concluded that the system for monitoring stock of payment arrears is adequate. The system had been further enhanced for some budget users belonging to BiH Institutions which began to enter invoice due dates by the end of 2013. The next table shows total current liabilities and cash available at the end of each reporting period under review of this report clearly showing that there was more than sufficient funds available for settling all due liabilities :

Table 4.1.9. Short-term Liabilities as at 31 December 2009 to 2011

	31-Dec-09	31-Dec-10	31-Dec-11
Short-term liabilities	58,873,552	62,212,971	31,716,400
Liabilities due to employees	56,139,982	54,899,456	53,631,135
Short-term accruals	34,726,114	31,276,123	29,859,072
Other liabilities	240,569	862,673	476,674
Short term liabilities and accruals	149,980,217	149,251,223	115,247,515

Table 4.1.10. Cash and Precious Metals as at 31 December 2009 to 2011

	31-Dec-09	31-Dec-10	31-Dec-11
Cash and precious metals	407,943,007	326,388,303	178,965,669

Dimension rating: A**Table 4.1.11.PI-4: Stock and Monitoring of Expenditure Payment Arrears**

	2013 Rating (Method MI)	Justification
Overall rating	A	
Stock of expenditure payment arrears	A	Revenues of BiH Institutions do not fluctuate throughout the year. Because of cautious budget planning based on all obligations and fiscal discipline in payment authorizations, there are no arrears.
Availability of data for monitoring the stock of payment arrears	A	The data for monitoring of stock of payment arrears are partially available, although there is no ageing profile of the arrears (as of end 2013 invoice due dates are being entered in the system so it will be possible to generate ageing list after this period).

PI-5: Classification of the Budget

The PEFA criteria look for arrangements that make it possible to compare budget and out-turn for the same year, and also provide for consistent comparisons from one year to the next, according to administrative, functional, and economic classifications. Ideally the 10 main functions listed in the United Nations Classification of the Functions of Government (COFOG)³³ should be broken down into sub functions (e.g., different levels of education) or programs. This objective is facilitated by recording all transactions in accordance with a chart of accounts (CoA) that captures sufficient information about each transaction to enable reports according to each of the classifications.

Although there has been some progress, Public Finance Statistics still remain fragmented and incoherent across the different jurisdictions in BiH—a situation that most observers regard as a significant impediment to proper governance. The EU has paid special attention to the issue; it has been providing technical assistance in this area since June 2012,³⁴ but progress has not yet been evaluated. IMF has been also working intensively with the BiH authorities in this area since 2010.

The budget is presented by the economic classification of the expenditure of each administrative unit. The BiH Institutions operates a Treasury system through which all transactions pass (or at least are recorded; for externally funded projects, actual payments are made from separate accounts); this provides for consistent reporting by administrative and economic classifications. The Treasury systems have been much improved since 2000; however, the four governments' CoAs are not harmonised, and functional consolidation is not possible.

For the BiH Institutions, sufficient information is collected about each transaction to enable the BiH MFT to produce a functional breakdown of actual expenditure, but the budget and out-turn are not presented in a functional classification. The Reporting Rulebook for BiH Institutions does not prescribe reporting by functional classification (or program classification), and there is no clear and detailed methodology for dividing expenditures into function. Only approximation—that is, the total spending of each budget user is mostly assigned to one function that best describes its responsibilities—of main functional categories is done for the purposes of preparing BiH Institutions' MTEFs.

Table 4.1.12.PI-5: Classification of the Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C	Budget formulation and execution are based only on administrative and economic classification, which is not in line with IPSAS or COFOG in official budget plans and execution report—the MFT only sends budget execution reports to the CBBiH in GFS format, based on existing bridging tables between the official CoA and the GFS, which was prepared with the assistance of the CBBiH and IMF technical assistance. The CoA is not harmonized with the CoAs of the other governments.

PI-6: Comprehensiveness of Information Included in Budget Documentation

This indicator assesses the comprehensiveness of the information provided to the Parliamentary Assembly in support of the budget. Nine benchmarks are considered (see Table 4.1.13).

³³<http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

³⁴ The main purpose of the project is to support the State and Entity Ministries of Finance, DB Finance Directorate, and other beneficiaries in providing reliable and inter-institutionally harmonized data on public finance on the basis of accrual accounting and in line with internationally recognized, in particular EU, principles, standards, and practices.

Table 4.1.13. Comprehensiveness of Budget Documentation (BiH)

<i>Element</i>	<i>Included</i>	<i>Comment</i>
The macroeconomic assumptions, including at least aggregate growth, inflation, and the exchange rate.	Y	2013 budget proposal ^a (as submitted by BiH Presidency to BiH Parliamentary Assembly): Law on Budget of BiH Institutions and International Obligations www.parlament.ba/sadrzaj/zakonodavstvo/u_proceduri/default.aspx?id=38100&langTag=bs-BA&pril=b ^a The 2013 budget preparation cycle is described here, since it was the newest available budget planning cycle available at the time of PEFA preparation. Note that for other indicators for which data on budget execution or the full budget cycle are needed, data for 2009-2011 are used, since the 2012 budget execution data were not available at the time of PEFA preparation.
Fiscal deficit, according to GFS or some other internationally recognized standard.	Y	The budget presents revenues and financing categories separately. For example, in 2013 budget financing categories (which are deficit-financing categories by GFS and other methodologies) are receipts from asset sales, loans, and carried-over surpluses. http://www.sluzbenilist.ba/Sluzbeni%20dio/Sluzbeni%20glasnik%20BiH/2012/broj100/Glasnik100.pdf
Deficit financing, describing the anticipated composition, domestic and external.	Y	See above.
Debt stock, including details at least for the current year.	Y	2013 budget proposal (as submitted by BiH Presidency to BiH Parliamentary Assembly): Law on Budget of BiH Institutions and International Obligations. Note that again the information concerning debt stock relates to the country as a whole, rather than to the BiH Institutions, which have very little debt on their own account. Responsibility for debt service essentially rests with the Entities, although payments in respect of external debt service are made through the BiH Institutions. www.parlament.ba/sadrzaj/zakonodavstvo/u_proceduri/default.aspx?id=38100&langTag=bs-BA&pril=b
		Although the information on debt stock is not submitted as part of budget documentation, it is made available to the Members of Parliament as a separate document in the form of Information on the Status of Public Debt of Bosnia and Herzegovina. This information is also available on the web page of the Ministry of Finance and Treasury. See for example: http://mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%20NA%20DAN%2031.12.2011%20-%20BOS.pdf Detailed analysis of the entire public debt stock of the State and Entities (both external and internal) and debt servicing is also given in BiH Institutions' MTEF. See for example: http://www.mft.gov.ba/bos/images/stories/budzet/2013/DOB%202013-2015%20-S.pdf
Financial assets, including details at least for the beginning of the current year.	N	The omission is significant, since BiH Institutions have in the past accumulated balances as a result of underspending.

<i>Element</i>	<i>Included</i>	<i>Comment</i>
Prior year's budget out-turn, presented in the same format as the budget proposals.	N	2013 budget proposal (as submitted by BiH Presidency to BiH Parliamentary Assembly): Law on Budget of BiH Institutions and International Obligations www.parlament.ba/sadrzaj/zakonodavstvo/u_proceduri/default.aspx?id=38100&langTag=bs-BA&pril=b Out-turn figures for the previous year (i.e., 2011) are available only in an annex to the budget proposal (see p. 145 of the budget proposal), which presents budget users' requests in the program format. The out-turn figures for FY 2011 are not presented in the main tables of the budget proposal in line with the economic classification.
Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposals.	Y	2013 budget proposal (as submitted by BiH Presidency to BiH Parliamentary Assembly): Law on Budget of BiH Institutions and International Obligations www.parlament.ba/sadrzaj/zakonodavstvo/u_proceduri/default.aspx?id=38100&langTag=bs-BA&pril=b
Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	N	Previous budget only.
Explanation of the implications of new policy initiatives, with estimates of the revenue effects of tax changes, and/or of the expenditure impact of major changes in public services.	N	The budget annex contains some explanations—for example, it contains references to changes in some budget items such as salaries for public servants—but does not discuss policy implications.

Table 4.1.14.PI-6: Comprehensiveness of Information included in Budget Documentation

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	B	Five of the nine applicable information benchmarks are met.

PI-7: Extent of Unreported Government Operations

Annual budget estimates, in-year execution reports, and year-end financial statements should cover all budgetary and extra-budgetary operations of the government. This indicator evaluates the extent to which operations under government control, including those of so-called extra-budgetary funds (EBFs), are not reported at both budget estimate and out-turn stages. It also looks at the extent to which donor-funded projects are included in fiscal reports.

(i) The level of extra-budgetary expenditure that is not included in fiscal reports

The BiH Institutions do not currently operate any EBFs. The various regulatory agencies that are being established to meet the requirements of eventual EU membership have so far been treated as part of the BiH Institutions budget. A different situation might arise if such agencies were to be financed outside the budgets by the fees and charges they impose.

Dimension rating: A

(ii) Inclusion in fiscal reports of income/expenditure information about externally funded projects

Although the BiH MFT monitors information about externally financed projects (from project information units), only the government cofinancing element of project expenditure and already committed donor grants—that is, grants that are known at the budget planning stage is included in the actual budget plan (adopted budget). Total actual expenditure is reported at the out-turn stage for those externally funded projects that are recorded in the budget. The BiH Institutions MFT is working to establish a database that will make it possible to integrate aid flows into the budget and the Public Investment Programme (PIP). Thus, at present, information about donor-funded projects is included only to the extent it is available at the time budget proposals are prepared, while the data on actual flows is reported at the out-turn stage for all donor inflows which go through budget is much higher. For example, in the 2012 budget, only BAM 7 million were planned, while preliminary budget execution figures show the execution of about BAM20 million (mostly from grants that were not planned/committed to in the budget planning procedures)—more than the ceiling of 2% of expenditure for a rating of A. Furthermore, total externally financed projects are much larger than those shown in budget execution, since not all of them are recorded through the budget. Given that the externally funded projects are mostly being reported at the out-turn stage, while there are large donor funds which do not go through budgets at all, the decision was to assign a C rating.

Dimension rating: C

Table 4.1.115.PI-7: Extent of Unreported Government Operations

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Level of extra-budgetary expenditure omitted from fiscal reports	A	There are no EBFs at the level of BiH Institutions, and all expenditure controlled by the BiH Institutions is reported in the budget.
Inclusion in fiscal reports of income/expenditure information about externally funded projects	C	Only the cofinancing element of projects and committed donor grants is included in budget proposals, although total expenditure is reported at out-turn.

PI-8: Transparency of Intergovernmental Fiscal Relations

This indicator evaluates the transparency of and accountability for the resources that were transferred between different levels of government. It also assesses the timeliness and reliability of the information passed to subnational governments on their allocations.

Given the specificities of the BiH fiscal sector and the approach taken by this PEFA assessment, under this indicator the report considers the intergovernmental relations for the four main government levels separately. However, in addition to the fiscal relations that are specific to each of the four main levels, there is one common aspect of fiscal relations among these four levels—indirect taxation. Since indirect taxation is under the jurisdiction of the ITA, this section discusses it as well as aspects that are relevant only to BiH Institutions.

Indirect taxation revenues constitute almost half of the total revenue of countrywide general government sectors. The BiH ITA, one of the budget users in the BiH Institutions budget, has jurisdiction over indirect taxation. The revenues are mostly transferred to the Entities; less than 15% of the total indirect taxation revenue is assigned to the BiH Institutions budget.

(i) Transparency and objectivity in the horizontal allocation among subnational governments

Since BiH Institutions has no EBFs or lower tiers of government, there are no issues related to the transparency and objectivity of horizontal allocations.

Dimension rating: NA- the BiH Institutions does not have local self-governance level

(ii) Timeliness of reliable information to the different governments on their allocations

The budget planning process is intended to provide, by April of each year, macroeconomic projections and revenue forecasts on which, in May each year, the Fiscal Council would base the following year's allocations of indirect taxation revenues—drawing on the Global Framework of Fiscal Balance and Policies in BiH. Entity governments, cantons, local self-governance units, and public entities for roads could then be given a credible and timely projection of the resources that would be available to them for the following year. Thus each level of government would have the information needed to prepare their MTEF (i.e., fiscal plan for the following three years, see PI-12) and, subsequently, for the forthcoming budget.

In the budget planning process for BiH Institutions, the Law on Financing of the BiH Institutions stipulates that the Directorate for Economic Planning of the BiH Council of Ministers provides macroeconomic projections for the country in March each year. On the basis of these projections, in April each year the MAU of the Governing Board of the ITA provides projections of total indirect taxation revenues. The BiH MFT then prepares projections of their own revenues (other than indirect taxation revenues). Using the macroeconomic and fiscal projections for all four main levels, the Fiscal Council is expected to prepare the Global Framework of Fiscal Balance and Policies in BiH, which in turn would serve as a basis for each Finance Ministry to prepare its MTEF by end-May. In practice, the Fiscal Council usually delays its adoption of the Global Framework, and adoption of the BiH MTEF is therefore usually delayed. The adoption of annual budgets has also been delayed in recent years because of lack of political agreement on indirect taxation revenue allocation for BiH Institutions and on the overall size of the BiH Institutions budget.

Dimension rating: NA- the BiH Institutions does not have local self-governance level

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

BiH Institutions does not have any EBFs or local levels and therefore does not need to consolidate such fiscal data. As regards consolidation of BiH Institutions' fiscal data by sectors, the reporting rulebook does not require reporting by functions, and functional classification is not presented in budgets and in budget execution reports. Only MTEFs include an approximation of main functional categories.

In terms of consolidation of fiscal data for the whole country, each year the CBBiH compiles comprehensive information on consolidated general government revenue and expenditure by economic classification, including cantons, local self-governance units, and EBFs. This is out-turn information only (no consolidated information is available for budget estimates), and does not include any functional/sectoral analysis. Only data on countrywide functional expenditures are prepared as part of the Economic and Fiscal Programmes that BiH authorities submit to the European Commission, but even they are based on a rough approximation.

Dimension rating: N/A The BiH Institutions does not have local self-governance level

Table 4.1.16.PI-8: Transparency of Intergovernmental Fiscal Relations

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	NA	
Transparency and objectivity in the horizontal allocation among different governments	NA	The BiH Institutions does not have local self-governance level
Timeliness of reliable information to different governments on their allocations	NA	The BiH Institutions does not have local self-governance level
Extent of consolidation of general government fiscal data according to sectoral categories	NA	The BiH Institutions does not have local self-governance level

PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

This indicator assesses whether the government adequately monitors and manages the fiscal risks³⁵ arising from public sector activities or operations outside its direct control. There are two dimensions: the first looks at the activities of public enterprises (PEs) and autonomous government agencies (AGAs) operating outside the budget, and the second at the possible risks from the activities of subnational governments.

(i) Extent of monitoring of public enterprises and autonomous government agencies

The BiH Council of Ministers does not control any PEs,³⁶ and the development of AGAs outside the budget has been slow. In principle such bodies will be needed to meet the EU *acquis* obligations (for example, the BiH Air Navigation Services Agency and bodies for the licensing of drugs), but their development has been very slow because of a lack of political consensus on the extent of powers to be transferred to the level of the BiH Institutions. For the time being, arrangements for reporting to and control by MFT are sufficient. The Public Radio-Television Service of BiH (PE) and State Electricity Regulatory Commission are (PE) also under the auspices of the BiH Parliament. All of these bodies report regularly to the Government (Council of Ministers of BiH) and Parliament. They are obliged to have an annual audit conducted by the private independent audit firms, and can also be subject to audit by the BiH SAI.

Dimension rating: A

(ii) Monitoring of borrowing by lower-tier governments

Dimension rating: NA – BiH Institutions have no lower tier government.

Table 4.1.17.PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Extent of monitoring of public enterprises and autonomous government agencies	A	Only a few small regulatory bodies are financed from fees outside the budget, over which present MFT controls are sufficient.
Monitoring of borrowing by lower-tier governments	NA	BiH Institutions have no lower tier governments,

PI-10: Public Access to Key Fiscal Information

Public access to key fiscal information is assessed through the six benchmarks for the indicator shown in Table 4.1.18.

Table 4.1.18.Benchmarks to assess Public Access to Key Fiscal Information

<i>Criterion</i>	<i>Publicly available</i>	<i>Explanation</i>
The budget documentation submitted to Parliament.	Y	Budget documentation is made available to the public as the same time as it is submitted to the BiH Parliamentary Assembly: https://www.parlament.ba/sadrzaj/zakonodavstvo/u_proceduri/default.aspx?id=38103&langTag=bs-BA&pril=b

³⁵ Fiscal risks are defined as debt service defaulting, operational losses, expenditure payment arrears, and unfunded pension obligations.

³⁶ This means that PEs are not controlled in the sense that the government exercises direct control as a majority shareholder, but rather that the government only passively monitors PEs.

<i>Criterion</i>	<i>Publicly available</i>	<i>Explanation</i>
In-year budget execution reports: are they made available to the general public?	Y	The budget execution report for the first nine months of 2012 is available on the MFT website: http://mft.gov.ba/bos/images/stories/budzet/izvršenje/2012/Izvjestaj_o_izvršenju_budžeta_institucija_BiH_za_I-IX_2012-bosanski.pdf
Year-end financial statements: are they made available within six months after completion of the audit?	Y	The budget execution report is available on the MFT website: http://mft.gov.ba/bos/images/stories/budzet/izvršenje/izvjestaj_izvršenje_budžet_2011_bs.pdf
External audit reports: are they published within six months after audit completion?	Y	The reports are made available immediately after the audit is completed: http://www.revizija.gov.ba/revizioni_izvjestaji/default.aspx?template_id=82&langTag=bs-BA&pageIndex=1
Contract awards: is the award of all contracts with a value equivalent to \$100,000 published at least quarterly?	Y	Contract awards are published in the Official Gazette upon award. The Official Gazette can be accessed via the Public Procurement Agency's website: http://www.javnenabavke.ba/index.php?id=04h&jezik=bs
Information about the resources available to primary service units (e.g., schools and health clinics): is such information published at least annually, or available on request to interested parents, patients, etc.?	NA	BiH institutions have no primary service delivery units.

Table 4.1.19.PI-10: Public Access to Key Fiscal Information

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	All five of the applicable benchmarks relevant to the BiH Institutions are met.

PI-11: Orderliness and Participation in the Annual Budget Process

This indicator aims to assess whether budget formulation adheres to a fixed and predictable budget calendar each year and is organized in a way that facilitates effective participation by budget users. It also assesses whether the instructions given to budget users for the preparation of their budget submissions reflect high-level political decisions about the allocation of available funding, and whether the budget circular fixes spending ceilings within which budget users have to work.

(i) Existence of and adherence to a fixed budget calendar

Despite a well-defined budget calendar and processes at the BiH Institutions level, approval of the budget is not always timely.

The key dates for the preparation of the annual budget are set out in the Law on Financing of the BiH Institutions. Amendments to the law adopted in 2009 specify exact dates by which most of the key steps in the budget calendar ought to be completed.

The budget process begins in January each year with the distribution of Budget Instructions No. 1, setting out the requirements (and forms), responsibilities, and timelines for each stage of the budget cycle. However, as has been mentioned, the calendar is not always adhered to. The 2013 budget was approved on December 7, 2012, but the 2012 budget was not approved until May 2012, and the 2011 budget was approved only retrospectively in February 2012. Those aspects of the budget calendar that depend on technical work by civil servants generally appear to be adhered to, but the experience of 2010-12 shows

that work can be effectively and indefinitely delayed by political problems that can arise at the earlier stage of the budget cycle when the policy framework is being determined, as well as at the later stages when detailed proposals are submitted to ministers.

Table 4.1.120 sets out the budget calendar presented in the Law on Financing of the BiH Institutions and the actual dates each task was completed during the 2013 budget process. One of the main reasons the actual budget calendar deviated significantly from the timetable prescribed by the law is that the political coalition forming the Council of Ministers changed during 2012. Even so, the budget was adopted on time in 2013 for the first time in the last three years, largely because it was a condition of the SBA. In addition, representatives of the BiH Institutions on the Fiscal Council (Council of Ministers Chairman and the Minister of Finance and Treasury) were in consensus with the Entities' representatives on decreasing the BiH Institutions budget. According to the budget calendar the instructions for the 2013 budget were distributed on June 20 and submitted by budget users on July 1.

Table 4.1.20. BiH Institutions Budget Calendar (for 2013 budget)

<i>Task</i>	<i>Responsibility</i>	<i>Date in budget calendar (or Law)</i>	<i>Actual date for 2013 budget preparation</i>
Distribution of Budget Instructions No. 1	MFT	31.01.2012.	20.06.2012.
Submission of Budget User Priority Review Tables	Budget users	15.04.2012.	01.07.2012.
Global Framework of Fiscal Balance and Policies in BiH	Fiscal Council	30.06.2012.	28.11.2012.
MTEF submitted to the Council of Ministers by the Ministry of Finance and Treasury	MFT	15.06.2012.	November 2012. It was only posted on MFTMFT website (as envisaged by legislation) and was therefore available to everyone, including Members of Parliament.
MTEF adopted by the Council of Ministers	Council of Ministers	30.06.2012.	28.11.2012. MTEF was actually adopted after the draft annual budget was adopted.
Budget Instructions No. 2 issued (with budget ceilings)	MFT	01.07.2012.	02.08.2012.
Budget user discussions	MFT/ budget users	15.08.-25.09.	29.08.12.09.
Budget submitted to Council of Ministers	Minister of Finance	01.10.2012.	15.10.2012.
Budget adopted by the Council of Ministers and submitted to the Presidency of BiH	Council of Ministers	15.10.2012.	16.11.2012.
BiH Presidency submits budget to Parliament	BiH Presidency	01.11.2012.	29.11.2012.
Parliament approves budget	Parliament	31.12.2012.	07.12.2012.

Source: Ministry of Finance and Treasury, Institutions of Bosnia and Herzegovina.

Dimension rating: C

(ii) Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)

Two sets of budget instructions are issued. Budget Instructions No. 1 sets out the detailed guidelines and instructions for the preparation of Budget User Priority Review Tables (BUPRTs), including high-priority new spending proposals, proposed revenue measures, and savings options, consistent with the priorities of the Council of Ministers. Following the submission of the BUPRTs, the MFT prepares a draft MTEF that

sets out, among other things, the underlying macroeconomic indicators and fiscal outlook, proposed budget expenditure priorities for the budget and forward estimates period, and budget ceilings for each budget user. Once the Council of Ministers has approved the MTEF, the MFT issues Budget Instructions No. 2, setting out the budget ceilings for each budget user (in accordance with the MTEF) for the next year, together with instructions for the preparation of budget requests. Budget users are required to prepare their detailed budget estimates in accordance with these ceilings. The MFT and budget users carry out discussions following the distribution of the Budget Instructions No. 2. Some adjustments to the ceilings may be permitted in accordance with government policy priorities and subject to the approval of final budget ceilings by the Council of Ministers. Since there have been cases of lack of strict adherence to the calendar (in terms of ceilings being approved by the Government before being sent to MDAs), the rating is B.

Dimension rating: B

(iii) Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)

While the 2010 budget was adopted, in accordance with the legal calendar, at the very end of 2009, the 2011 budget was only passed retrospectively in February 2012, and the 2012 budget adoption was delayed until May 2012. Thus the budget approval was delayed by more than two months after the beginning of the year. The 2013 budget was adopted in December 2012, as explained above in Table 4.1.20.

Dimension rating: D

Table 4.1.21. Date of Enactment of Budget Law

<i>Fiscal year</i>	<i>Date budget law was enacted by Parliament</i>
2010	December 30, 2009 http://mft.gov.ba/bos/images/stories/zakoni/Zakon%20o%20budzetu%20za%202010.godinu_web_BOS.pdf
2011	February 14, 2012 ^a http://www.slist.ba/glasnik/2012/broj12/Broj012.pdf
2012	May 24, 2012 http://www.slist.ba/glasnik/2012/broj42/Broj042.pdf
2013	December 7, 2012 http://www.sluzbenilist.ba/Sluzbeni%20dio/Sluzbeni%20glasnik%20Bih/2012/broj100/Glasnik100.pdf

Source: MFT, Institutions of Bosnia and Herzegovina.

^aFinal approval by the Parliament was given in February 2012, even though in the Official Gazette it was filed under the session of December 31, 2011.

Table 4.1.22.PI-11: Orderliness and Participation in the Annual Budget Process

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C	
Existence of and adherence to a fixed budget calendar	C	Reflects the fact that for the two previous budgets the calendar was largely ignored. The annual budget calendar exists but there are delays and the calendar for preparation of the FY13 budget left little time for completing detailed estimates.
Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)	B	Clear budget instructions and guidelines issued, but no strict adherence at all times (in terms of ceilings being approved by the Government before being

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)	D	sent to MDA). Budget for 2011 was not passed until 2012, while that for 2012 was delayed by five months.

PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

This indicator refers to the extent to which the authorities of BiH plan their fiscal framework, expenditure policies, and budget plans over the medium-term. Four dimensions are considered: (i) multiyear fiscal forecasts and functional allocations; (ii) scope and frequency of debt sustainability analysis; (iii) existence of multiyear costed sector strategies; and (iv) linkages between investment allocations and forward functional expenditure estimates.

(i) Preparation of multiyear forecasts

Article 5(b) of the Law on the Fiscal Council requires the Fiscal Council to adopt the Global Framework of Fiscal Balance and Policies in BiH, which set out the following:

- the proposed fiscal targets of the budgets of BiH Institutions, F BiH, RS, and DB;
- the proposed macroeconomic projections and the projection of the total indirect taxes and their allocation for the next fiscal year; and
- the proposed ceiling on the borrowing in the budgets of BiH Institutions, F BiH, RS, and DB.

All these elements were contained in the Global Framework of Fiscal Balance and Policies in BiH 2014-2016, which was adopted by the Fiscal Council in September 2013 (Global Frameworks are not published, however, efforts are being undertaken to publish them soon)³⁷. The Global Framework that have been adopted so far include (a) macroeconomic projections prepared by the Directorate for Economic Planning; (b) indirect taxation revenue prepared by the MAU of the ITA Governing Board; (c) overall tables of total aggregate categories of revenues, expenditures, and financing for BiH institutions, F BiH, RS, and DB, which are set out only as an illustration and are not binding; (d) several sentences that briefly set out the ceiling for the budget of BiH Institutions and the State's share of indirect taxation revenues, and mention a target to reduce both the primary fiscal deficit in BiH and total public consumption over the medium term; and (e) proposal for the ceiling for the borrowing of the budgets of institutions of: BiH, F BiH, RS, and DB.

Fiscal Council is a coordination body, which, by using necessary inputs (macro-projections developed by Economic Planning Directorate, indirect taxes revenue projections developed by OMA), aiming to establish, through Global Framework, consistent budget planning parameters at all levels of government in BH. Ultimately, legislative authorities of each level of government are responsible of fiscal policy pursuant to Constitutional responsibilities.

However, not all categories of general government expenditures are included in the data presented in Global Frameworks—for example, public entities for roads—and data provided in the Global Framework differ from the data consolidated by the IMF and Central Bank of BiH. Additionally, the definition of fiscal balance by the Fiscal Council Law (and used in Global Frameworks) is primary balance calculated as differences between current revenues and current expenditures, which differs from internationally recognized definitions of fiscal balance (e.g. also taking into account capital expenditures).

³⁷http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=13152&langTa g=hr-HR

Multiyear fiscal forecasts are produced as part of the process leading to the preparation of the MTEF, including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and the two following fiscal years). Once approved by the Council of Ministers, the budget year estimates establish the budget users' budget ceilings for the forthcoming budget year. Forward estimates are used to anchor the preparation of the following year's budget ceilings.

The budget and forward estimates in the MTEF are prepared by administrative and economic classification in accordance with the CoA. The MFT also prepares the budget and two-year forward estimates in a separate (informal) functional table in the MTEF (Annex 3, pp 117-119, MTEF 2013 – 2015). The annual budget proposal does not include forward year estimates.

Dimension rating: C

(ii) Scope and frequency of debt sustainability analysis

The MFT maintains a database of the external state debt, debt of the entities and the District of Brčko, and issues orders to CBBiH, which are preceded by written consents of the entities, for the payments of interest and the principal. The servicing of the relevant external debt of the entities is performed from the revenues of the entities (indirect taxes) from the sub-account of the entity opened with the CBBiH, and before the indirect taxes are made available to the entities, except for the direct external debt of the entities, when the servicing is performed from the revenues of the entities (direct taxes) from the Single Treasury Account, which is opened with commercial banks. In the latter case entities pay their liabilities directly to the creditor. Total public debt is reviewed annually by MFT, CBBiH, and the Fiscal Council through the regular Article IV consultations with the IMF, and this scrutiny is currently intensified under the monitoring required by the SBA.

The MFT Debt Management Sector also maintains a database of internal and external debt at all levels of government of BiH. Limited debt sustainability analysis (DSA)—which refers to the percentage of external debt in relation to GDP—is usually presented in the information published by the debt management department of the MFT. However, it cannot be considered as an appropriate full DSA during the debt forecasting exercise. Detailed analysis of the entire external and internal public debt stock of the State and the Entities and debt servicing prepared by the MFT is also given in the BiH Institutions MTEF.³⁸

The Law on Borrowing, Debt and Guarantees of BiH stipulates that Advisory Committee for Debt (comprising of two representatives from Council of Ministers one of which is the Finance Minister, one representative from the Central Bank of BiH, two representatives from the Entity Governments including Finance Ministers, and Finance Directorate director from the Brčko District), which is supposed to be in charge of preparing state debt management strategy. However, in practice, this has not been implemented.

Currently, the only debt sustainability analysis is the analysis IMF prepares within their Article IV Country Reports or periodically in some of the reports in reviews under the SBA (four such analyses were prepared by the IMF in 2009-2013). Since the IMF debt sustainability analyses have so far been performed without active participation of the authorities in the preparation process (other than data provision) and that the authorities do not use this analysis in their strategic planning process (the debt sustainability analysis is not linked to a specific government debt strategy in terms of future borrowing policies and needs of any government level (which are large, having in mind large infrastructure needs), the performance rating for this indicators is reduced.

However, it should be noted that the IMF has recently shared its methodology and instructions in terms of debt sustainability analysis with the Federal Ministry of Finance, based on the request of the Federal Ministry of Finance stemming from the conclusion of recent FBiH DeMPA prepared by the World Bank,

³⁸ See for example: <http://www.mft.gov.ba/bos/images/stories/budzet/2013/DOB%202013-2015%20-S.pdf>

which also found that no DSAs are undertaken, no sensitivity analyses are used, and no medium-term debt management strategy has been developed and it recommended that the technical assistance is provided to the Federal Ministry of Finance for the debt sustainability analysis. Thus, DSA preparation for the FBiH by the FMF can be expected in future, as it is prescribed by the new Law on Budgets in FBiH adopted in December 2013 that the debt sustainability analysis will have to be annexed to budget. The IMF DSA template has also been shared with the MFT in past years. But, given that currently there is no evidence that the authorities have prepared and used own or IMF DSA in their own strategic planning process, the performance rating for this indicator is lowered as noted.

Dimension rating: D, since there is no appropriate DSA during the debt forecasting exercise

(iii) Existence of costed sector strategies

No costed sector strategies are formally developed either for BiH as a whole or for the BiH Institutions. A Draft Development Strategy of Bosnia and Herzegovina (with separate action plans for BiH Institutions, FBiH, RS, and DB) was prepared by the Directorate of Economic Planning of the BiH Council of Ministers and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. The Fiscal Council seems to have little political appetite to endorse or even discuss such countrywide strategic documents.

The Institutions of BiH PIP was prepared in the format of a development document for the purpose of creating the preconditions necessary for a gradual introduction of the system of mid-term financial investment planning in compliance with strategic development plans and mid-term plans of the Institutions and the BiH Council of Ministers. In view of the lack of adopted strategic development plans on all the levels, the testing of the new structure of the Institutions of BiH PIP was performed in cooperation with the Directorate for Economic Planning, in comparison with the Draft Development Strategy and the Draft Strategy for Social Inclusion (SR/SSU). The structure of the development portion of the 2011-2013 Institutions of BiH PIP is in that context adjusted to follow the structure of the strategic goals of the Draft SR/SU.

The projects in the Institutions of BiH PIP are classified according to the development criterion on the basis of which the Development Investment Programme was drawn from the Institutions of BiH PIP, which covers the projects that directly contribute to social or economic development of Bosnia and Herzegovina. The Development Investment Programme is based on the programme structure that contains 4 operational programmes.

The BiH MTEF includes an analysis of “medium-term budget priorities”—covering the forthcoming annual budget and the two following fiscal years—based on the budget users’ submissions for costed new spending proposals. Such proposals tend to be for specific individual initiatives or spending requirements based on adopted pieced of legislation, rather than forming part of a broader overall or sector strategies. Only a few sectoral strategies are adopted at State level (e.g., the Justice Reform Strategy), reflecting lack of political will for countrywide and BiH Institutions strategic planning. Budget and forward estimates are prepared for each budget user.

The MFT produces a supplementary budget statement by program, based on information submitted by budget users. It includes statements of program objectives and performance indicators. Budget proposal in the form of program budget is submitted to BiH Parliament as an annex to the budget documentation in a form of information in the process of budget adoption, however the budget itself is adopted only in economic an institutional classification. Furthermore, budget execution statements are also prepared using only economic and institutional classification.

While the program budget statement is submitted to Parliament along with budget documentation for information only, the budget and budget execution statement continues to be formally appropriated by economic item for each budget user.

Dimension rating: D*(iv) Linkages between investment budgets and forward expenditure estimates*

All four levels of government prepare a rolling three-year PIP. Programme (PIP). In addition, the BiH MFT Sector for Coordination of International Economic Assistance prepares a consolidated country PIP but also a PIP for BiH Institutions. All PIP proposals and funded investment projects are captured by the Public Investment Management Information System – PIMIS. That system is maintained by the Sector for Coordination of International Economic Assistance. PIMIS is an information management system for the management of public developmental investments that facilitates all entity and state budget users on line access to planning and monitoring of all projects/programmes that are defined in the Strategic framework and the mid-term and annual plans and contribute to the realization of development objectives. PIP database is designed to match public investment proposals. The Sector for Coordination of International Economic Assistance MFT also maintains a donor-mapping database covering donor-funded projects in BiH. All projects from the PIP are classified according to COFOG and DAC nomenclature.

The Sector for Coordination of International Economic Assistance’s preparation of the PIP for BiH Institutions is a separate process from the preparation of the budget of BiH Institutions by the Budget Sector in the MFT. However, the processes are synchronized, and the MTEF also reflects approved and funded projects in the PIP. In the course of negotiations with budget users it is obligatory to include a representative of the Sector for Coordination of International Economic Assistance. Approved and planned projects are harmonized with the funds planned in the Budget Framework Paper. The use of multiyear estimates in the MTEF helps ensure that future recurrent costs of completed capital investment projects are reflected in the MTEF. However, because the PIP is planned separately from recurrent expenditure, it is not fully consistent with sector development strategies. In addition, the investments listed in PIP are not always realistic in terms of financial resources and implementation plans. The aforementioned lists include all delegated projects. The projects are directed towards the realization of development objectives in compliance with the strategic framework that is represented by development strategies and other strategic documents. Projects have a filled out Form for identification, registration, and monitoring of projects/programmes.

Although investments are planned separately from current expenditure, the current investment costs are taken into account in the course of preparation of the MTEF.

Dimension rating: C**Table 4.1.23.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy and Budgeting**

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	D+	
Preparation of multiyear forecasts	C	Previous year’s forward estimates are not considered when following year’s budget process begins. GFF 2013-2015 contains all the elements prescribed by the Law on the Fiscal Council.
Scope and frequency of debt sustainability analysis	D	No full DSA during the debt forecasting exercise.
Existence of costed sector strategies	D	Specific initiatives are costed, but there are no overall plans for the development of each activity. No overall development strategy (and essentially no sector strategies) are adopted at the level of BiH Institutions.
Linkages between investment budgets and forward expenditure estimates	C	Although investment is planned separately from current expenditure, current costs of investments are taken into account in the course of preparation of the MTEF.

PI-13: Transparency of Taxpayer Obligations and Liabilities

This indicator examines three dimensions: (i) whether tax legislation and regulations are clear and comprehensive and limit the discretion of authorities, especially with regard to decisions on tax assessments and exemptions; (ii) whether taxpayers have ready access to information about tax liabilities and administrative procedures; and (iii) whether a functioning tax appeals mechanism exists.

(i) Clarity and comprehensiveness of tax liabilities

The legislative framework for indirect taxes is generally clear and comprehensive, and there are clear laws governing administrative procedures. Due to a strict application of administrative procedures in practice, the discretionary powers of the tax inspectors are fairly limited. While the VAT law will be harmonized with the EU directives, some of the important taxation principles are currently not clearly and consistently reflected in the legislation and interpreted in practice—for example, place of taxation for services and input VAT deduction for financial institutions. ITA is working on changes in the legislation to improve harmonization with the relevant OECD guidelines (Twinning Project with the Austrian Ministry of Finance). Discretionary powers in assessing tax liabilities are fairly limited.

Dimension rating: B

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Taxpayers have web access to information regarding tax obligations, explanatory notices, and administrative procedures (www.uino.gov.ba), and taxpayers have electronic access to their tax records (“e-VAT”). There is a network of ITA regional branch offices where taxpayers can obtain specific explanations or instructions and copies of tax records. An information desk/telephone hotline is available in the ITA Central Office, and taxpayers’ questions are generally answered in due time and with due professional care. Workshops or seminars for taxpayers are not organized regularly. Official binding interpretations about tax applicability can be requested individually. In 80% of cases responses are received within the timeframe of 30 days.³⁹ Delays are evident only in the case of large taxpayers, due to the limited number of inspectors, and because of the legal obligation to perform inspection in advance⁴⁰.

Dimension rating: B

(iii) Existence and functioning of a tax appeals mechanism

The BiH tax appeal system comprises three levels: (a) objection and appeal to the ITA branch office making the assessment; (b) appeal to the ITA Central office in Banja Luka; and (c) lawsuit before the to the Administrative Court of BiH (Administrative Department of the Court of BiH). The decision process usually lasts longer than the timeframe specified in the rules/regulations—the backlog of cases before the court is such that any decision is likely to take several years. Decisions are not publicly available. Appeals are reviewed by bodies whose members rarely include experienced professionals from the private sector and civil society. Issued decisions are binding for all parties, with no discrimination in respect of rights to appeal. Consequently, the issues that need to be addressed are transparency (i.e. making decisions publicly available), improving time efficiency, and improving the technical understanding of the VAT principles (i.e., including in the review process professionals from the private and NGO sectors).

³⁹Taxpayers’ requests for official opinions should be answered within 30 days, in accordance with article 10 of the official Instruction on Issuing of Official Opinions by ITA

http://www.uino.gov.ba/download/Dokumenti/Dokumenti/bos/Porezi/PDV/Uputstvo_o_uslovima_i_davanju_misljenja_UINO_191206.pdf

⁴⁰Opinions are provided in compliance with Article 50 of the Law on the Procedure of Indirect Taxation (“Official Gazette of BiH”, issue No. 89/05) which is elaborated in detail in the Instructions on Conditions and Procedure for Providing Opinions of the Indirect Tax Authority (“Official Gazette of BiH”, issue No. 01/07)

Dimension rating: C**Table 4.1.24.PI-13: Transparency of Taxpayer Obligations and Liabilities**

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Clarity and comprehensiveness of tax liabilities	B	Legislation and procedures for all major taxes are comprehensive and clear, with fairly limited discretionary powers of the tax inspectors.
Taxpayer access to information on tax liabilities and administrative procedures	B	Taxpayers have access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures for major taxes. Obtaining official binding interpretations can often be a lengthy process, and there is a lack of taxpayer education campaigns.
Existence and functioning of a tax appeals mechanism	C	The tax appeals system is set up and functional; however, decisions are often not issued within the prescribed timeframe. The areas for improvement include transparency, capacity in the appeal bodies and improvement of timeliness.

Reforms after the Assessment Period

On December 31, 2013, the Law on Amendments to the Law on the Procedure of Indirect Taxation (“Official Gazette of BiH”, issue No. 100/13) came into effect, and it amended Article 52 that had stipulated the confidentiality of data on indirect taxes. The amendment to the aforementioned Law opened up the possibility of public disclosure of lists of debtors, which has improved transparency. The lists are published separately for the debtors owing VAT, excises, and customs duties. Upon the publication of the first list of debtors, the total of BAM 21.3 million had been paid within the first month, by 348 debtors included in the list of debtors.

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator examines how effective a tax administration is in identifying taxpayers and assessing their liability to pay, using three dimensions: the effectiveness of the administration in identifying taxpayers and getting them to register, the effectiveness of penalties for noncompliance, and the planning and monitoring of tax audit and inspection.

(i) Controls in the taxpayer registration system

VAT taxpayers are registered in a single electronic database that covers the whole country. The registration process is automated, using specialized software.⁴¹ Taxpayers are assigned a unique Tax Identification Number (TIN), which is used for VAT, customs, excises, and external trade operations. Tax authorities and taxpayers are obliged to use TINs in all official correspondence. The VAT database of registered taxpayers is available and easily accessible on the website. Potential (non-registered) taxpayers can be identified through such control mechanisms as special construction schemes and joint controls of the supply chain participants. TINs can be directly assigned only to BiH residents. The mechanism for registration of non-residents is referred to as “VAT Representative,” and the VAT TIN for non-residents

⁴¹VAT is fully administered in a specialized software ALICE (A Logical Integrated Computerised Environment), which is used for registration of taxpayers, processing of tax declarations, processing and accounting of payments, tax refunds, enforced payments, control of payments, analysis of taxpayer’s risk, reporting. ALICE is also used to support the service of e-VAT, a service allowing taxpayers to have real-time access to their unique taxpayer account.

is assigned through a resident taxpayer. However, because of lack of efficient exchange of information with foreign tax authorities, ITA does not have an effective mechanism to enforce registration on non-residents who are identified as potential tax payers for VAT.

Importers are also registered in a single database using specialized software. Unique customs ID numbers are assigned to each importer and used in all official correspondence.⁴² There is no direct, i.e. automated linkage between VAT and customs databases, but the databases are being reconciled on the monthly basis.

The VAT and the customs registration systems are not linked to other relevant registration systems such as pension funds, commercial court registers, and so on.

Dimension rating: C

(ii) Effectiveness of penalties for noncompliance with registration and tax declaration

Taxpayers of indirect taxes are liable to a penalty of a minimum of 1000 BAM for late registration, plus an additional 100% of unreported liabilities which have directly resulted from late registration.⁴³ Penalties for late submission of VAT returns range from 500 BAM to 1000 BAM.⁴⁴ Penalties of up to 5000 BAM are also imposed on responsible persons (company directors).⁴⁵ The penalties appear to be high enough, but they may not always be an effective deterrent.⁴⁶

Dimension rating: B

(iii) Planning and monitoring of tax audit programs

VAT reporting applies the self-assessment method. Tax audit plans are produced monthly and annually. In 2012, 7,610 audits of VAT taxpayers were carried out. The selection of taxpayers for audit is based on automated risk assessment criteria, identified from tax declarations entered into the system. The system runs queries based on indications such as high tax refunds or unusual tax base changes. In addition, the Group for Risk Control performs risk analyses in the Risk Analysis Module. However, according to the 2012 Report of the BiH Supreme Auditor, risk assessment criteria have not been sufficiently implemented in practice. During 2012, 30% of planned tax audits were not carried out, and 60% of performed tax audits were not based on risk analyses issued by the Group for Risk Control and automated risk module findings.⁴⁷ Fraud investigation activities are carried out by the ITA's Sector for Implementation and Compliance with Customs and Tax Legislation, and include identifications; inquiries; documentation and processing of all types of smuggling; customs and tax frauds, or other breaches of customs; VAT; and excise duties legislation.

Dimension Rating: C

Table 4.1.25.PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C+	
Controls in the taxpayer registration system	C	Taxpayers are registered in a complete database but the database is not linked to other relevant authorities databases.

⁴² Customs registration and processing is done on specialized software ASYCUDA (Automated SYstem for CUstoms Data).

⁴³ The VAT Law, article 67

⁴⁴ The Law on Indirect Tax Administrative Procedure, Article 120

⁴⁵ The VAT Law, Article 70

⁴⁶ Tomas, Rajko (2010). Crisis and Grey Economy in BiH. Available at: <http://library.fes.de/pdf-files/bueros/sarajevo/09248.pdf>

⁴⁷ Supreme Audit Institution of BiH, 2012 Efficiency Audit Report of the ITA: http://www.revizija.gov.ba/revizioni_izvjestaji

	2013 Rating (Method M2)	Justification
Effectiveness of penalties for noncompliance with registration and declaration obligations	B	There are penalties for noncompliance with registration and declaration obligations, but they may not always be effective in preventing offenses.
Planning and monitoring of tax audit programs	C	There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations. However, a significant number of audits carried out in practice was outside of the risk-based criteria selection.

Reform after the Assessment Date

On June 12, 2013, the Indirect Tax Authority, the Tax Administration of Republika Srpska, the Tax Administration of the Federation of BiH, and the Tax Administration of the Brčko District of BiH signed the Memorandum on Institutional Cooperation and Data Exchange and formed a Coordinating Body with 8 members. Regular meetings of the Coordinating Body have been held since it was formed.

PI-15: Effectiveness in Collection of Tax Payments

This indicator assesses the effectiveness of a tax administration in actually collecting the amounts of revenue due, covering three dimensions: the tax administration's effectiveness in keeping tax arrears under control; arrangements for transferring revenue collected to the Treasury; and the performance of the tax administration in reconciling the detailed accounts of each individual taxpayer with the overall totals assessed and collected, so that it knows exactly the amounts owed by each taxpayer as well as the total amount of revenue outstanding, and can also reconcile the amounts it has collected with the records of total payments to the Treasury.

(i) Collection ratio for gross tax arrears

The VAT debt collection ratio was 64% in 2011 and 65% in 2012. The amount of tax in arrears was 224 million BAM in 2011 and 293 million BAM in 2012. Total tax collections were 3,149 million BAM in 2011 and 3,165 million BAM in 2012. Therefore, tax in arrears represented 7% and 9% for 2011 and 2012, respectively.⁴⁸

In terms of debt recovery through foreclosed assets, none of the foreclosed properties were sold during 2012.⁴⁹ Tax-related penalties (i.e., a percentage of additionally assessed tax liability) are levied when tax returns are carelessly or deliberately prepared incorrectly, which results in unreported tax liability. Interest is assessed on late payments of taxes, as well as enforced collection. The interest in the amount of 0.04% (until December 31, 2013, it had amounted to 0.06%) and enforced collection fee amounting to 5% of the value of the liability (until December 31, 2013 it had amounted to 10%) were amended in Article 52 of the Law on Amendments and Addenda to the Law on Procedure of Indirect Taxation ("Official Gazette of BiH", issue No.100/13).

Dimension rating: C

(ii) Effectiveness of transfer of tax collections to the Treasury

Taxpayers and importers make payments into commercial bank accounts. Instructions for bank payments are clearly prescribed in the applicable legislation; direct cash payments in ITA office premises are

⁴⁸Supreme Audit Institution of BiH, 2012 Efficiency Audit Report of the ITA: http://www.revizija.gov.ba/revizioni_izvijestaji

⁴⁹Ibid.

prohibited. Transfers of revenue collections to the Treasury Accounts at the CBBiH are made daily and there are 4 groups of accounts, one each for Customs, VAT, road fees, and lump sum payments.

Dimension rating: A

(iii) Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury

Revenue collections in bank accounts and the STA are reconciled daily in ITA's accounting system. Information on tax collections is compiled and sent monthly to the MAU.⁵⁰ However, the BiH SAI noted in its 2012 audit report that accounts reconciliation reports are not timely and accurate and do not provide complete records on tax arrears.⁵¹

Dimension rating: C

Table 4.1.26.PI-15: Effectiveness in Collection of Tax Payments

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Collection ratio for gross tax arrears	C	The average debt collection ratio in the two most recent fiscal years was 65%, and the total amount of tax arrears represents on average 8% of total annual collections.
Effectiveness of transfer of tax collections to the Treasury	A	All tax revenue is collected in bank accounts controlled by ITA and is transferred daily to Treasury.
Frequency of complete accounts reconciliations among tax assessments collections, arrears records, and receipts by the Treasury	C	Complete accounts reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least quarterly. The SAI has noted that accounts reconciliation reports are not timely and accurate and do not provide complete records on tax arrears.

PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

This indicator assesses the extent to which the government provides reliable information on the availability of funds to budget users to enable effective resource management. It is intended to measure performance over the last completed fiscal year before assessment.

(i) Extent to which cash flows are forecast and monitored

The Treasury Department of the BiH Institutions MFT produces a cash flow forecast that is updated monthly. Because of the limited range of the BiH Institutions' responsibilities, and the high proportion of the budget devoted to employee compensation (73.9% of current expenditure in 2011⁵²) cash flows are reasonably predictable. On the revenue side, the BiH Institutions receive a predetermined amount that is paid out of ITA revenues before the balance is divided between the Entities and DB. Once this amount has been set, the BiH Institutions can be confident of receiving this amount even if overall revenues fall short because of deterioration in the economy.

Dimension rating: A

⁵⁰Available at: <http://www.oma.uino.gov.ba>

⁵¹Supreme Audit Institution of BiH, 2012 Efficiency Audit Report of the ITA, page 41 http://www.revizija.gov.ba/revizioni_izvjestaji

⁵²see Table 5a of IMF report 12/282

(ii) Reliability and horizon of periodic in-year information on ceilings for expenditure commitment

Because of the assured amount of the revenue stream—75-80% of the BiH Institutions' budget revenues come from the fixed amount of indirect taxation revenues that the BiH Institutions receive—and the practice of prudent budgeting, the BiH Institutions have been able to make commitments up to the amounts provided in the budget for each spending unit at any time during the year. Cash is released to budget users on a monthly basis, based on operational plans.

Dimension rating: A

(iii) Frequency and transparency of adjustments to budget allocations imposed on budget users

During 2009-12 the BiH Institutions budget was never revised downwards during implementation, nor have there been any supplementary budgets providing for increases in expenditure.

Dimension rating: A

Table 4.1.27.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Extent to which cash flows are forecast and monitored	A	A cash flow forecast is prepared for the year and updated monthly.
Reliability and horizon of periodic in-year information on ceilings for expenditure commitment	A	Budget users have been free to commit up to the limits of their annual allocations at any time during the year.
Frequency and transparency of adjustments to budget allocations imposed on budget users	A	No downward adjustments have been imposed on budget users during the course of a year.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

This indicator looks at debt management in terms of contracting, servicing and repayment, and the provision of government guarantees, including the following dimensions:

- maintenance of a debt data system and regular reporting on the main features of the debt portfolio;
- identification and consolidation of cash balances in all government bank accounts (including those for EBFs and government-controlled project accounts); and
- the proper recording and reporting of all government borrowing and all government-issued guarantees, and the approval of all borrowing and guarantees by a single government entity (e.g., the ministry of finance or a debt management commission) against adequate and transparent criteria.

(i) Quality of debt data recording and reporting

The BiH Institutions have so far contracted only small amounts of debt on their own behalf. With the exception of some externally financed projects, all current and capital expenditure has been met from revenues. Although the entity governments are responsible for servicing almost all the country's public external debt, all external loans of IFI (regardless of whether the Entities are using it and repaying it), must be approved by the BiH Council of Ministers, BiH Presidency, and BiH Parliament.

CBBiH publishes quarterly figures for total external public debt, including any element applicable to the BiH Institutions.

The MFT of BiH maintains a comprehensive database of the country's external public debt (most owed to IFIs), and issues an order to the CB BiH for the payment of the relevant external debt of the entities, pending prior consent of the entities, and of the direct state debt. The servicing of the relevant external debt of the entities is performed from the revenues of the entities (indirect taxation) from the subaccount of the entity that is opened with CB BiH, and before the indirect taxation revenues are put at the disposal of the entities, except for the direct external debt of the entities, when the servicing is performed from the revenues of the entities (direct taxation) from the Single Treasury Account of the entity that is opened with commercial banks, and in such a manner that the entities are paying their obligations to the creditor directly. Total public debt is reviewed annually by MFT, CBBiH, and the Fiscal Council through the regular Article IV consultations with the IMF, and this scrutiny is currently intensified under the monitoring required by the SBA.

The MFT Debt Management Sector also maintains a database of both the stock of internal and external debt at all levels of governance of BiH, based on its own data and regular exchange of information with the Entities and DB. However, FBiH debt reporting tends to be delayed (in terms of local self-governance units), and thus overall reporting for BiH is also hampered and cannot qualify for the highest score.

Detailed analysis of the entire public debt stock of State and Entities (both external and internal) and debt servicing prepared by the MFT is also given in the BiH Institutions MTEF (including debt stock information and debt repayment projections)⁵³ and in the annual reports of Debt Stock of BiH that the MFT prepares.⁵⁴ Each quarterly execution report for the budget of BiH Institutions includes detailed information on foreign debt servicing, and the annual budget plans of BiH Institutions include detailed projections of foreign debt servicing.

Limited DSA—referring to the percentage of external debt in relation to GDP—is usually presented in the reports published by the debt management department of the MFT. However, it cannot be considered as an appropriate full DSA during the debt forecasting exercise.

Dimension rating: B

(ii) Extent of consolidation of government cash balances

This dimension deals exclusively with the level of BiH Institutions, since each of the main government levels has separate payments systems. All BiH Institutions' transactions pass through the STA. Since the BiH Institutions have underspent their budgets and thus did not use all their cash revenues, they accumulated some cash balances, which were held partly in CBBiH and partly in the commercial banks through which payments are made. The totals of the balances and all cash balances are calculated daily.

Dimension rating: A

(iii) Systems for contracting loans and the issue of guarantees

BiH Institutions can issue, on behalf of BiH, external guarantees for the financing of capital investments.⁵⁵ The total amount of externally issued guarantees guaranteed by BiH (mostly for IFI investment projects implemented in the Entities) stood at BAM62.9million at the end of 2012 (less than 1% of total BiH general government expenditure⁵⁶). These guarantees are always approved by the BiH

⁵³ See for example: <http://www.mft.gov.ba/bos/images/stories/budzet/2013/DOB%202013-2015%20-S.pdf>

⁵⁴ See for example:

http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf

⁵⁵ Article 54 of BiH Law on Contracting Debt, Debt and Issuing of Guarantees. Available at:

<http://www.mft.gov.ba/bos/images/stories/zakoni/zakoni%202005/2005%20redni%20broj%204%20bosanski.pdf>

⁵⁶ http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf

Council of Ministers and BiH Parliament. The Entities can also issue guarantees, which are discussed in their sections of this report.

BiH Institutions has contracted, through the MFT, relatively small amounts of external direct state loans. The total outstanding direct state debt stood at BAM28.6million at the end of 2012, or about 3% of BiH Institutions annual expenditure.⁵⁷ Such loans are also approved by the BiH Council of Ministers and BiH Parliament.

The objectives for debt are not linked to medium-term fiscal targets, as there are no proper debt strategy in terms of how much additional debt will be issued (generally, the ‘strategic documents’ such as Global Framework and MTEFs discuss overall legal debt/debt repayment limits). So, rating B is most appropriate - contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible level of governance.

Dimension rating: B

Table 4.1.28.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B+	
Quality of debt data recording and reporting	B	There is complete reporting of the small amounts of BiH Institutions debt. CB BiH is performing the servicing of the relevant external debt of the entities on the basis of the order of the MFT BiH that was preceded by consent of the entities for the payment, as well as the servicing of state external debt. The BiH MFT keeps a database of the entire public debt of the country (including the external and internal debt of entire general government sector in BiH). Domestic and foreign debt records are mostly complete and updated, and are reconciled at least quarterly, and statistical reports are produced at least annually. However, because F BiH debt reporting is often delayed, overall reporting for BiH is also hampered.
Extent of consolidation of government cash balances	A	Amounts are calculated daily.
Systems for contracting loans and the issue of guarantees	B	BiH issues countrywide external level guarantees. Both these guarantees and the small amounts of loans directly used by the BiH Institutions have been under full control of MFT and approved by the Council of Ministers and Parliament of BiH. The objectives for debt are not linked to medium-term fiscal targets, as there is no proper debt strategy, so, rating B is most appropriate - contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible level of governance.

⁵⁷Information on Public Debt Level on 31.12.2012. Available at:
http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf

PI-18: Effectiveness of Payroll Controls

Payroll and related charges represent a significant percentage of current costs of the BiH Institutions. This indicator is intended to cover all significant government payrolls—that is, all civil servants and other government employees, including the armed forces, police, and EBF employees—considering four dimensions: (i) the degree of integration between personnel and payroll records; (ii) the timeliness of changes to personnel records and the payroll; (iii) the operation of internal controls over changes to personnel records and the payroll; and (iv) the existence of payroll audits to identify control weaknesses.

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

The MFT Treasury operates the payroll for all employees of the BiH Institutions except the armed forces. The Civil Service Agency (CSA) controls all appointments to and promotions in civil service positions, and has a complete database of all civil servants. The positions and organization structure for each agency are specified in the Rulebook on Organization and Systematization of Workplaces.

The creation of positions and changes to a budget user's organizational structure require amendments to the Rulebook. Such amendments are managed by each government organization and require the formal consent of the Ministry of Justice and final approval by the Council of Ministers. A small number of appointments to senior positions are at the discretion of ministers, although the posts must be allowed for in the systematization, and the holders must meet the minimum educational qualifications. Staff in lower-grade positions (drivers, messengers, etc.), are not subject to CSA control, although the posts must be included in the approved systematization for each budget user and the numbers employed must not exceed the staff ceilings fixed by MFT.

The Treasury makes changes to the payroll on receiving details from the employing organization, which should include documentation of CSA approval where applicable. The Tax Authorities are informed at the same time. The Treasury does not check the correctness of the documentation supplied unless the consequence would be to exceed the staff ceiling or estimated provision for the organization in question. Control in effect depends on administrative inspections under the Ministry of Justice and on external audit. There is a complete database, and regular reconciliations are undertaken between personnel and payroll records at least on monthly basis.

Dimension rating: B

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

Since appointments can only take effect once all the necessary notifications have been given, changes to personnel records and the payroll are made without delay, and that retroactive adjustments are rare.

Dimension Rating: A

(iii) Internal controls of changes to personnel records and the payroll

The controls are dependent on the systems in the employing authority, CSA, and Treasury. The responsibility should be clear in each case, so that there is an audit trail, but the accuracy of the records justifying overtime and other special payments may be more uncertain. The need to strengthen internal financial controls to meet the EU requirements for Public Internal Financial Control (PIFC) is well recognized (see the European Commission's 2012 Progress Report, para 4.2.7 (SWD (2012) 335 final) and also PI-20 below), and much of the preparatory work has been done; but approval for implementation of the changes has not yet been given.

Dimension rating: C

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

Payroll audits have been undertaken by both external and internal auditors. External audit includes sample testing of salary payments, personal dossiers of employees alongside other transactions as part of its financial and compliance audit. As all BiH institutions are subject to financial audit each year, the payroll audits are performed regularly and include the tests that would discover any potential fictitious employees, and supplement data that are lacking and provide an insight into the weaknesses relating to internal controls.

Dimension rating: A

Table 4.1.29.PI-18: Effectiveness of Payroll Controls

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Degree of integration/reconciliation between personnel and payroll records	B	There is a complete personnel database, and personnel records and payroll data are reconciled at least on a monthly basis.
Timeliness of changes to personnel records and the payroll	A	Regular procedures appear to prevent appointments from taking effect before necessary notifications have been given to Treasury and tax authorities. Changes to payroll and personnel records are made without delay, and retroactive adjustments are rare.
Internal controls of changes to personnel records and payroll	C	Responsibilities are clear, and should give rise to an audit trail, but there is less assurance of accuracy of detailed records justifying salary supplements.
Existence of payroll audits to identify control weaknesses and/or ghost workers	A	Payroll audit is performed within the framework of regular financial audit which covers all BiH institutions on annual level.

PI-19: Competition, Value for Money, and Controls in Procurement

This indicator assesses whether there is a system in place to ensure economy and efficiency in public procurement of goods and services, including investments of different kinds as well as purchases of consumption goods. Four dimensions are considered: (i) whether the legal and regulatory framework provides adequately for transparency and for the effective operation of competition across the whole range of public procurement; (ii) whether there is sufficient justification for deviations from open competition; (iii) whether there is public access to full information about procurement plans, tender opportunities, contract awards, and the results of procurement complaints; and (iv) whether there is a satisfactory mechanism to deal with procurement complaints.

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

The current Law on Public Procurement in BiH was enacted in 2004 (Official Gazette BiH no. 49/04) and was last amended in 2010. The law regulates procurement at all level of government in BiH and requires contracting authorities to ensure that “awarding of public contracts is done in a way that ensures efficiency, transparency, equal treatment, non-discrimination and competition.” The law is supported by a package of “secondary legislation” that includes “The Public Procurement Legislative Framework for Bosnia and Herzegovina – Guide to the New Public Procurement Procedures”; “Decision on Implementation of the Public Procurement Law BiH”; “List of Categories of Contracting Authorities Obligated to Apply the BiH Public Procurement Law”; “Guidelines on Preparation of Model Forms and Procurement Notice, Contract Award Notice and Cancellation Notice”; and “Instructions on Elaboration

of the Minutes from Tender Opening. ”At the time of enactment the law was “harmonized”⁵⁸ with EU standards, “bringing the BiH regulatory framework in line with European standards.”⁵⁹The law still remains to be aligned with the EU *acquis*.⁶⁰A new draft law that more fully conforms with current EU legislation has been prepared by the Public Procurement Agency (PPA), which supervises the operation of the system, and after a political stalemate lasting since 2009, this new Law has been sent to Parliamentary procedure recently and is expected to be adopted by February 2014 (this new deadline is included in the SBA). The Law is expected to strengthen governance, enhance transparency, and bring procurement practices in BiH in line with those in the EU.

The law and secondary legislation establish clear rules for public procurement procedures, including setting out the thresholds and other criteria for open, restricted, and negotiated procedures, competitive requests for quotation, and direct agreement. The law clearly sets out where exemptions are permitted—for example, for contracts related to “state secrets” and defense.

The law and secondary legislation are published on the PPA’s website. All procurement decisions can be appealed to an independent Procurement Review Board (PRB). Except for certain exemptions specified in the law, all procurements above BAM 50,000 (goods and services) or BAM 80,000 (works) must be submitted to an “open procedure”⁶¹ with “publication of a procurement notice in the JP NIO BiH official gazette or to restricted procedure with pre-qualification.”⁶² For tenders above BAM2 million, any use of the restricted procedure should be “supplemented by publication of a short summary in English on international media. ”For contracts under BAM 6,000, direct agreement is permitted; for contracts between BAM 6,000 and BAM 50,000 (goods and services)/BAM 80,000 (works), competitive requests for quotation must be issued if the open procedure is not used. Contracting authorities are required to publish their reasons for not using the open procedure; other suppliers can challenge these reasons before the PRB, which can order the contract to be retendered.

The rating depends on how many of six benchmarks are satisfied:

- There is a clear structure of law and subsidiary regulations: **Satisfied**.
- The legal framework is readily accessible to the general public: **Satisfied**.
- The legal framework applies to all procurement undertaken with government funds, with strictly defined exceptions: **Satisfied**.
- Open competition is the default method above defined thresholds, and the circumstances in which less competitive procedures may be used are clearly defined: **Satisfied**.
- There is public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints: **Not satisfied**—the public has access to bidding opportunities and tender awards, but not to procurement plans or the results of procurement appeals.
- There is an independent procurement review process, which can suspend the tendering procedure before contracts are signed: **Satisfied**—although contracts are often signed before the review body has been able to rule on a complaint.

⁵⁸ The Public Procurement Legislative Framework for Bosnia and Herzegovina – Guide to the New Public Procurement Procedures, p6.

⁵⁹ Further amendments to the law are required to align the law with the latest EU regulations. The PPA advised that several versions of a new draft public procurement law, intended to harmonize procurement regulations with EU Directives 17 and 18, have been prepared but have not yet been endorsed by either the Council of Ministers or Parliament.

⁶⁰ European Commission Staff Working Document: Bosnia and Herzegovina 2013 Progress Report (October 2013).

⁶¹ As defined in article 2 of the Law

⁶² Threshold values, Guide to the New Public Procurement Procedures, p33.

Five of the six benchmarks are satisfied.

Dimension rating: B

(ii) Justification for the use of less competitive procurement methods

The PPA publishes all tenders and all contracts issued in the Official Gazette of BiH, which is also published on the PPA website. The reasons for deviations from open competition are also published, but the PPA does not review whether or not the reasons are valid according to the legislation, as that is not a legislated obligation of the PPA.

In 2010 some 65% of all procurements were based on open competition using both open and restricted procedures, compared with over 72% in 2009. At the same time there were increases in the proportion of contracts let by direct agreement and by requests for competitive quotations (often referred to as “shopping”).

Table 4.1.30 shows the value of contracts procured by the various methods. The BiH PPA did not provide relevant information for years 2011 and 2012. The justification for this refusal was that “BiH PPA is unaware of any decision by the Council of Ministers to adopt BiH PPA 2011 Annual Report. As such the Report is not an official document and the Agency is not in the position to provide the relevant information concerning the type and number procurement procedures for 2011. The report for 2012 has been adopted by the BiH Council of Ministers.

Table 4.1.30. Use of Procurement Methods BiH, 2009-2012

<i>Procurement method</i>	<i>2009</i>		<i>2010</i>		<i>2011</i>	
	<i>% of total value of contracts issued</i>	<i>Value of contract (BAM million)</i>	<i>% of total value of contracts issued</i>	<i>Value of contract (BAM million)</i>	<i>% of total value of contracts issued</i>	<i>Value of contract (BAM million)</i>
Open procedure	70.9	1,507.3	63.2	1,343.8	No data	No data
Restricted procedure	1.6	34.8	2.2	47.8	No data	No data
Negotiated procedure	12.9	275.1	7.1	151.1	No data	No data
Competitive request for quotation	11.3	240.5	19.9	423.4	No data	No data
Direct agreement <6000 BAM	3.2	67.1	6.8	144.2	No data	No data
Total		2,124.8		2,110.3		

Source: BiH Procurement Agency.

Contracting authorities are required to specify their reasons for not using open tenders. Although these reasons are subject to examination by the PRB in the event of a complaint, their validity is not otherwise subject to any supervision. In practice, external audit reports regularly contain numerous criticisms of improprieties in the operation of public procurement, and a high and rising volume of complaints is addressed to the PRB. According to the PRB, the complaints received in 2011 related to contracts with a total value of BAM980 million (or about 40% of total procurement subject to the legislation). Moreover, the success rate for complainants has been rising: 1,155 of the 2,133 complaints received in 2012 were found to be justified.

The rating of this indicator depends not on the volume of exceptions to the open procedure, but on whether the exceptions were justified under with the legislation. Since there is widespread criticism by auditors, and frequent successful complaints by tenderers, it is clear that the large number of exceptions to open procedures is not properly justified in many cases.

Dimension rating: D***(iii) Public access to complete, reliable, and timely procurement information***

The PPA has developed a comprehensive website that provides extensive information on the organization, mandate, and activities of the BiH PPA and PRB. It includes the Law on Public Procurement in BiH and the secondary legislation, including principles, procedures, and guidelines. It also includes details of training programs. However, it does not contain up-to-date information about the use of different forms of procurement (see Table 4.1.30).

The website includes data from the PPA's two main software systems—WisPPA, which provides on-line delivery of reports on implementation of public procurement procedures, and Go-Procure, which provides for on-line publication of procurement notices and contract awards. The website also includes a register (database) of all contracting authorities and suppliers in BiH. All tenders and contract awards are published on the website.⁶³The reasons why procurement methods other than open procedure are used are also published on the internet, although in many cases this does not occur until after the contract has been awarded.

Score: the dimension rating depends on whether complete, reliable, and timely information is available to the public about procurement plans, bidding opportunities, contract awards, and the results of procurement complaints. This information is available only about bidding opportunities and contract awards.

Dimension rating: C***(iv) Existence and operation of an independent procurement complaints system***

An independent PRB is responsible for handling appeals and complaints about contracting procedures. The Board consists of six members appointed by the BiH Parliament—three are qualified lawyers, and three are procurement specialists with tertiary qualifications. The Board itself is not involved in procurement transactions or contract award processes.

A nominal fee of BAM 50 to BAM 100 is charged for the submission of complaints, although the level of compliance with payment is low. It is unlikely that the existence of the fee limits access to the review process. The PRB advised that a decision by the BiH Court of Appeals prohibits them from refusing to consider a complaint because the fee was not paid. The Board has clearly defined procedures for the submission and resolution of complaints.

The law requires that a decision on a complaint be made within 30 days, although, largely because of resource constraints (discussed below), this requirement is not always met. The PRB's decision can be appealed to the BiH Court of Appeals. The law requires the tender process to be suspended if the PRB finds in favor of the complainant before a contract is signed. In practice the PRB advised that contracts are often signed even though an appeal has been lodged, resulting in a large number of outstanding appeals that have not been finally resolved. In these cases the PRB can award substantial amounts of compensation to complainants. Many cases are pending before the Administrative Court, which has a four-year backlog.

The Board appears to be significantly under-staffed, a situation that undermines its capacity to fulfil its functions. Including the six Board members, the PRB has a total of 17 funded positions, of which 7 are technical advisers. Between 2006 and 2012 the Board gave decisions on nearly 10,000 complaints, and the Board is now averaging over 2000 complaints a year. The Board's current staffing allocation was premised on an expected 200 complaints a year. Compounding the problem is that, according to the chairman, four of the technical staff are on sick or other forms of leave and have not been replaced. In addition to the backlog of complaints, the lack of resources has meant that the Board has been unable to publish its recent rulings as required by the regulations under which it operates.

⁶³ Relevant information is available at: <http://www.javnenabavke.ba/index.php?id=04h&jezik=bs>

A new rulebook on the organisation and a revised “systematization” of staff positions prepared by the PRB was submitted to the Ministry of Justice (which has responsibility for overseeing the establishment of civil service posts) in 2011. However, the Ministry of Justice submitted only the rulebook to the Council of Ministers for approval, and the Council has taken no action. No reason has been given for the lack of progress with the Board’s request. Until the Board has staffing resources commensurate with its workload, it will not be able to fulfill the full range of its functions.

The Law on Procurement does not specify a maximum term for Board members, and formal letters of appointment of the Commissioners did not specify the term of appointment. Subsequently the Council of Ministers made a decision to limit the terms of the Commissioners to five years, meaning that the terms of the current Board members should have expired in mid-2010. On the proposal of the Ministry of Justice, the Council of Ministers ruled in January 2013 that the mandates of the members had expired and the positions should be advertised. However, the Ministry’s Legal Office has advised that the Council’s decision is not consistent with the law, and the members of the Board have challenged the procedural validity of the termination decision. This has created a complex legal standoff that has the potential to invalidate all the Board’s decisions on complaints since mid-2010 and reopen them to legal challenge.

The dimension rating depends on how many of seven benchmarks are satisfied.

- The Board is made up of experienced professionals: **Satisfied**.
- The members have no part in the contract award process: **Satisfied**.
- Prohibitive fees are not demanded from complainants: **Satisfied**.
- The Board follows defined procedures: **Satisfied**.
- The Board has authority to suspend the procurement process: **Satisfied**, although contracting authorities are not required to wait until appeals have been decided before signing contracts.
- The Board aims to issue decisions within the required timescale: **Partially Satisfied**, it does not always succeed because of resource limitations.
- The Board’s decisions are binding on all parties: **Satisfied**, although the decisions are routinely appealed to the Administrative Court by contracting authorities.

All seven benchmarks are satisfied. The Complaints Review Body is registered as a separate legal entity, comprising of three members from the pool of recognized law experts, which have a status similar to status of independent judges. They cannot perform any other direct or indirect jobs, except ones of academic nature. In addition to these three experts, the Body also has three experts in the area of construction works, transport and strategic management they are selected by public tendering process (competitive process). The legislation prescribes that any expert can be engaged by the CRB in case it is necessary in order to resolve the complaint. As per Official Gazette BiH" no. 87/13 from 11 Nov 2013. 2 branch offices in Banja Luka and Mostar were established with 5 members each (3 law experts and 2 experts in the area of construction works, transport and strategic management).

Dimension rating: B

Table 4.1.31.PI-19: Competition, Value for Money, and Controls in Procurement

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C+	
Transparency, comprehensiveness, and competition in the legal and regulatory	B	The legal framework is clear and readily accessible to the public. Open competition is the default

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
framework		method. The publication of tender notices and contract awards is transparent, with information publicly available via the PPA's website. However, there is no public access to procurement plans and the recent results of complaints.
Justification for the use of less competitive procurement methods	D	Since there is widespread criticism by auditors, and frequent complaints by tenderers are upheld by the Review Board, it is clear that the exceptions to open procedures are not properly justified in many cases.
Public access to complete, reliable, and timely procurement information	C	Information is limited to bidding opportunities and contract awards. No information is available on procurement plans or the recent results of complaints.
Existence and operation of an independent procurement complaints system	B	The procurement complaint procedure meets criteria (i) and (ii) and four out of five of the other criteria. However, the results of complaints are not published in spite of legal requirements. Although the Board has managed to give many decisions, it lacks sufficient resources to fulfill all its functions quickly and efficiently.

PI-20: Effectiveness of Internal Controls for Non-salary Expenditure

This indicator assesses the effectiveness of internal controls over non-salary expenditure, considering three dimensions: (i) the effectiveness of controls over the commitment of expenditure; (ii) the comprehensiveness, relevance, and understanding of internal control rules and procedures; and (iii) the degree of compliance with rules for processing and recording transactions. The controls should ensure that expenditure is incurred, and payments made, only when fully justified in accordance with budgetary provisions, and when all applicable regulations (including those concerning procurement) have been complied with.

(i) Effectiveness of expenditure commitment controls

Budget execution arrangements ensure that payments are not made when they would go beyond the progressive release of funds on the relevant budget line, or would exceed the overall budgetary provision. New legislation adopted in 2012 provides a firmer basis for effective financial management and control, while the budget execution software enables commitments⁶⁴ to be registered. It was understood that these recently introduced arrangements are working satisfactorily; BiH Institutions had not incurred any expenditure arrears at the time of the assessment. However, SAI for example notes that recording liabilities from previous period without proper procedure still occurs.⁶⁵

Dimension rating: B

(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures

The 2010 establishment of the Central Harmonization Unit (CHU) charged with coordinating of internal financial control and internal audit throughout the BiH Institutions provides a basis for progress. Most aspects of internal financial control are the responsibility of the heads of the spending units who, according to the CHU, need further training and preparation. The necessary detailed rules and procedures have not yet been adopted by the BiH Institutions, although much of the preparatory work has been done. EU assistance is provided under the IPA⁶⁶ to support the training and other steps needed to implement

⁶⁴ A definition of what constitutes a commitment is contained in Article 2, Item M, of the Law on Financing of BiH Institutions

⁶⁵ See for example pages 16 and 25 of the 2012 SAI Report on budget execution of State Institutions.

⁶⁶ EC-financed project *Strengthening public financial management in Bosnia and Herzegovina*.

strengthened internal financial control and internal audit. The CHU objective is that effective financial management and control arrangements, including internal audit, should be fully operational throughout the BiH Institutions, with all the necessary staff in place, by the end of 2016.

Dimension rating: C

(iii) Degree of compliance with rules for processing and recording transactions

All payments are made through the STA, which does not permit payments to be made beyond the limits of budget provision. The BiH Institutions do not have any EBFs. The Treasury does not exercise any control over the compliance of individual transactions with applicable legislation, except in the case of contracts for capital investments, for which it examines the documentation of procurement procedures. Overall the payments system works in an orderly manner, although further development is needed before the payment process could be executed through the system in real time. However, SAI for example states that there are cases when recording of some transaction by different users is done using different codes, due to unclear rules⁶⁷. Finally non-salary expenditure represented only: 2011: 27%, 2010: 34%, 2009: 31%

Dimension rating: B

Table 4.1.32.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Effectiveness of expenditure commitment controls	B	Expenditure commitment control procedures exist and are effective, with some exceptions in recording of liabilities with certain delay.
Comprehensiveness, relevance, and understanding of other internal control rules/procedures	C	There is a need to ensure the operation of stronger rules and procedures, and to train staff in their operation.
Degree of compliance with rules for processing and recording transactions	B	Although the system works in an orderly manner, there is scope for improvement through more effective integration of IT systems. Furthermore, SAI for example states that there are cases when recording of some transaction by different users is done using different codes, due to unclear rules

PI-21: Effectiveness of Internal Audit

This indicator looks at the functioning of internal audit services as distinct from the internal control operations reviewed in PI-20. The internal audit function considered here is defined as an advisory service to top management on the functioning of the systems for which management is responsible; internal audit is by definition separated from any operational responsibility for the systems. Three dimensions are considered: (i) the coverage and quality of internal audit work; (ii) the frequency and distribution of internal audit reports; and (iii) the extent of the management's responses to internal audit findings.

The authorities' overall aim is to have a harmonized legal framework in place across different government levels in BiH, as this is one of the essential elements of the EU Accession criteria (Chapter 32 of the negotiations). In 2011 the BiH CHU Coordinating Board, made up of the heads of the CHUs of BiH Institutions and the two entities, developed harmonized proposals for new legislation (including

⁶⁷ See for example page 24 of the 2012 SAI Report on budget execution of State Institutions.

regulations on detailed procedures) on PIFC, covering both internal financial control and internal audit. So far the legislative process has been completed only by the BiH Institutions⁶⁸ and RS.

(i) Coverage and quality of the internal audit function

The legal framework for internal audit is in place, and the criteria for the establishment of internal audit units have been published. Eventually 17 internal audit units are to be set up, staffed by 45-50 internal auditors; many of the units will cover more than one institution. At present only 12 auditors are in place, and arrangements still have to be made for the necessary curriculum development and auditor training.

Internal audit currently functions in the Ministries of Finance, Defense, and Justice; in the Ministries of Finance and Defense, practical assistance has been provided by the Swedish International Development Administration. The annual report on the operation of internal audit for 2011, submitted by the CHU to the Council of Ministers, has been published; the report for 2012 is expected to show improvements in the operation of the Treasury function. The importance of internal audit is also recognized by the Ministry of Defense, which received an adverse external audit report. Because— pending the recruitment and training of the necessary staff—there is currently only limited coverage of internal audit within the BiH Institutions, the main focus of the reports remains compliance audit rather than the performance of systems or the achievement of intended results. SAI notes that internal audit is still not being implemented in line with the Law on Internal Audit and Audit Standards, however, based on the number of internal audits conducted and the content of the recommendations issued, at least 20% of staff time is dedicated to systems reviews.

Dimension rating: C

(ii) Frequency and distribution of reports

There is currently limited coverage, and a relatively small number of internal audit reports have been prepared. In 2012 a total of 50 internal audits were conducted in five institutions: the Ministries of Finance and Treasury, Defense, Foreign Affairs, and Justice and the Communications Regulatory Agency.⁶⁹ According to Law on Internal Audit, internal audit reports for audited institutions are submitted to heads of audited institutions upon completion and to the Ministry of Finance and Treasury of BiH. Upon request such reports can be delivered to any legislative, executive or judiciary organ as well as to BiH SAI. Consolidated annual reports prepared by the CHU are submitted to the Council of Ministers for information, upon approval of the Ministry of Finance and Treasury. It is also submitted to all legislative, executive, or judicial body and relevant external auditor, based on their request. The Law also prescribes that the CHU cooperated with SAI by exchanging reports, documents, and opinions.⁷⁰ Thus, while internal audit coverage is not full yet, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and (upon the request) the SAI.

Dimension rating: B

(iii) Extent of management response to internal audit findings

According to the CHU, there is some recognition in the Ministries of Finance and Defense of the potential usefulness of internal audit work, but the managements of other spending units still see internal audit as a threat, not a help. The CHU's consolidated reports for 2011 and 2012 present an overview of internal audit recommendations and the extent to which they are fulfilled. Overall, 67 out of 195

⁶⁸ See Law on Changes and Amendments to the Law on Financing of BiH Institutions, adopted in May 2012, at: http://www.mft.gov.ba/bos/images/stories/zakoni/2012/zakon_o_izmjenama_finansiranje_bs.pdf

⁶⁹ See p. 11 of the Consolidated Internal Audit Report for BiH Institutions: <http://www.mft.gov.ba/bos/images/stories/chj/izvjestaji/CHJ%20GKI%20IR%20za%202012.g..pdf>

⁷⁰ See Law on Internal Audit at: http://www.mft.gov.ba/bos/images/stories/chj/zakon_o_internoj_reviziji_bs.pdf.

recommendations were fulfilled in 2012, 58 measures were not fulfilled, and for 70 measures the realization deadline is not reached yet or they are partially fulfilled.

Dimension rating: C

Table 4.1.33.PI-21: Effectiveness of Internal Audit

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Coverage and quality of the internal audit function	C	Coverage so far limited to Ministries of Finance, Defense, Foreign Affairs, and Justice. Some evidence that functioning of systems has been addressed.
Frequency and distribution of reports	B	While internal audit coverage is not fully comprehensive, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and (upon the request) the SAI.
Extent of management response to internal audit findings	C	According to CHU, some positive response in MFT and MoD, but other ministries have shown little interest in the help internal audit can provide. ^a

^a For two of the five institutions that have internal audit departments, data are available on the number of internal audit recommendations management has addressed—25 recommendations out of the total of 66 pertaining to these two institutions. See p. 10 of the consolidated report regarding the management response in the Ministry of Foreign Affairs and Ministry of Justice.

PI-22: Timeliness and Regularity of Accounts Reconciliation

This indicator examines (i) whether there are frequent and regular reconciliations between accounting data in the Treasury's books and bank account data, and (ii) whether advances and suspense accounts are regularly reconciled and cleared.

(i) Regularity of bank reconciliations

According to the MFT Treasury Department (and as also noted by the 2012 SIGMA consolidated report), there are daily reconciliations between the Treasury and bank account records of the STA.

Dimension rating: A

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

According to the Treasury, suspense accounts are used as advances to staff, which are cleared within seven days of the end of the period for which they are given.

Dimension rating: A

Table 4.1.34.PI-22: Timeliness and Regularity of Accounts Reconciliation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Regularity of bank reconciliations	A	There are daily reconciliations of the TSA.
Regularity of reconciliation and clearance of suspense accounts	A	Advances are cleared within 7 days of the end of the period for which they are given.

PI-23: Availability of Information on Resources Received by Service Delivery Units

This indicator asks whether normal administrative and accounting systems provide reliable information about the resources received by primary schools and primary health clinics, whatever level of government is responsible for their operation. The BiH Institutions are not responsible for the provision of health or education services, and no subnational governments reporting to them. Therefore the governments on the sub-national levels are not under obligation to report them in this area and they do not report to them.

Dimension rating: Not Applicable

Table 4.1.35.PI-23: Availability of Information on Resources Received by Service Delivery Units

	<i>2013 Rating</i>	<i>Justification</i>
Overall rating	NA	BiH Institutions have no responsibility for the delivery of health or education services.

PI-24: Quality and Timeliness of In-year Budget Reports

This indicator reviews three aspects of in-year budget execution reporting: (i) the scope of reports and the extent to which comparisons are possible with budget estimates on administrative, economic, and functional bases, with commitments covered separately from payments; (ii) the timeliness of reports; and (iii) the quality of the information.

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

In-year reports are produced according to the relevant provisions of the Law on Financing of BiH Institutions (Article 22),⁷¹ Rulebook on Financial Reporting, and relevant instructions issued to budget users by the MFT. The reports are produced by the MFT after each quarter is completed—that is, for the first three, six, and nine months of the financial year—and are delivered to the Council of Ministers for consideration and adoption within 60 days after the close of the financial quarter.

In-year reports produced by MFT include a budget execution report covering revenues and expenditures, information on debt servicing and stock of debt, and a balance sheet.⁷² Data in the report are prepared in the same format as the annual budget—that is, by economic and administrative classifications. These reports are prepared on a modified accruals basis.⁷³ MFT and budget users also produce reports covering both commitments and cash expenditure.

Dimension rating: A

(ii) Timeliness of the issue of reports

Year-to-date financial reports can be produced daily by the Treasury system, to which most budget users have direct access. The full quarterly reports are produced for delivery to the Council of Ministers within 60 days after the end of each quarter.

Dimension rating: A

⁷¹The Law is available at: http://www.mft.gov.ba/bos/index.php?option=com_content&view=article&id=143&Itemid=147

⁷²See, for example, the Report on the Execution of the Budget of BiH Institutions and International Obligations for Jan-Sept 2012. The report is available at: http://www.mft.gov.ba/bos/images/stories/budzet/izvršenje/2012/Izvjestaj_o_izvršenju_budzeta_institucija_BiH_za_I-IX_2012-bosanski.pdf

⁷³Ibid. pp 37-39. A definition of what constitutes a commitment is contained in Article 2, Item M of the Law on Financing of BiH Institutions.

(iii) Quality of information

Based on the data presented during the review, in-year reports appear to be complete and comprehensive. However there are some doubts whether all necessary information is being entered into the system, and there is a generally acknowledged need to improve financial management and internal controls in budget user organizations as well as the fact that IPSAs are not yet formally adopted and there are no adequate accounting policies on the level of the BiH Institutions which may cause that one and the same accounting issue is being treated differently in different institutions.⁷⁴ This concern was raised by the SAI in their annual report for FY 2011, which raises concerns about the quality of financial information collected across BiH Institutions.

Dimension rating: A**Table 4.1.36.PI-24: Quality and Timeliness of In-year Budget Reports**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Scope of reports as compared with budget, and availability of commitment as well as payment information	A	Revenue and expenditure reports are available with the same breakdown as in the budget. The expenditures are reported on an accrual basis in budget execution reports and capture commitment and payment stages comparably.
Timeliness of issue of reports	A	Full reports are produced quarterly within a month of the end of each quarter.
Quality of information	A	In-year reports appear to be complete and comprehensive.

PI-25: Quality and Timeliness of Annual Financial Statements

This indicator considers whether the annual government financial statements are complete, are submitted for audit without delay, and are prepared in accordance with accounting standards consistent with International Public Sector Accounting Standards (IPSAS).

(i) Completeness of the financial statements

The annual Report on the Budget Execution of BiH Institutions and International Obligations contains full information on BiH Institutions revenue and expenditure, and assets and liabilities, together with detailed information on external debt financing, which includes detailed information on funds available for debt servicing, and information on payments made, as well as comparative information on the execution of the planned repayment budget and a balance of the external indebtedness of Bosnia and Herzegovina at the end of reporting period.

The procedure for ensuring funds for debt servicing is defined in the Law on borrowing, debt and guarantees of BiH⁷⁵, Law on indirect taxation system⁷⁶, Law on payments into a single treasury account and distribution of revenue⁷⁷, and Law on financing of BiH institutions.⁷⁸

⁷⁴ SAI annual report for year 2011 available at: http://www.revizija.gov.ba/revizioni_izvjestaji/skraceni_izvjestaji/Izvjestaji2011/?id=2855

⁷⁵ Official Gazette of BiH No. 52/05 and 103/09

⁷⁶ Official Gazette of BiH No. 44/03, 52/04, 32/07, 34/07, 4/08 and 49/09

⁷⁷ Official Gazette of BiH No. 55/04, 34/07 and 49/09

⁷⁸ Official Gazette of BiH No. 61/04, 49/09, 42/12, 87/12 and 32/13

Transfer of funds for debt servicing from the single treasury account of the ITA BiH to the accounts and subaccounts opened in CBBiH is conducted based on liabilities repayment plans (previously reconciled with the Entities and District Brčko), and in accordance with timeschedule and amounts determined by MFT. The reports are published on the MFT website.

Dimension rating: A

(ii) Timeliness of submission of the financial statements

Ministry of Finance and Treasury have to prepare and submit the annual budget execution report to the Parliament after it has been submitted to the Council of Ministers and BiH Presidency, within 180 days from the end of the fiscal year. The statements are submitted for audit as soon as they are completed, and the SAI must audit the annual budget execution report within 90 days after receiving it.

Dimension rating: A

(iii) Accounting standards used

The statements are prepared in accordance with the Rulebook on Accounting with Accounting Policies and Procedures for Users of Budget of BiH Institutions and the Rulebook on Financial Reporting of the BiH Institutions, which are available on the MFT website. These standards are consistently applied, and are considered by the MFT to be partially in line with IPSAS, although there is a gap between the national accounting standards and IPSAS accrual. Moreover the SAI notes in its report that the government has not, decided to apply IPSAS, and it has accordingly qualified its opinion on the consolidated annual financial statements.

Dimension rating: C

Table 4.1.37.PI-25: Quality and Timeliness of Annual Financial Statements

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Completeness of financial statements	A	Full information is provided about revenue and expenditure, financial assets and liabilities.
Timeliness of submission of financial statements for audit	A	Timely submission of the statements to the SAI for audit.
Accounting standards used	C	The standards used for the preparation of financial statements are applied consistently. However, national standards are not fully compliant with IPSAS.

PI-26: Scope, Nature, and Follow-up of External Audit

This indicator looks at the work of the SAI and its contribution to satisfactory public financial management. Three dimensions are considered: (i) the range and quality of the audit work performed; (ii) the timeliness of the submission of audit reports to the legislature, particularly the report on the consolidated annual financial statements; and (iii) the evidence available about audited bodies' follow-up of the SAI's recommendations, and by the SAI's follow-up in subsequent audits.

(i) Scope/nature of audit performed

Between 2000 and 2012 the SAIs of the BiH Institutions and the two Entities have benefited from technical assistance provided by the Swedish SAI (Riksrevisions Verket), initially in the development of financial and compliance audit, and more recently in the development of performance audit. A Coordination Board made up of the BiH Institutions and two Entity SAIs has adopted harmonized audit standards and audit manuals, which

are consistent with the legal obligation to apply the international audit standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). Successive annual reports by OECD-SIGMA have confirmed that the work of all three SAIs meets international professional standards.

The main focus of audit activity has been on financial audit, although some performance auditing has been undertaken with the participation of the Swedish SAI. More work is needed to ensure that IT techniques to support appropriate sampling of transactions and identify unusual transactions are effectively used in the design and execution of audits. With 46 auditors, the BiH Institutions SAI is relatively well staffed to undertake a complete audit each year of all 70 ministries and other bodies within its remit. The total audit coverage in FY 2011 amounted 97.3%^{79/80}. The BiH Institutions SAI considers that there has been a substantial improvement in most auditees' compliance with applicable rules: whereas for 2007 there were only 11 unqualified opinions out of 57 audits, for 2011, 61 of the 72 audits were unqualified. Nevertheless, certain problems persist—infringements of procurement and employment legislation and the failure to restrain extravagant expenditure on office accommodation, official cars, and so on.

Dimension rating: B (reflecting the fact that some aspects of the audit work, such as performance audit, need further development and at times better substantiation/clearer recommendations).

(ii) Timeliness of submission of audit reports to the legislature

The MFT submits the annual budget execution statements to the SAI by the end of June in accordance with the main budget law, and the SAI reports to Parliament by the end of September each year. This timetable has been observed. This was confirmed through corroborative evidence from SAI and MFT.

Dimension rating: A

(iii) Evidence of follow-up on audit recommendations

The SAI follows up on the extent of implementation of its recommendations, and has established a register of recommendations that is followed up by the relevant Parliamentary Committees of both Houses. Reports on individual ministries should include their responses to audit findings and recommendations. The SAI complains, however, that ministries often ignore its recommendations, even when they are endorsed by Parliament. Nevertheless, the apparent improvement in the performance of auditees, with more than 80% of 2011 opinions unqualified, suggests that there is a fair degree of follow-up in practice.

Dimension rating: B

Table 4.1.38.PI-26: Scope, Nature, and Follow-up of External Audit

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B+	
Scope/nature of audit performed	B	There is good coverage of financial (FY 2011: 97.3%) and compliance audit that meets professional standards, but there is scope for further development of performance audit and for the application of IT audit techniques.
Timeliness of submission of audit reports to the legislature	A	Audit reports are submitted within 3 months of the receipt of budget execution statements from MFT.

⁷⁹ Calculation of audit coverage based on the report of the SAI for FY 2011 found at:

http://www.revizija.gov.ba/revizioni_izvjestaji/skraceni_izvjestaji/Izvjestaji2011/?id=2855

⁸⁰ Coverage is 100 percent – the percentage includes the SAI itself.

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Evidence of follow-up on audit recommendations	B	A much higher proportion of auditees received an unqualified audit opinion for 2011 than for 2007.

PI-27:Legislative Scrutiny of the Annual Budget Law

This indicator assesses BiH Parliamentary Assembly review of the budgets of the BiH Institutions for the 2011, 2012, and 2013 fiscal years. Four dimensions are considered: (i) the scope of the Assembly's work; (ii) the extent to which the Assembly's procedures are well established and respected; (iii) the adequacy of the time available for the Assembly to review the government's proposals; and (iv) the rules governing in-year changes in the budget without any need for approval by the Assembly.

(i) Scope of the scrutiny by Parliament

Standard procedures have been established that provide for the Budget and Finance Committees⁸¹ to review the annual budget proposal and report to the full session of the Assembly. In practice there cannot have been any real scrutiny of the 2011 budget, which was approved after the event in February 2012 on the basis of 2011 actual expenditure, or of the 2012 budget, which was approved in May 2012. For 2013 a more common procedure was followed, with shorter delays in submission of the budget to Parliament, but the time constraints were such that there was little scope for scrutiny at any stage—Parliament adopted the budget one week after it was submitted, using urgent procedures. Although the Global Fiscal Framework and the MTEFs set the macroeconomic and fiscal policy, and the main outlines of the eventual budget proposals are available to the Assembly, there is no provision in the Rules of Procedure for the Assembly to discuss them and propose changes. Furthermore, there are no technical offices with experts specialized in budget that could assist Parliament in budget analyses.

Dimension rating: D

(ii) Extent to which the legislature's procedures are well established and respected

The budget review processes are established by the Law on Financing of the BiH Institutions. The BiH Presidency is required to submit a proposed budget to the Parliamentary Assembly by November 1 each year, and the Parliamentary Assembly is expected to discuss the proposed budget and adopt the annual budget law by December 31. The degree of compliance with this timetable for the three most recent budgets is shown in Table 4.1.39.

Table 4.1.39. Extent to which the Legislature's Procedures are well Established and Respected

<i>Budget year</i>	<i>Date draft budget proposal submitted to CoM</i>	<i>Date budget proposal submitted to Parliamentary Assembly</i>	<i>Date budget law adopted</i>
2011	No information	30.12.11 ^a	Adopted by House of Representatives on 31.12.11 and by House of Peoples on 10.02.12
2012	04.04.12 (CoM adopted the draft budget on 08.04.12, after which it was sent to BiH Presidency)	04.05.12 ^b	24.5.12

⁸¹ Each of the Houses has its own Budget and Finance Committee (9 members in House of Representatives and 6 in House of People), which are in charge of both audit reports and budget plan considerations. More information on the Finance Committees is available at: <https://www.parlament.ba/sadrzaj/komisije/predstavnicki-dom/finansije/default.aspx?id=28438&mid=1&langTag=bs-BA&pril=b> and https://www.parlament.ba/sadrzaj/komisije/dom_naroda/finansije/default.aspx?id=28462&mid=1&langTag=bs-BA&pril=b

Table 4.1.39. Extent to which the Legislature’s Procedures are well Established and Respected

<i>Budget year</i>	<i>Date draft budget proposal submitted to CoM</i>	<i>Date budget proposal submitted to Parliamentary Assembly</i>	<i>Date budget law adopted</i>
2013	15.10.12	29.11.12	7.12.12

^a Agenda of the 17th Session of the House of Representatives. The agenda is available at: https://www.parlament.ba/sadrzaj/plenarne_sjednice/predstavnicki_dom/Default.aspx?wsrid=35&wsid=422&langTag=bs-BA&pril=b

^b As per Minutes of the 18th Session of the House of Rep. Budget and Finance Committee. Minutes are available at: https://www.parlament.ba/sadrzaj/komisije/predstavnicki_dom/finansije/arhiva_sjednica/Default.aspx?wsrid=21&wsid=523&langTag=bs-BA&pril=b

Dimension rating: D

(iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)

As already noted, neither the Global Fiscal Balance and Policy Framework nor the MTEF, which together provide the background to the preparation of the detailed budget proposals, is submitted to the Parliamentary Assembly for approval. MTEFs are supposed to be published on the website after adoption by the Council of Ministers by July 15, while Global Framework is not published, although there are efforts underway to make this document publically available

The law provides two months for the discussion of the budget proposal, which includes detailed budget estimates.

There are neither specific Rules of Procedure nor a timetable for Parliamentary scrutiny of the annual budget law for either the House of Representatives or House of Peoples beyond the standard Rules of Procedure that apply to any legislative act considered by the BiH Parliamentary Assembly.⁸²

However, as noted above, the amount of time available for consideration of the detailed budget estimates has been in practice substantially less than the law requires. Neither the 2011 nor the 2012 budgets allowed time for proper consideration by the Parliamentary Assembly. Furthermore, the budget is usually adopted using urgent procedures.

Dimension rating: D

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

Article 16 of the Law on Financing of BiH Institutions provides for budget allocations within the approved budget to be amended without ex-ante approval by the Parliamentary Assembly. Under the law, the MFT may restructure the expenditures within the total amount approved for a budget user in the budget upon a written request from that budget user. Annual budget laws specify whether there are limits to restructuring. In addition, within the overall budget, reallocation of funds is exceptionally allowed among budget users; if transfer of authority occurs, a recommendation from MFT is required, followed by the approval of the Council of Ministers,

Dimension rating: B

⁸² For details regarding steps undertaken by BiH PA with respect to basic legislative process please refer to Articles 103 onwards of the BiH PA Rules of Procedure. Rules of Procedures are available at: <https://www.parlament.ba/sadrzaj/about/ustav/docs/default.aspx?id=32309&langTag=bs-BA&pril=b>

Table 4.1.40.PI-27: Legislative Scrutiny of the Annual Budget Law

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Scope of the scrutiny by Parliament	D	There is no requirement for the Global Fiscal Balance and Policy Framework or MTEF to be submitted to the Parliamentary Assembly.
Extent to which the legislature's procedures are well established and respected.	D	The Assembly has not adopted specific procedures. The amount of time available for consideration of the budget is, in practice, much less than that prescribed by the law.
Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	D	Neither the Global Framework nor the MTEF is submitted to the Parliamentary Assembly for approval. In addition, in practice, the amount of time for the Assembly to respond has been limited.
Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	There are clear rules for in-year budget amendments within overall totals, which allow extensive administrative reallocations.

PI-28: Legislative Scrutiny of External Audit Reports

The reports of the Audit Office cover the entire general government, as well as public entities that are owned by the government or whose debts are guaranteed by it, and entities that receive government grants and foreign-financed projects. This indicator looks at the legislature's role in examining the Audit Office's reports on the management of public finance and in monitoring the implementation of recommendations made by the Auditor General. Three dimensions are considered: (i) whether the Parliamentary Assembly responds quickly to audit reports; (ii) whether the Assembly's procedures include in-depth hearings on key findings with representatives of auditees; and (iii) whether the Assembly recommends corrective actions that are implemented by the government.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

The Law on Audit of BiH Institutions (Article 16)⁸³ specifies the dates for the submission and adoption of the Audit Office reports on the financial statements of the BiH Institutions. Moreover, in July 2008 the Budget and Finance Committees of the two houses of the Parliamentary Assembly adopted Instructions on Review and Analysis of Audit Reports, developed as part of DFID-funded technical assistance. The implementation of the new instructions started in September 2008 and has continued to date. The instructions set out a four-step review process; each step takes two to four weeks to complete.

⁸³ Available at: http://www.revizija.gov.ba/zakoni_i_akti/zakon_o_reviziji/Default.aspx

The key outcome of the instructions is that they have helped the Audit Committee to focus and streamline its operations, ultimately reducing the time necessary for the Audit Committee to complete its deliberations (from six to eight months down to just four months) while at the same time improving the quality of the review. The review process is scheduled to start on July 1 and end by October 31 each year for the year before. In practice the procedure was delayed by two months for the 2010 and 2011 reports, while that for 2009 was not completed until mid-2011. The dates when the reports were submitted to the Assembly, and when the Assembly adopted them, are set out in Table 4.1.41. It is notable that for the two most recent reports, the Assembly completed its work within six months of receiving the report.

Table 4.1.41. Schedule of Audit Report Dates to the BiH Parliamentary Assembly

<i>Financial year covered by the report</i>	<i>Date of submission of audit report</i>	<i>Date of adoption of audit report</i>
2009	June 30, 2010	July 15, 2011 ^a
2010	July 4, 2011	December 22, 2011 ^b
2011	July 2, 2012	December 18, 2012 ^c

Source: Audit Office and BiH Parliamentary Assembly.

^a 6th Session of the of Representatives of BiH Parliamentary Assembly, available at:

https://www.parlament.ba/sadrzaj/plenarne_sjednice/predstavnicki_dom/default.aspx?wsrid=35&wsid=270&langTag=bs-BA&pril=b.

^b 16th Session of the House of Representatives of BiH Parliamentary Assembly, available at: https://www.parlament.ba/sadrzaj/plenarne_sjednice/predstavnicki_dom/default.aspx?wsrid=35&wsid=414&langTag=bs-BA&pril=b.

^c 39th Session of the House of Representatives of BiH Parliamentary Assembly.

Dimension rating: B

(ii) Extent of hearings on key findings undertaken by the legislature

There is considerable scrutiny of the audit reports by the Budget and Finance Committees. The committees focus on budget users with negative or qualified audit opinions. Officials of budget users can be requested to appear before the committees in routine hearings to answer questions on their financial statements and organizational performance. Table 4.1.42 sets out details on the Parliamentary scrutiny of budget reports.

Table 4.1.42. Parliamentary Scrutiny of Audit Reports

<i>Reporting year</i>	<i>Total number of budget users</i>	<i>Number of unqualified reports</i>	<i>Number of qualified reports</i>	<i>Number of negative reports/ disclaimers of opinion</i>	<i>Number of budget users attending hearings</i>
2009	63	47	15	1	15
2010	68	50	17	1	17
2011	71	61	6	4	10

Source: Audit Office of BiH Institutions.

Dimension rating: A

(iii) Issuance of recommended actions by the legislature and implementation by the executive

The Audit Reports present the Auditor General's recommendations on actions to be undertaken by the government. Parliament usually adopts these reports without amendment.

The Audit Office stated that the Assembly does not generally follow up or impose any sanctions on budget users that fail to implement recommendations, even when the same recommendations are made year after year. In previous years, the Assembly has attempted to sanction budget users by reducing budget allocations for certain "non-discretionary" line item expenditures, including travel and telephones. However, the Audit Office indicated that these sanctions have been only partially effective.

Budget users are required to report to Parliament on actions taken to implement recommendations. Feedback suggests, however, that the extent of compliance with the recommendations is limited. The Audit Office noted that the Assembly takes almost no steps to sanction ministers who ignore legal obligations and audit reports.

Dimension rating: C

Table 4.1.43.PI-28: Legislative Scrutiny of External Audit Reports

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	B	The Assembly usually completes its work on audit reports three to six months after receiving them. Delay occurred only in the review of the audit report for 2009 because of the 2010 general elections and subsequent political stalemate.
Extent of hearings on key findings undertaken by the legislature	A	Hearings regularly take place with responsible officers from audited entities that are the subject of significant criticism.
Issuance of recommended actions by the legislature and implementation by the executive	C	The Assembly adopts conclusions made based on the SAI reports, and seeks to apply sanctions against spending units that ignore them. These sanctions have been only partially effective, since the executive can ignore recommendations by the SAI and the Assembly has not sought to enforce the recommendations.

IV. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

FEDERATION OF BiH

Executive Summary – Federation Bosnia and Herzegovina

For the purposes of applying the PEFA performance indicators, data and information from FY 2009 – 2011 were used in the calculations and for scoring the indicators, with more current information used for some indicators where such information was available.

I. Integrated Assessment of PFM Performance

A. PFM Out-Turns: Credibility of the Budget

According to the PEFA methodology the performance indicators are prepared for the central government level, which in the case of FBiH excludes spending at the level of cantons, which are responsible for the provision of most of the main public services, including health protection, education, culture, and social protection and local self-governance units. Aggregate expenditure out-turn to original approved budgets for the three fiscal years covered in the Report (2009 to 2011) performed well with the divergence between budget and out-turn being less than 5% in all three years. More significant variance in the percentage of variance in out-turn composition (budget line by budget line) is observed: in all three years the sum of variances was greater than 5% of the original approved budget. Total FBiH central government revenue out-turns, including EBFs but performed well in line with the originally approved budget.

There was no legal definition of what constitutes arrears as of end 2013 in FBiH i.e. no established legal period after which an unpaid invoiced obligation are in arrears, and in addition no payment due date was entered from the invoices into the treasury system until the end 2013. As of the end 2013, the payment due data have started to be recorded in the Treasuries. Although the data on arrears are not exact, there are indications that FBiH arrears are increasing.

B. Key Cross-Cutting Issues: Comprehensiveness and Transparency

The current budget classification requires functional reporting from all general government levels in FBiH (in 14 main categories, as opposed to 10 main COFOG groups). However, in practice, reporting by function (only for the budget out-turns) is based on a broad approximation, with likely errors, especially at the lower government levels. The government maintains a Treasury system through which all transactions are recorded, and which provides for consistent reporting by administrative and economic classifications. The FBiH MoF consolidates data, but the data reported by lower government levels are not always complete or of good quality.

There are significant gaps in the information included in the budget documents submitted to Parliament, which excludes information on (i) macroeconomic outlook, (ii) financial assets, including details at least for the beginning of the current year, (iii) the prior year's budget out-turn is not being presented in the same format as the budget proposals. Data for the current but not previous year are available in the budget documents and the budget documentation does not contain projected potential effects of new policies.

Annual budget estimates, in year execution reports and year-end financial statements should cover all extra budgetary operations of the government. The disclosure of significant pension, health and employment could be improved. The Funds 2013 financial plans were not submitted to FBiH Parliament until March 2013; in 2012 the Pension and Health budget proposals were submitted on time but Health institutions budgets were not subject to the same disclosure requirements. The financial statements of

each Fund are audited by the SAI and separate information on out-turn is available but is not presented in the context of the budget.

The flow of information between the central government and cantons, and in turn between the cantons and local self-governance is weak both for revenue projections/distribution and the amounts and precise timing of debt service payments. Delays in deciding what portion of the indirect taxation revenues FBiH will receive hinder the reliability of revenue forecasting and hamper the budget planning process.

Public enterprises are significant however FBiH has no consolidated overview of the large PE sector, nor is there a body within government to assess what should be expected for these enterprises in terms of financial performance, or to ensure that they pay the correct amounts of taxes and dividends. According to data from the FBiH tax authority a significant proportion of tax arrears are attributable to PEs.

In the FBiH the public has reasonably good access to key fiscal information however the 2011 budget execution report was subject to delays in publication and the public lacks information on the resources provided to key primary service delivery units.

C(i). Policy-Based Budgeting

The key dates for the preparation of the annual budget of the FBiH government are set out in the Law on Budgets in the Federation of Bosnia and Herzegovina. Delays in the approval of the Global Fiscal Balance and Policy Framework in BiH can hinder the timely preparation of FBiH macroeconomic indicators and fiscal forecasts; and further delays are often experienced with the submission of final budget requests from budget users. Since 2010, only the 2013 budget was enacted before the commencement of the budget year. Clear budget instructions and guidelines are issued.

Detailed three year fiscal projections for the FBiH Government level are produced as part of the FBiH MTEF, including forward estimates of expenditure for each budget user. Recent MTEFs include only the expenditure of the FBiH government and discussion on revenue projections for all levels; not comprehensive of the revenues of the cantons, local self-governance units, and EBFs. There is no evidence that the forward estimates are used to anchor the preparation of the following year's budget ceilings. Since the estimates do not roll forward, the MoF effectively restarts the budget and forward estimates for each budget cycle. The budget and forward estimates in the MTEF are prepared by administrative, economic, and functional classifications. However, the annual budget proposals are presented with economic and administrative classifications; and they do not include forward year estimates.

FBiH does not perform a comprehensive debt sustainability analysis which is linked to a specific government debt strategy in terms of future borrowing policies and debt requirements

A Draft Development Strategy for BiH was prepared by the Directorate of Economic Planning of the Council of Ministers of BiH and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. Individual ministries do prepare strategic plans; however no costed sector strategies are formally developed for the FBiH. Strategic planning in FBiH is further complicated by fragmented jurisdictions among the central government and cantons. There is a lack of strategic direction from a sectoral perspective that would cut across all government levels in FBiH to ensure proper and effective implementation.

Investment outlays are planned separately from current expenditures in FBiH, and there is no consolidated strategic plan across the Federation to which the Public Investment Programme (PIP) can be related. Despite these shortcomings, forward projections of the costs and benefits of individual investment projects do include the subsequent maintenance costs of new investments. The MTEF reflects approved and funded projects

within the PIP and the use of multiyear estimates enables the MTEF to reflect the future recurrent costs of completed capital investment projects.

C(ii). Predictability and Control in Budget Execution

The legislative framework for major taxes includes domestic tax laws, international treaties on avoidance of double taxation, and the laws governing administrative procedures. While the legislative framework for major taxes is generally clear and comprehensive, some important aspects of tax application are not clearly and consistently reflected in the legislation and interpreted in practice. This mainly relates to the implementation of important provisions of double taxation treaties (e.g., tax residence, withholding tax exemptions), and to transfer pricing. Consequently, tax inspectors tend to apply a fair amount of discretionary powers in determining tax liabilities in these areas.

Taxpayers have web access to information regarding their tax obligations, explanatory notices, and administrative procedures, and they have electronic access to their tax records. Official binding interpretations about tax applicability can be requested individually, and they are issued within deadlines prescribed by the relevant legislation. The tax appeals system has been established and is functional. However decisions are often not issued within prescribed timeframe. The areas for improvement include transparency, capacity in the appeal bodies and improvement of timeliness.

There are penalties for noncompliance with registration and declaration obligations, but the penalties may not always be an effective deterrent. There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations. There is no reliable data on tax arrears for the last two fiscal years.

Cash flow forecasts are closely monitored at a central level in FBiH. The FMF approves monthly operational plans for budget users (thus “releasing” funds on the monthly basis), based on plans submitted by MDAs and reconciling them with cash forecasts. When cash flow problems occur (as was the case recently due to delay in receiving foreign budget support for example), there are procedures prescribed in legislation (Law on Budgets) to deal with these. However there have been recent instances of cash flow problems which have resulted in cash rationing and MDAs being unable to predict the cash which is available in order to meet future commitments.

Debt management in FBiH is coordinated with the cantons through a standing commission that reports to the FBiH MoF. Cantons are permitted to borrow domestically without the consent of FBiH MoF, as long as the borrowings do not require a guarantee. Cantons and PEs have not undertaken any direct external borrowing, preferring instead that the FBiH central government should borrow and on-lend to them. Debt reporting is reasonably comprehensive with minor gaps in information from municipalities and cities.

All transactions that are part of the central government budget go through the Single Treasury Account (STA), which holds all cash balances. However, some EBFs remain outside the STA. There is no direct link between the central STA and those in the cantons which only provide periodic manual reports to the FBiH MoF.

All central government borrowing, all external borrowing for on-lending to cantons and PEs and all issues of guarantees are controlled By FMoF however the objectives for debt are not linked to medium-term fiscal targets and there is no formal debt management strategy that would steer debt management decisions.

The legal framework for procurement is clear and readily accessible to the public. Open competition is the default method. The publication of tender notices and contract awards is transparent, with information publicly available via the PPA’s website. However, there is no public access to procurement plans or to results of recent complaints.

Since there is widespread criticism by auditors, and frequent complaints by tenderers are upheld by the Public Procurement Review Board (PRB), it is clear that the exceptions to open procedures are not properly justified in many cases. Information is limited to bidding opportunities in the form of procurement plans (though these plans are not usually published) and contract awards. No information is available on results of complaints in spite of legal requirements. Although the PRB has managed to issue many decisions, it lacks sufficient human resources to fulfil all its functions quickly and efficiently.

The Civil Service Agency (CSA) maintains a complete record of all employees at the FBiH Government level and the FBiH MoF makes changes to payroll records only when authorized by CSA. Appointments and promotions can only take effect once all necessary procedures have been completed. This is normally done within a month of the decision by the employing authority, thereby avoiding any need for retroactive adjustments. Appointments and promotions are adequately controlled by the requirement to have these actions authorized by the CSA. Internal and external audits of payroll are undertaken on a regular basis.

Commitment control over non-salary expenditure is in place but not yet completely reliable. The FBiH SAI has identified many breaches of the rules, but few preventative measures have been taken to avoid reoccurrence. The need to strengthen the rules and procedures is generally recognized, and necessary regulations have been prepared, but no action has been taken to bring them into force. The rules for processing and recording transactions in the Treasury work well and are generally complied with and the STA works satisfactorily. However, the SAI notes control weaknesses in processing of transactions at the level of the spending units.

In the FBiH, coverage of internal audit in the central government and cantons remains uneven. Ten units are in operation in the central government, including units in the Ministries of Finance and Agriculture, and there are also units in the Sarajevo and Tuzla Cantons. The legislative basis for the general introduction of internal audit is in place, and the necessary regulations and operating instructions have been prepared by the Coordinating Board made up of the Central Harmonization Units (CHUs) of the BiH Institutions and the Entities, although they are not yet formally approved in FBiH.

However, in 2013, on the basis of a public tender published, two employees were hired (one economist and one lawyer), which facilitated more intensive operations of the CHU. The status as of the end of 2013, relating to the establishment of internal audit units, was as follows: of the 18 ministries meeting the criteria for establishing an internal audit unit, 10 have internal audit established, and out of 30 labor positions systematized, 15 internal auditors are working; of the 18 institutes meeting the criteria for establishing an internal audit unit, 7 have internal audit established, and, according to the data provided to the PEFA team, 12 labor positions are systematized, and 14 internal auditors are working; in the 30 municipalities meeting the criteria for establishing an internal audit unit, 9 have internal audit established, but out of 10 labor positions systematized, 6 internal auditors are working; out of 10 cantons meeting the criteria for establishing an internal audit unit, 6 have internal audit established, and out of 30 labor positions systematized, 15 internal auditors are working. Further on, in 2013, upon a proposal of the FMF CHU. FMF adopted and published bylaws creating additional preconditions for the development of internal audit in the public sector in FBiH.

C(iii). Accounting, Recording and Reporting

In-year quarterly budget reports are produced by the FBiH MoF in the same format as the annual budget (by economic and administrative classifications) and they present expenditures at both commitment and payment stages.

The annual financial statements include full information on revenue and expenditure, and also financial assets and liabilities; however the statements cover only central government ministries. The revenue and expenditure of the Federation-wide Pension Fund, the Solidarity Health Fund, and the public entities for roads, which together account for about twice the expenditure of the central government, are excluded.

The central government's annual financial statements have been submitted for audit within three months of the year end. The statements are prepared in accordance with the Directive on Budget Accounting and the Rulebook on Budget Bookkeeping in F BiH. F BiH SAI qualifies its opinion on the consolidated annual financial statements on the grounds that the statements do not meet the requirements of IPSAS. The omission of the EBFs from the consolidated statements, although consistent with F BiH legislation, is so critical that the local standards used cannot be regarded as corresponding to IPSAS.

C(iv). External Audit and Scrutiny

There is a comprehensive range of audit work conducted by the F BiH SAI which meets professional standards (2011: over 90% of expenditure was audited). In addition to auditing the budget execution statement of the F BiH central government, the SAI covers the consolidated budgets of each of the 10 cantons, the F BiH Pension Fund, and 22 different health and employment funds. Only a few of the 78 municipalities can be audited each year, and only those Federation-wide SOEs (including companies in the ownership of municipalities and cities) with the largest financial turnover (railway, post office, gas). The F BiH SAI has the mandate to audit cantonal and SOEs owned by local governments. Even at the central F BiH level, not all budget users (ministries, agencies) are audited each year. Reports on the central government financial statements are sent to Parliament within 3 months after the SAI receives the statements. Despite the efforts of the SAI and the Parliament, audit recommendations are often ignored.

Both the F BiH MTEF, which includes the government's macroeconomic and fiscal forecasts, and the annual budget proposal are formally submitted to the F BiH Parliament. Standard parliamentary procedures provide for the relevant committees of both houses of Parliament to review the annual budget proposal and report to the full session of Parliament. In practice there is limited scrutiny by the committees, which have no professional staff to support their work.

Under the Law on Budgets of the F BiH, the government is required to submit a proposed budget to the Parliamentary Assembly by November 5 each year. In practice, the budget has generally been submitted much later than the law requires. While the established procedures should enable the Parliament to question the government on all aspects of its proposals, in practice Parliament is inadequately equipped to do this effectively, so that changes to budget proposals in response to Parliamentary discussions have been very small.

The SAI Audit Reports present recommendations on actions to be undertaken by the government. Parliament usually adopts these reports without amendment. The SAI and budget users are required to report to Parliament on actions taken to implement recommendations. The SAI publishes its recommendations, and its assessment of the responses received. According to this analysis many recommendations have repeatedly been ignored. Parliament does not generally follow up or impose any sanctions on budget users that fail to implement audit recommendations.

FBIH: PEFA ASSESSMENT

Accountability (PEFA) Assessment: Overview of the Indicator Set

<i>Indicator</i>	<i>Description</i>	<i>Meth FBIH</i>	
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	M1	C
PI-6	Comprehensiveness of information included in budget documentation	M1	C
PI-7	Extent of unreported government operations	M1	D+
PI-8	Transparency of intergovernmental fiscal relations	M2	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D
PI-10	Public access to key fiscal information	M1	B
C. BUDGET CYCLE			
C(i)POLICY-BASED BUDGETING			
PI-11	Orderliness and participation in the annual budget process	M2	B
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D+
C(ii)PREDICTABILITY AND CONTROL IN BUDGET EXECUTION			
PI-13	Transparency of taxpayer obligations and liabilities	M2	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B
PI-15	Effectiveness in collection of tax payments	M1	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B
PI-18	Effectiveness of payroll controls	M1	D+
PI-19	Competition, value for money, and controls in procurement	M2	N/A
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	D+
PI-21	Effectiveness of internal audit	M1	C+
C(iii)ACCOUNTING, RECORDING, AND REPORTING			
PI-22	Timeliness and regularity of accounts reconciliation	M2	A
PI-23	Availability of information on resources received by service delivery units	M1	B
PI-24	Quality and timeliness of in-year budget reports	M1	C+
PI-25	Quality and timeliness of annual financial statements	M1	C+
C(iv)EXTERNAL SCRUTINY AND AUDIT			
PI-26	Scope, nature, and follow-up of external audit	M1	C+
PI-27	Legislative scrutiny of the annual budget law	M1	D+
PI-28	Legislative scrutiny of external audit reports	M1	D+

II. Assessment of the impact of PFM weaknesses

1. Aggregate Fiscal Discipline

While technical aspects of the budget preparation process are reasonably well organized this is undermined by the complex context which results in frequent delays in budget adoption. Despite this the aggregate revenues and expenditures outturns performed in line with the original approved budgets (however it should be noted however that the PEFA methodology addresses only central government and does not address spending at the level of cantons, which are responsibility for the provision of the main public services). Delays in decision over the proportion of FBiH indirect taxation revenues hinder the reliability of revenue forecasts and hamper the budget planning process. PEs are significant and there is evidence they continue significantly to tax arrears; however there is no consolidated overview of fiscal risk or monitoring of their financial performance.

2. Strategic Allocation of Resources

The MoF provides reasonably reliable information on the availability of funds, however there have been some instances of unpredicted cash rationing which have resulted in MDAs being unable to predict the cash available in order to predict future commitments. The existing budget process does not have a strong policy or strategic focus. Individual ministries do prepare strategic plans; however no costed sector strategies are formally developed for the FBiH. Strategic planning in FBiH is further complicated by fragmented jurisdictions among the central government and cantons. There is a lack of strategic direction from a sectoral perspective that would cut across all government levels in FBiH to ensure proper and effective implementation. Investment outlays are planned separately from current expenditures and there is no consolidated strategic plan to which the PIP can be related. Limited time available in order to scrutinize the budget in parliament may reduce the pressure on government to allocate and execute the budget in line with its stated policies.

3. Efficient Service Delivery

Weaknesses in the budget process do not allow sufficient discussion on the effective use of resources. The expenditure commitment controls over non-salary expenditure are effective and the payments system works in an orderly manner; however audit reports confirm the need to ensure the operation of stronger rules and procedures particularly at the level of spending units. Internal audit as a function is in its infancy and audit coverage needs to improve as does the response of management to audit recommendations. Open competition is the default procurement method, but in practice the non-observance of competitive tendering processes may create the opportunity for inefficient procurement, corruption and leakages. The work of external audit has reasonable coverage however follow up by management is weak. The parliament does little work in the way of following up audit report recommendations, and holding the executive to account.

III. Prospects for PFM Reforms

A new Law on Budgets was adopted in December 2013, which strengthens the overall budget preparation process in FBiH, explains the budget calendar in greater detail, and increases the ability to enforce spending limits on lower levels of government, EBFs, and PEs.⁸⁴ The Law includes a fiscal rule stating that the planned current budget must be balanced, and if a current deficit is executed, the government must plan for a current surplus in the next three years.

⁸⁴ This is one of the structural benchmarks for FBiH within the SBA with the IMF (IMF December 2012, Bosnia and Herzegovina: First Review Under the SBA and Request for Waiver of Nonobservance of a Performance Criterion —Staff Report; Press Release; and Statement by the Executive Director).

In addition, new amendments to the Law on Distribution of Revenues in FBiH, which are also in parliamentary adoption procedures, envisage a decrease of the cantons' share and an increase in the local self-governance units' share in personal income tax, and also simplify the revenue sharing in Canton Sarajevo. It is also envisaged that, after the data on population census are processed (the BiH Census is scheduled for October 2013), all of the revenue distribution formulas in this law will be revisited.

The MoF of the FBiH understands the need to adopt a Debt Management Strategy, and that reforms in this area are planned for the future, as an integral part of the process of improving debt management, which is implemented in cooperation with the World Bank team, as well as within the IPA project. The preparation of the full debt sustainability analysis for the debt of FBiH is being planned as an integral part of the process of improvement of debt management.

In February 2014 the Fiscal Council of BiH adopted a definition of an arrears based on any amount that is not paid within a maximum of 90 days, and similar approach will be taken by the Entities. In practice FBiH may choose to use a shorter period of time, as per the draft legislation available.

It is planned to introduce functional classification according to COFOG, that shall require the development of a clear and detailed methodology for allocation of expenditure by functions, Finally FBiH plans to increase staff and overall capacity of the CHU as well as internal audit units where these are considered necessary.

Assessment of PFM Systems, Processes and Institutions – FBiH

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for the government of the Federation of Bosnia and Herzegovina (FBiH) for the last three fiscal years (2009-2011). Interest payments and externally funded project expenditure are excluded because they are outside the immediate control of the government. The closer the out-turn to the original budget, the higher the rating.

The data analyzed⁸⁵ exclude the spending of cantons (which are responsible for the provision of most of the main public services, including health protection, education, culture, and social protection) and local self-governance units; together these account for about one-third of total general government expenditure in FBiH. However, they include extra-budgetary funds (EBFs) attached to the central government—the Solidarity Health Fund, which provides for advanced medical treatments throughout the Federation; the Federation-wide Pension Fund; and the FBiH Employment Fund—and the government-owned company responsible for the maintenance of the Federation’s main roads, Javno Preduzece Ceste FBiH. The EBFs are financed from compulsory social contributions and from transfers from the FBiH government and the road maintenance company are financed from a share of indirect tax revenue. The expenditure of the central government consists mainly of wages and salaries for those engaged in administrative tasks, and subsidies and social transfer payments to individuals.

The consolidation has been done by the review team, on the basis of information provided by FBiH Ministry of Finance (MoF), for both budget and out-turn stages; although the Central Bank of Bosnia and Herzegovina (CBBiH) annually provides a careful consolidation of the expenditure out-turn using GFS methodology, no consolidation has been done at the budgeting stage. Neither FBiH MoF nor CBBiH has yet sought to consolidate general government expenditure including the cantons (and their EBFs) at the budgeting stage, and the PEFA team could only have done this by visiting every canton to collect the necessary information. Although the review team considers that the figures used are not significantly misleading, it is possible that some elements of double-counting may be included in the totals for the central government and EBFs.

Table 4.2.1. Percentage Difference between Out-turn and Budget
(million of BAM)

	2009		2010		2011	
	<i>Budget</i>	<i>Out-turn</i>	<i>Budget</i>	<i>Out-turn</i>	<i>Budget</i>	<i>Out-turn</i>
Central govt.	1,261.0	1,304.1	1,400.3	1,442.1	1,332.9	1,319.1
Funds	3,082.0	2,896.0	3,103.5	2,944.7	3,061.1	3,151.1
Total	4,343.0	4,200.1	4,503.8	4,386.8	4,394.0	4,470.2
% Difference		-3.3%		-2.6%		1.7%

Source: FBiH MoF

Table 4.2.2.PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	Divergence between budget and out-turn is less than 5% in all three years. (The same would apply if the indicator were rated on the basis of the central government expenditure only.)

⁸⁵Table in Annex 2) shows aggregate revenues and expenditures of all general government sector levels.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the extent to which the composition of the budget changes from that originally planned by the MoF and agreed by Parliament. The PEFA Secretariat has set out a formula for calculating the variance between the out-turn and the approved budget estimates. Each budget line is adjusted by the overall variance between budget and out-turn as calculated in PI-1, and the differences between actual expenditure on each budget line and the adjusted budget amounts are summed to give the overall variance. This overall variance is then shown as a percentage of actual expenditure. The second dimension of the indicator looks at the amount of expenditure charged to the contingency reserve; the larger the amount charged to the reserve rather than reallocated to specific budget lines, the less transparent the budget. The tables containing calculations for the FBiH government are set out in Annex 3 of this report.

(i) Additional variance of expenditure over and above that resulting from PI-1

The formula measures the additional variance over and above the overall variance calculated in PI-1 resulting from resources being reallocated from one area to another during budget execution. A good score is achieved if there are no significant reallocations from one functional area to another. There can be a good score on this indicator even if there is a substantial overall difference between the budget estimates and out-turn (cf. PI-1), provided that the proportionate changes are similar on each budget head. In accordance with the PEFA criteria, the indicator was assessed on the basis of the largest 20 budget heads (treating the EBFs and the road maintenance company as budget heads). The expenditure taken into consideration is the same as that used for PI-1.

Although the FBiH government kept aggregate expenditure close to the originally budgeted amounts, there were some significant reallocations of expenditure, with the expenditure of the EBFs also diverging from initial expectations. Because the relative variances of the EBFs have been smaller than those of the FBiH government narrowly defined, and the expenditure of the EBFs is about twice as large as that of central government ministries, the percentage variances are smaller when the EBFs are included in the expenditure considered for this indicator. The aggregate figures are shown in Table 4.2.3; the detailed calculations, with the adjustments to all the main budget lines, are shown in Annex 3. If the rating were based on the central government only, it would be D, since the variance exceeded 15% in two of the three years; note that most of the variance at the federal government level, especially in 2009, was due to adjustments agreed under the SBA with the IMF (SBA). The inclusion of the EBFs reduces the overall variance to less than 10% in each of the three years, resulting in the rating B.

Table 4.2.3. Percentage Variance in Out-turn Composition compared to Budget
(million BAM)

	2009		2010		2011	
	<i>Actual out-turn</i>	<i>Sum of variances</i>	<i>Actual out-turn</i>	<i>Sum of variances</i>	<i>Actual out-turn</i>	<i>Sum of variances</i>
Central govt	1,304.1	265.4	1,442.0	349.8	1,319.1	153.4
Variations as % of total		20.4%		24.3%		12.2%
Central govtincEBFs	4,200.1	293.5	4,386.8	419.0	4,470.2	361.1
Variations as % of total		7.0%		9.6%		8.1%

Dimension rating: B

(ii) Amount of expenditure charged to the contingency reserve

FBiH includes a contingency reserve in its budget. However, the reserve is capped at 3% of the revenues, excluding financing.⁸⁶ The contingency reserve was planned for BAM 29.05 million (1.82% of planned

⁸⁶The limit is stated in both the annual Budget Execution Law (Article 11) and the Law on Budgets of FBiH (Articles 26 and 60).

revenues) in 2009, BAM 36.6 million (2.6% of planned revenues) in 2010, and BAM 5.19 million (0.36% of planned revenues) in 2011. Budget Reserve is used for urgent and unpredicted budget expenditure which occur during budget execution phase. It needs to be noted that (due to accounting rules), while the budget reserve is planned in the budget as a lump sum on a separate budget line (since the planned reserve is general, there are no specific type of spending it is devoted for in the budget plan), budget execution reports shows spending from this budget line at the appropriate budget line according to purpose of actual expenditure (e.g. social transfers). However, the budget execution reports give overview of the usage of budget reserve in detail⁸⁷. For example, in 2010, budget plan for reserve was 36.6 million BAM, while budget executions shows 31.9 million BAM.

Dimension rating: A

Table 4.2.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B+	
Additional expenditure variance compared to PI-1	B	Variance is greater than 5% but less than 10% in each of the three years.
Amount of expenditure charged to contingency reserve	A	Contingency reserve was planned for BAM 29.05 million (1.82% of planned revenues) in 2009, BAM 36.6 million (2.6% of planned revenues) in 2010, and BAM 5.19 million (0.36% of planned revenues) in 2011. Budget execution statements do not show out-turns against contingency reserve position.

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares actual total domestic revenue to the originally budgeted domestic revenue. Countrywide indirect taxation administered by BiH institution is shared among the four main government levels—BiH Institutions, FBiH, Republika Srpska (RS), and Brčko District(DB)—while all other taxation and non-tax revenues are under the exclusive jurisdiction of each level separately.

Table 4.2.5 shows FBiH consolidated revenue and revenues by the general government sector level. Indirect taxation is the most important revenue source, comprising 41% of total FBiH consolidated revenues, followed by social contributions, which account for 40% of consolidated FBiH revenues. Direct taxation revenue makes up only 7% of consolidated FBiH revenue. In terms of the FBiH government budget, indirect taxation revenues account for 83% of total revenue.

Table 4.2.5. 2011 Annual Statement of Operations for FBiH
(million BAM)

<i>Description</i>	<i>Consolidated FBiH</i>	<i>FBiH government</i>	<i>Cantons</i>	<i>Local self- governance units</i>	<i>Extra-budgetary funds</i>
Revenue	6,571.2	1,321.6	1,903.6	654.2	3,097.0
Taxes	3,222.3	1,139.4	1,640.1	315.5	127.2
Taxes on income profits and capital gains	388.8	46.5	285.6	55.6	1.0
Taxes on payroll and workforce	13.9	0.0	9.8	4.0	0.0
Taxes on property	67.7	0.0	10.2	57.4	0.0

⁸⁷For example, see Table on Budget Reserve Execution in the 2010 Report on Budget Execution of FBiH, available at: <http://www.fmf.gov.ba/budzet-2010/Isplate%20sredstava%20Vlade%20FBiH%20iz%20tekuce%20rezerve%20Budzeta%20FBiH.pdf>.

<i>Description</i>	<i>Consolidated FBiH</i>	<i>FBiH government</i>	<i>Cantons</i>	<i>Local self- governance units</i>	<i>Extra-budgetary funds</i>
Taxes on goods and services and international trade and transactions	2,726.4	1,090.8	1,313.6	195.6	126.2
Other taxes	25.3	1.9	20.7	2.5	0.0
Social contributions	2,650.8	0.0	0.0	0.0	2,650.8
Grants	10.1	0.0	56.2	111.5	240.1
Other revenue	687.9	182.1	207.2	227.1	78.9

Source: Central Bank of BiH. Includes total expenses and transactions in nonfinancial assets. Excludes foreign-financed projects, which do not go through budgets. Foreign debt servicing of FBiH is not presented here (it is represented at the State level since foreign debt servicing for both Entities and DB goes through BiH Institutions budget; data shown in Chapter 2).

The overall system for distributing indirect taxation revenues among the four main levels in BiH is explained in detail in Chapter 2 (and under this same indicator for BiH Institutions). In summary, once the share of BiH Institutions is deducted from total revenues, DB receives a fixed 3.55% of the remaining funds or BAM 124 million, at the minimum, and the rest of the funds are divided between the two Entities on the basis of data on the final consumption location identified in tax forms. The coefficients for distributing revenues between the Entities are variable; they are periodically adjusted to reflect changes in final consumption and are formally adopted by the Governing Board of the Indirect Tax Authority (ITA). As of August 2013, the coefficient for the FBiH is 63.93% and that for RS is 32.52%. Periodic reconciliation is also envisaged when changes of coefficients occur. Out of each Entity's share, foreign debt servicing is first deducted and the remaining funds are then shared among the general government sector levels. Of the indirect taxation funds remaining to FBiH after foreign debt servicing is deducted, 36.2% belongs to the FBiH government, 51.48% to cantons (based on population, area, number of students, and development level), 8.42% to local self-governance units (also based on population, area, number of students, and development level), and 3.9% to public entities for roads.

In practice, in the past five years, there have been political problems/delays in the decision on the amount BiH Institutions will get from the indirect taxation revenues, as well as disputes on the final consumption data and consequent delays on decisions on the formula for sharing indirect taxation revenues between the two Entities.

For direct taxes, which are under the sole jurisdiction of the Entities and DB, the structure and rates of personal and company income tax and social contributions are set at the central level in FBiH, but the bulk of the revenue accrues to the cantons and municipalities and to the different EBFs.

In both Entities and in DB, the revenue of EBFs includes social contributions relevant to the specific fund and transfers from the central governments for some funds; public entities for roads receive part of the indirect taxation revenues and road fees. A further complication in FBiH is that although there is a single Pension Fund, each canton has its own Health Fund financed by the health contributions collected alongside income tax on its territory; 9% of health contributions are paid to an Entity wide fund (the Solidarity Health Fund), which provides specialized treatments and more sophisticated high-cost drugs. Each canton also has its own Unemployment Fund.

The Macroeconomic Analysis Unit (MAU) of the ITA is responsible for preparing forecasts of indirect taxes, taking into account macroeconomic projections prepared by the Department for Economic Planning under the Fiscal Council. These revenue projections are used by the Fiscal Council, Ministry of Finance and Treasury (MFT) of the BiH Institutions, the Entities' Ministries of Finance (MoFs), and the DB Finance Directorate during the budget preparation process. However, the amounts entered into the budget of each government in respect of indirect tax revenue are the responsibility of that government.

Forecasting of revenue from direct taxes and other Entity revenues is the responsibility of the respective MoFs; so in FBiH, the MoF is responsible for projections,

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

Consolidated revenue data are available for the consolidated FBiH (and entire country)⁸⁸ as well as individual levels of government. It was not possible to use these data for performing indicator calculations because they are available for out-turns and not for plans. Because of this the ratings for this indicator are based on the data received directly from the MoF. In FBiH it was not possible to make the assessment on a completely consolidated presentation of revenues because the data were incomplete. Accordingly, the rating for this indicator has been assessed for the FBiH central government alone and for the central government plus EBFs (cumulative rather than consolidated).

Revenue budget forecasts and actual out-turns for FBiH are shown in Tables 4.2.6.

⁸⁸ From data collected and published by CBBiH.

Table 4.2.6. Revenue of the Federation of Bosnia Herzegovina
(in millions of BAM)

Revenue source	2009 budget	2009 actual	Variation		2010 budget	2010 actual	Variation		2011 budget	2011 actual	Variation	
			BAM	%			BAM	%			BAM	%
Revenue – FBiH government + EBFs + Roads of FBiH	4,639.09	4,020.58	-618.51	-13.33%	4,541.50	4,442.50	-98.99	-2.18%	4,532.63	4,443.56	-89.06	-1.96%
Revenue – FBiH government only	1,591.92	1,242.17	-349.74	-21.97%	1,412.27	1,441.60	29.32	2.08%	1,446.38	1,394.27	-52.11	-3.60%
Taxes	1,272.95	1,011.70	-	-20.52%	1,152.99	1,186.94	33.95	2.94%	1,178.86	1,137.61	-41.25	-3.50%
Direct taxes	68.38	63.98	-261.25	-6.44%	61.82	95.40	33.58	54.31%	65.39	46.55	-18.83	-
Taxes on income, profits and capital gains	68.38	63.98	-4.41	-6.44%	61.82	95.40	33.58	54.31%	65.39	46.55	-18.83	-28.80%
Taxes on payroll and workforce			-4.41									-28.80%
Taxes on property												
Indirect taxes	1,198.89	974.14		-21.00%	1,091.17	1,091.28	0.12	0.01%	1,113.48	1,090.83	-22.65	
Other taxes	5.68	0.59	-	-89.64%	0.00	0.26	0.26	0.00%	0.00	0.23	0.23	
Social security contributions			-251.76									-2.03%
Other (non-tax) revenue	318.97	230.47	-5.09	-27.74%	259.29	254.66	-4.63	-1.78%	267.52	256.66	-10.86	0.00%
Transfers from other general government units			-88.49									-4.06%
EBFs	2,964.4	2,718.8	-245.59	-8.28%	3,064.83	2,938.1	-126.78	-4.14%	3,022.75	2,987.52	35.23	-1.17%
Pension Fund												
Health Fund												
Employment Fund												
Public company Roads of FBiH	82.75	59.57	-23.18	-28.01%	64.40	62.86	-1.54	-2.39%	63.50	61.77	1.73	-2.72%

Note: This table shows the revenues of FBiH government, EBFs (Pension, Health, and Employment Fund) and the public company Roads of FBiH. The revenues of the cantons and local self-governance units are excluded.

Source: FBiH MoF

The most important elements of revenue are indirect taxes and social contributions, which predominate in any calculations in which they are included. If all revenues are taken into consideration, the out-turn, including the Funds, is close to budget in two of the three years.

Dimension rating: A

Table 4.2.8.PI-3: Aggregate Revenue Out-turn compared to Originally Approved Budget

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall Rating	A	Total central government revenues including EBF contributions were between 97% and 106% in two of the last three years.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

This indicator examines whether there are significant expenditure arrears, and whether there is a system that enables expenditure arrears to be effectively monitored.

In FBiH at the moment of this assessment there is no legal definition of what constitutes arrears; no legal period has been established (e.g., 45 days) after which an unpaid invoiced obligation is considered to be in arrears; and within current Treasuries no payment due date was entered from the invoices until end 2013. Under the SBA, the authorities were obliged to establish, before October 2013, a common definition of spending arrears by the BiH Institutions and Entity governments (with any amount that is not paid within 90 days after the due date considered to be in arrears) and, from July 2013, procedures for budget users to enter all due dates of invoices into the Treasury. These deadlines were not met. As of end 2013, the payment due data have started to be recorded in the Treasuries at the BiH Institutions and Entity Government level (however, the complete 2013 reports on arrears have not been ready in time to be included in this Report), while the deadline for establishing definition of arrears is now extended to early 2014 (working version is that the period of 90 days will be used). In February 2014 the Fiscal Council of BiH adopted a definition of an arrear reading as follows: any obligation that is recorded in the treasury application in the AP module - liabilities to suppliers, and that has not been paid within the timelines for accrual defined by Law, and within the deadline of 90 days at the longest from the date of accrual. On the basis of the common definition, each of the levels of governance shall adjust their legal frameworks (for example, FBiH has prepared Draft Law on Financial Operations which prescribes that contracted payment deadline can be up to 60 days).

(i) Stock and monitoring of expenditure payment arrears

In FBiH, any consideration of arrears has to take into account not only arrears of central government payments, but also those incurred by cantons and EBFs. On April 1, 2013, the FBiH central government had balances of BAM 1.7 million, but outstanding obligations from 2012 amounting to BAM 50 million. Meanwhile, according to MoF information, that the FBiH government has been borrowing temporarily from the FBiH Roads Fund Company to meet current obligations. All FBiH government bodies also owe undefined outstanding obligations as a result of litigation concerning public service pay and allowances; the courts have held that collective agreements take precedence over subsequent legislation enacted to reduce public service pay and to simplify and reduce various allowances paid in addition to salaries. In addition to the central government arrears, furthermore, according to information provided by the FBiH Solidarity Health Fund, the Fund is incurring an increasing amount of arrears as demands for specialist medical services increase and payments from the FBiH government budget (i.e., over and above the 9% of health contributions throughout FBiH that accrue to this Fund) exceed the resources available. Some payments from this Fund have been outstanding for more than two years.

MoF estimated the amount currently outstanding as of end 2013 at approximately BAM 80 million, but the situation in the cantons appears to be even worse than that at the central government level. Sarajevo and Tuzla Cantons (the two largest in the country) have been falling behind in payments to government employees, although these have priority over the majority of payments for goods and services. There have also been delays in Sarajevo Canton in the payment of benefits in respect of children and other vulnerable groups. In previous years the FBiH government issued several decrees to pay the previous year's obligations.⁸⁹

The only data currently available are for liabilities (difference between accrual and paid, not all of which is necessarily in arrears), which, as of 2012, the MoF reports on (see Table 4.2.9). It should be noted that data for 2010 and 2011 are not comparable to 2012 data, because of data collection differences. Data on 2010 and 2011 are mostly based on estimates (for the purpose of the SBA) of known overdue monthly payments, primarily for social benefits and other transfers (excluding, for example, overdue payments to suppliers).

Table 4.2.9. Liabilities by EBFs and the FBiH Central Government
(million BAM)

<i>Amounts owing</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
FBiH government	197.0	34.3	226.9
EBFs	132.8	175.0	... ^a

Source: FBiH MoF and IMF.^aInformation not yet available.

When cantons and local self-governance units are also included, total liabilities at the end of 2012 were BAM 1.14 billion, or about 20% of total general government expenditure in FBiH. Again, these are not all arrears. However, even though the data on arrears are not exact, there are indications that FBiH arrears are increasing. Given that reliable data on arrears in line with legal definition is not yet available (it is expected that first data will be available in spring 2014 for 2013), insufficient information is available to score this dimension or indicator.

Dimension rating: Not Rated given the absence of reliable data

(ii) Availability of data for monitoring the stock of expenditure payment arrears

Since no official data on arrears in line with the legal definition of arrears are not available yet (as of end 2013), the rating for this dimension is D.

Dimension rating: D

Table 4.2.10.PI-4: Stock and Monitoring of Expenditure Payment Arrears

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	NR	
Stock of expenditure payment arrears	NR	NR given the absence of reliable data
Availability of data for monitoring the stock of expenditure payment arrears	D	No official data on arrears in line with the legal definition of arrears available yet (as of end 2013).

PI-5: Classification of the Budget

The PEFA criteria look for arrangements that make it possible to compare budget and out-turn for the same year, and also provide for consistent comparisons from one year to the next, according to administrative, functional, and economic classifications. Ideally the 10 main functions listed in the United Nations Classification of the Functions of Government (COFOG) should be broken down into sub

⁸⁹For example: Official Gazette of the FBiH, number 81/09 – payment of BAM 26,583,790.69 for disability pensions, BAM 618,362.24 for the implementation of the Law on special rights of the nominees of the war awards and BAM 6,501,093.07 for cantonal agencies for payments to demobilized soldiers.

functions (e.g., different levels of education) or programs. This objective is facilitated by recording all transactions in accordance with a chart of accounts (CoA) that captures sufficient information about each transaction to enable reports according to each of the classifications.

Although there has been some progress, Public Finance Statistics (PFS) still remain fragmented and incoherent across the different jurisdictions in BiH—a situation that most observers regard as a significant impediment to proper governance. The EU has paid a special attention to the issue; it has been providing technical assistance in this area since June 2012,⁹⁰ but progress has not yet been evaluated.

With technical assistance from the IMF, in January 2011 the FBiH government adopted some minor adjustments to its CoA to better track intergovernmental transfers. This CoA is applicable to other government levels in FBiH. The PEFA team was informed that FBiH intends to change its accounting standards to be better aligned with the International Public Sector Accounting Standards (IPSAS); but this is not expected to be achieved in the short-term, especially in terms of accrual accounting, given the valuation problems associated with fixed assets. Also there is a plan to formally require reports to be produced according to COFOG. Current reporting templates in FBiH⁹¹ already require functional reporting from all general government levels in FBiH (in 14 main categories, as opposed to 10 main COFOG groups); however, in practice, reporting by function is based on a broad approximation, with likely errors, especially at the lower government levels.

The FBiH government presents its budget showing the economic breakdown of the expenditure of each administrative unit. The government maintains a Treasury system through which all transactions are recorded, and which provides for consistent reporting by administrative and economic classifications. The Treasury systems have been much improved since 2000, and the CoA is applicable to the entire Federation. The MoF consolidates data, but the data reported by lower government levels are not always of good quality; this partially reflects difficulties in adapting their accounting systems to meet the full requirements of the new CoA, with reporting currently dependent on manual consolidation procedures. In practice, the data consolidated by the MoF are essentially not used for any policy decision-making, nor are they reported to Parliament. None of the FBiH-level budgets is presented by functional classification.

Dimension rating: C

Table 4.2.11.PI-5: Classification of the Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C	Functional classification is presented for budget execution only.

PI-6: Comprehensiveness of Information Included in Budget Documentation

This indicator asks whether nine specific pieces of information are presented alongside the government's detailed proposals for revenue and expenditure in the following year.

⁹⁰ The main purpose of the project is to support the State and Entity ministries of finance, DB Department for Finance, and other beneficiaries in providing reliable and inter-institutionally harmonized data on public finance on the basis of accrual accounting and in line with internationally recognized, in particular EU, principles, standards, and practices.

⁹¹ <http://www.fintech.ba/downloads/pravilnik-o-finansijskom-izvjestavanju-i-godisnjem-obracunu-budzeta-FBiH.pdf>

Table 4.2.12. Comprehensiveness of Budget Documentation (FBiH)

<i>Element</i>	<i>Included</i>	<i>Comment</i>
The macroeconomic assumptions, including at least aggregate growth, inflation and the exchange rate.	N	MTEF, which contains a section on macroeconomic assumptions, has in the past been submitted with the budget proposal to Parliament. However, this was not the case in 2013. No other document, including the formal justification of the budget, presents and discusses macroeconomic assumptions.
Fiscal deficit, according to GFS or some other internationally recognized standard.	Y	2013 budget summary table available on FBiH MoF website: http://www.fmf.gov.ba
Deficit financing, describing the anticipated composition, domestic and external.	Y	2013 budget summary table shows the composition of deficit financing.
Debt stock, including details at least for the current year, i.e., the year before that to which the budget proposals relate.	Y	Debt stock information is not part of budget documentation submitted to Parliament, but it is submitted separately. This information is available on FBiH MoF website: http://www.fmf.gov.ba/publikacije/2012/unutranji_vanjski_dug.pdf The information is also available via the web page of the FBiH Parliament: http://www.parlamentfbih.gov.ba/dom_naroda/bos/parlament/propisi/El_materijali/Informacija%20o%20vanjskom%20i%20unutrasnjem%20dugu%20FBiH%20na%2031.12.2011.pdf
Financial assets, including details at least for the beginning of the current year.	N	No information is presented about government bank accounts or other realizable financial assets.
Prior year's budget out-turn, presented in the same format as the budget proposals.	N	2013 budget, which is available on FBiH MoF website (http://www.fmf.gov.ba), presents only current year's budget in a column next to budget proposal column.
Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposals.	Y	2013 budget, which is available on FBiH MoF website (http://www.fmf.gov.ba), shows revised budget for 2012.
Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	N	Data for the current but not previous year are available. (2013 budget summary table available on FBiH MoF website: http://www.fmf.gov.ba)
Explanation of the implications of new policy initiatives, with estimates of the revenue effects of tax changes, and/or of the expenditure impact of major changes in public services.	N	Budget documentation contains only superficial discussion, without regard to the potential effects of new policies.

Table 4.2.13.PI-6: Comprehensiveness of Information included in Budget Documentation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall Rating	C	Only four of nine information benchmarks are met.

PI-7: Extent of Unreported Government Operations

Annual budget estimates, in-year execution reports, and year-end financial statements should cover all budgetary and extra-budgetary operations of the government. This indicator evaluates the extent to which operations under government control, including those of extra-budgetary funds, are not reported at both estimate and out-turn stages. It also looks at the extent to which donor-funded projects are included in fiscal reports.

(i) The level of extra-budgetary expenditure that is not included in fiscal reports

Social contributions represent about 40% of general government revenue in FBiH. The total contribution rate (employers' and employees' contributions combined) of 60% on the net wages paid to an employee that is paid to the Pension, Health, and Employment Funds provides individuals a strong incentive to remain in the "grey" economy and register as unemployed to maintain entitlement to health insurance. Health and unemployment contributions are collected at both the canton level and FBiH level and paid directly into the different Funds, while pension contributions are collected at the FBiH level. The central government has no role in the collections process. The Pension Fund is a single Fund at the level of the Federation, but there are separate health and employment Funds in each canton, as well as a Federation-wide Solidarity Health Fund that receives 9% of health contributions and finances difficult treatments (e.g., heart surgery and kidney dialysis) and specialized drugs. According to information provided during the assessment, the Solidarity Health Fund should also receive an annual subsidy from the FBiH government, but the amounts actually paid are only about 25% of its full entitlement. As a result, the Solidarity Health Fund has substantial expenditure arrears, with some payments outstanding for more than two years.

The medium-term expenditure frameworks (MTEFs) prepared each year by MoF contain some aggregate information about income accruing to the Funds, but nothing about their expenditure. Nor are they consistently included in the documentation presented alongside the budget. However, the FBiH annual budget is approved by both the government and the Parliamentary Assembly. Thus EBF budgets are formally disclosed to the Parliamentary Assembly.

The Law on Budgets of FBiH covers reporting requirements concerning EBFs. It states that the responsible line ministry should deliver the EBF budget proposal to the government for consideration by October 15, while the Government submits it to Parliament by November 5 for Parliament's approval⁹²

Even through previous Law on Budgets did not prescribe that budgets of extra-budgetary funds are to be submitted to the Parliament, the EBFs' 2013 financial plans were presented to FBiH Parliament in March of 2013.⁹³ For the 2012 fiscal year, budget proposals for the Pension and Health Funds were presented to

⁹²FBiH Law on Budgets is published in the Official Gazette of Federation of FBiH No 102/2013 (December 2013).

⁹³ 19th Regular Session of FBiH Parliament took place on the 19 March, 2013. EBFs financial plans for 2013 were presented to the Parliament as part of this session. Available at: <http://predstavnickidom-pfbih.gov.ba/bs/page.php?id=526>

the Assembly at the same time as the FBiH 2012 budget proposal.⁹⁴ Health institution budgets are not subject to any comparable disclosure requirements.

Total revenue and expenditure of the Funds is included in the annual consolidated statistics of general government revenue and expenditure prepared by CBBiH for BiH as a whole and for each Entity separately, but no information about the Funds is presented alongside the budget execution statements prepared by the government of FBiH. The financial statements of each Fund are audited by the SAI, so that separate information on the out-turn is available, although not presented in a budgetary context. At the budgeting stage there is no consolidated reporting of the canton-level Funds, and only the aggregated out-turn reporting by CBBiH.

Essentially the same arrangements apply to the companies responsible for road construction and maintenance in FBiH. The road companies receive 3.9% of indirect tax assigned to FBiH, together with the proceeds of annual licence fees for vehicles and fees for roadside advertisements. These revenues are split: 60% goes to the companies responsible for road maintenance in cantons and local self-governance units, and 40% goes to the Federation-level Javno Preduzece Ceste FBiH, which expects to receive about BAM 63 million in 2013. Thus only incomplete information is available about some 40% of general government expenditure as a whole across FBiH, and about a comparable proportion of expenditure directly controlled by the central government.

Dimension rating: D

(ii) Inclusion in fiscal reports of income/expenditure information about externally funded projects

The bulk of externally funded project expenditure is the responsibility of the cantons (and to a lesser extent local self-governance units and state-owned entities). To the extent that projects are executed by the FBiH central government, the amounts are not included at the budget estimates stage, but are reflected in the out-turn financial statements.

Dimension rating: C

Table 4.2.14.PI-7: Extent of Unreported Government Operations

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Level of extra-budgetary expenditure omitted from fiscal reports	D	Little disclosure of EBF revenue, and none of expenditure, in budget documentation, and out-turn disclosed only in aggregate in CBBiH reports and in separate annual reports on each Fund.
Inclusion in fiscal reports of information about income/ expenditure of externally funded projects	C	Only the cofinancing element of project expenditure is included in budget estimates, although all expenditure is included in out-turn statements

⁹⁴ See Agenda for the 5th session of the House of Representatives, which took place on January 10, 2012. Available at: <http://predstavnickidom-pfbih.gov.ba/bs/page.php?id=284>

PI-8: Transparency of Intergovernmental Fiscal Relations

This indicator evaluates the transparency of and accountability for the resources that were transferred between different levels of government. It also assesses the timeliness and reliability of the information passed to subnational governments on their allocations.

Given the specificities of the BiH fiscal sector and the approach taken by this PEFA, under this indicator the report considers the intergovernmental relations for the four main government levels separately. Thus, only intergovernmental relations related to FBiH are given under this indicator. However, the indirect taxation revenue—which is administered at BiH level but shared among the four main government levels—is covered under this same indicator for BiH Institutions.

Out of the funds remaining from indirect taxation that are available to FBiH after foreign debt servicing is deducted, 36.2% belongs to FBiH government, 51.48% to cantons (based on population, area, number of students, and development level), 8.42% to local self-governance units (also based on population, area, number of students, and development level), and 3.9% to public entities for roads.

For direct taxes, the structure and rates of personal and company income tax and social contributions are set at the central level in FBiH, but the bulk of the revenue accrues to the cantons and municipalities, and to the EBFs.

- Personal income tax is shared among the cantons and local self-governance units, with cantons receiving 65.54% and local self-governance units receiving 34.46% (except for Sarajevo Canton, in which municipalities have a different distribution schedule with the canton and the city and get only 1.79% of these revenues). Corporate profit tax belongs to the cantons, except for the sectors of electro-distributors, postal offices, telecommunications, and games of chance, which belong to the FBiH government. New Amendments to the Law on Distribution of Revenues in FBiH that are currently in the parliamentary adoption procedures envisage decreasing the cantons' share in personal income tax to 59% and also simplifying the revenue sharing in Canton Sarajevo.
- Property tax revenue, including taxes on transfer of immovable property and rights, belongs to local self-governance units in both Entities. The property taxation system is weak, with relatively low revenues in both Entities, especially in FBiH, because the enforcement system is weak and property registries have not clearly established property ownership.

In addition to tax revenues, the FBiH government's other revenues include administrative, service, and penalty fees from government institutions, as well as revenues from assets or natural resources of FBiH, including revenues from dividends and profit-sharing from public enterprises. Cantonal governments, in addition to the tax revenues described above, have administrative, service, and penalty fees from cantonal government institutions and revenues from assets or natural resources owned by the cantons. Local self-governance units in FBiH, in addition to the tax and other revenues discussed above, have municipal/city administrative, service, and penalty fees, communal fees, water protection fees, fees for use of assets or natural resources owned by the local government, sojourn taxes, and taxes on games of chance.

(i) Transparency and objectivity in the horizontal allocation among sub-national governments

As has been noted, in the process of indirect taxation sharing, in the past five years there have been political problems/delays in deciding on the amount BiH Institutions will get from the indirect taxation revenues and disputes on final consumption data and consequent delays on decisions on the formula for sharing indirect taxation revenues between the two Entities.

In FBiH, the flow of information between the central government and cantons and in turn between the cantons and local self-governance units in the early budget planning stages is weak, both for revenue

projection/distribution and for information such as the amounts and precise timing of debt service payments, which significantly affect the monthly flow of revenue to the lower levels. This hampers the budget planning of lower levels. The situation is further complicated in Canton Sarajevo, since the indirect taxation revenue distribution for Sarajevo municipality also goes through cantons; this problem should be corrected in the new Amendments to the Law on Distribution of Revenues in FBiH which are currently in parliamentary adoption procedures.

Unclear jurisdiction among the different general government sectors in FBiH and unclear procedures for cooperation between the local self-governance units and public utility companies can also complicate budget management. Finally, the lack of clear legal ownership of local property (e.g., roads) also complicates the management of lower government levels and affects fiscal reporting—for example, in some cases maintenance of property by a municipality cannot be recorded properly since the municipality is not the owner.

Dimension rating: D

(ii) Timeliness of reliable information to the different governments on their allocations

The budget planning process is intended to provide, by April of each year, macroeconomic projections and revenue forecasts on which, in May each year, the Fiscal Council would base the following year's allocations of indirect taxation revenues—drawing on the Global Framework of Fiscal Balance and Policies in BiH. Entity governments, cantons, local self-governance units, and road companies could then be given a credible and timely projection of the resources that would be available to them for the following year. Thus each level of government would have the information needed to prepare its MTEF (i.e., fiscal plan for the following three years, see PI-12) and, subsequently, for the forthcoming budget.

It has been noted that there are often delays in deciding what portion of the indirect taxation revenues FBiH will receive. Furthermore, the flow of information between the FBiH central government and cantons and in turn between the cantons and local self-governance units in the early budget planning stages is not only weak, but also not timely. In practice the forecasts have not been reliable, and the necessary decisions have not been taken at the time scheduled. For example, cantons were still trying to settle their 2013 budgets in terms of revenue planning in late spring of 2013; and the resources they are receiving are falling below expectations. In addition, non-tax transfers from higher to lower government levels in FBiH (e.g., transfers for some capital projects or social sector expenditures) are usually done on an ad hoc basis, which also hampers the predictability of budget planning/management at lower general government levels.

Dimension rating: D

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

In terms of consolidation of fiscal data for the whole general government sector in FBiH, each year the CBBiH compiles information on consolidated general government revenue and expenditure by economic classification, including cantons, local self-governance units, and EBFs. This is out-turn information only (no consolidated information is available for budget estimates), and does not include any functional/sectoral analysis. None of the planned budgets at any level in FBiH is presented in functional classification, but rather only showing the economic breakdown of the expenditure of each administrative unit.

Current reporting templates in FBiH⁹⁵ already require functional reporting from all general government levels in FBiH (in 14 main categories, as opposed to 10 main COFOG groups); however, in practice,

⁹⁵<http://www.fintech.ba/downloads/pravilnik-o-finansijskom-izvjestavanju-i-godisnjem-obracunu-budzeta-FBiH.pdf>

reporting by function is based on a broad approximation, with likely errors, especially at the lower government levels).

The MoF consolidates data (including functional data), but the data reported by lower government levels are not always of good quality; this partially reflects difficulties in adapting their accounting systems to meet the full requirements of the new CoA, with reporting currently dependent on manual consolidation procedures. In practice, these data consolidated by the FMoF are not used for any policy decision-making, nor are they reported to Parliament. In other words, the consolidation of general government sectors in FBiH is not done within FBiH budgets plans sent to Parliament (the budget which is submitted to adoption to Parliament only includes FBiH Government), nor in the budget execution reports sent to Parliament for adoption, although lower government levels submit their budget execution data to FBiH Ministry of Finance (note that not each local self-governance unit submit data to FFMF, but rather each Cantonal MF sends the data which includes all local self-governance unit in that Canton). However, the FFMF does perform consolidation of the data of general government sector in FBiH, which it uses for reporting to the IMF, and for sending data for Global Framework (at very aggregate level), but not for FBiH MTEF preparation (since in the several recent years FBiH MTEF only includes FBiH Government level)

Dimension rating: D

Table 4.2.15.PI-8: Transparency of Intergovernmental Fiscal Relations

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	D	
Transparency and objectivity in the horizontal allocation among different governments	D	Allocation may be delayed by the inability of Fiscal Council to reach agreement, and weaknesses in sharing fiscal planning parameters within FBiH.
Timeliness of reliable information to different governments on their allocations	D	Information frequently delayed within FBiH and also by delays in adoption of Global Framework of Fiscal Balance and Policies in BiH.
Extent of consolidation of general government fiscal data according to sectoral categories	D	No consolidated data available for budget estimates. Serious obstacles in the way of collecting consistent data on a sectoral basis, even if confined to out-turn.

PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

This indicator assesses whether the government adequately monitors and manages the fiscal risks⁹⁶ arising from public sector activities or operations outside its direct control, including (i) the activities of public enterprises (PEs) and autonomous government agencies (AGAs) financed outside the budget; and (ii) the activities of subnational governments.

(i) Extent of monitoring of PEs and AGAs

According to the 2012 EU Accession Progress Report, 58% of state-owned assets identified for possible privatization remain unsold. Little progress has been made in recent years in realizing these assets. A wide variety of enterprises remain in the ownership of the FBiH central government, the cantons, and the local self-governance units. The annual consolidated government accounts produced by CBBiH for 2011 show that FBiH received BAM 182 million in “Other Revenue,” the cantons BAM 207 million, and the local self-governance units BAM227 million. Subsidies of BAM 115 million, BAM 86 million, and BAM

⁹⁶ Fiscal risks are defined as debt service defaulting, operational losses, expenditure payment arrears, and unfunded pension obligations.

26 million were paid by the three levels of government respectively. A significant part of these transactions concerned PEs.

PEs should notify their parent governments at each level of their annual business plans and their financial results, and the provision of any guarantee has to be approved by the relevant Parliament/Assembly. However, the MTEF documents contain no information on the impact of PEs on government financing, and no consolidated reporting appears to be done by MoFs at either FBiH or canton level. There is apparently no unit in operation anywhere with the responsibility to assess what should be expected of PEs in terms of financial performance, to ensure that they pay the correct amounts of tax and contributions and pay appropriate dividends out of their profits. In 2012 the FBiH tax authorities published a list of the largest tax and contribution debtors showing that a significant part of these arrears was attributable to PEs.

The different EBFs at both Federation and canton level need to be considered here as AGAs. Their budget plans are notified to MoFs and formally approved by Parliaments, but there does not appear to be any consolidated monitoring or reporting of their financial position. The Solidarity Health Fund at the Federation level has substantial expenditure arrears (money owed to health service providers and drug suppliers), some of which date back two years or more.

Dimension rating: D

(ii) Extent of central government monitoring of canton and local government units' fiscal position

The MoF consolidates data, including functional data, but the data reported by lower government levels are not always of good quality; this partially reflects difficulties in adapting their accounting systems to meet the full requirements of the new CoA, with reporting currently dependent on manual consolidation procedures. In practice, the data consolidated by the MoF are not used for any policy decision-making, nor are they reported to Parliament.

In terms of debt, new borrowing by all lower government levels in FBiH must be reported to the MoF within eight days of its being contracted. Quarterly reports on canton and municipal/city debt are made to MoF, with half-yearly reports to the Parliament; however, these reports are not on the MoF website. Information about cantons' borrowing was considered to be accurate, although records of local government borrowing might not be complete. The budget law requires that cantons' and local self-governance units' debt service costs (interest plus repayments) in future years should not exceed 10% of their current revenues. At the same time, the total debt service of the FBiH government, cantons, and local self-governance units may not exceed 18% of current revenues.

The MoF prepares annual reports on public debt in FBiH⁹⁷ and FBiH MTEFs include debt data. Data are also shared regularly with the BiH MFT, which prepares reports on public debt in BiH as part of the MTEFs of BiH Institutions.

Dimension rating: D

⁹⁷http://parlamentfbih.gov.ba/dom_naroda/bos/parlament/propisi/El_materijali/Informacija%20o%20vanjskom%20i%20unutrasnjem%20dugu%20FBiH%20na%2031.12.2011.pdf

Table 4.2.16.PI-9: Oversight of aggregate fiscal risk from other public sector entities

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D	
Extent of monitoring of PEs and AGAs	D	There is no consolidated overview of the large PE sector, much of which is apparently financially weak. There are significant expenditure arrears in some EBFs.
Extent of central government monitoring of cantons' and local government units' fiscal position	D	Data available in the quarterly reports of canton and local self-governance units maybe significantly incomplete.

PI-10: Public Access to Key Fiscal Information

Public access to key fiscal information is assessed through the six benchmarks for the indicator shown in Table 4.2.17.

Table 4.2.17. Benchmarks to assess Public Access to Key Fiscal Information

<i>Criterion</i>	<i>Publicly Available</i>	<i>Explanation</i>
The budget documentation submitted to Parliament.	Y	The (incomplete – see PI-6 above) budget documentation is available on MoF website: http://www.fmf.gov.ba/
In-year budget execution reports: are they made available to the general public?	Y	Report for the first nine months of 2012 is available on the MoF website.
Year-end financial statements: are they made available within six months after completion of the audit?	N	Budget execution report for 2011 is not yet available on MoF website.
External audit reports: are they published within six months after audit completion?	Y	The reports are available on the SAI website: http://www.saifbih.ba/javni-izvj/
Contract awards: is the award of all contracts with a value equivalent to \$100,000 published at least quarterly?	Y	Contract awards are published in the Official Gazette upon award. The Official Gazette can be accessed via the PPA website: http://www.javnenabavke.ba/index.php?id=04h&jezik=bs
Information about the resources available to primary service units (e.g., schools and health clinics): is such information published at least annually, or available on request to interested parents, patients etc.?	N	Data about schools published by cantons. However, no data are available about health clinics.

Table 4.2.18.PI-10: Public Access to Key Fiscal Information

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	Four of the six benchmarks are met.

PI-11: Orderliness and Participation in the Annual Budget Process

This indicator aims to assess whether budget formulation adheres to a fixed and predictable budget calendar each year and is organized in a way that facilitates effective participation by budget users. It also assesses whether the instructions given to budget users for the preparation of their budget submissions reflect high-level political decisions about the allocation of available funding, and whether the budget circular fixes spending ceilings within which budget users have to work.

(i) Existence of and adherence to a fixed budget calendar

The key dates for the preparation of the annual budget of the FBiH government are set out in the Law on Budgets in the Federation of Bosnia and Herzegovina. The budget process begins in February each year with the distribution of Budget Instructions No. 1, setting out the requirements, responsibilities, and timelines for each stage of the budget cycle. However, in practice, the calendar is not always adhered to. Delays in the approval of the Global Fiscal Balance and Policy Framework in BiH can delay the preparation of macroeconomic indicators and fiscal forecasts at the FBiH level. There can also be some slippage in the timetable for the preparation of the MTEF due to delays in receiving from line ministries the Budget User Priority Review Tables (BUPRTs), which should set out their priorities for additional expenditure and areas where reductions could most easily be accepted if resources were not available. The FBiH also has had the additional challenge of requiring input on expenditures and revenues from cantons to prepare consolidated data within the MTEF, and consolidated FBiH general government sector MTEF has not been prepared in several years now. Further delays are often experienced with the submission of final budget requests from budget users. The new Law on Budgets adopted in FBiH is vague in terms of preparation of comprehensive MTEF for entire general government sector in FBiH by the FMF.

Table 4.2.19 sets out the budget calendar presented in the 2013 Budget Instructions No. 1 issued on January 31, 2012, and the actual dates each task was completed during the 2013 budget process. Only some of the deadlines were specified in previous Law on Budgets of FBiH—the law lacked clear deadlines for budget requests and inputs from lower government levels for preparing MTEFs—while others are just included in annual budget instructions sent to the budget users by the MoF. The new Law on Budgets in FBiH adopted in December of 2013 strengthens the overall budget preparation process in FBiH and explain the budget calendar in more detail than the current law. As the table shows, the prescribed calendar was substantially complied with for the 2013 budget. However, the two previous budgets were significantly delayed, in part because of the absence of political agreement on the Global Fiscal Framework required to set the overall shape of the budget.

Table 4.2.19. FBiH Budget Calendar (for 2013 budget)

<i>Task</i>	<i>Responsibility</i>	<i>Date in budget calendar (or law)</i>	<i>Actual date for 2013 budget preparation</i>
Distribution of Budget Instructions No. 1	MoF	31.01.2012.	31.01.2012.
Submission of BUPRTs, new spending proposals, and savings options	Budget users	01.03.2012.	01.03.2012.
MTEF adopted by government	FBiH Govt	30.06.2012.	17.07.2012.
MTEF submitted to Parliament	FBiH Govt	NA	NA (MTEF is submitted to the Parliament for information only and as an annex to the budget proposal)
Budget Instructions No. 2 issued (with budget ceilings)	MoF	01.07.2012.	27.08.2012.
Budget user discussions	MoF/budget users	01.09.2012.	17.09.2012.
Budget submitted to FBiH government	Minister of Finance	01.10.2012.	21.11.2012.
FBiH government submits budget to Parliament	FBiH government	01.11.2012.	23.11.2012.
Parliament approves budget	Parliament	31.12.2012.	04.12.2012.

Source: FBiH Ministry of Finance.

Dimension rating: C

(ii) Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)

Two sets of budget instructions are issued. Budget Instructions No. 1 sets out the detailed guidelines and instructions for the preparation of BUPRTs, including high-priority new spending proposals and savings options, consistent with the priorities of the F BiH government. Following the submission of the BUPRTs, the MoF prepares a draft MTEF that sets out, among other things, the underlying macroeconomic indicators and fiscal outlook, budget expenditure priorities for the budget and forward estimates period, and budget ceilings for each budget user. Once the F BiH government has approved the MTEF, the MoF issues Budget Instructions No. 2, confirming initial budget ceilings for each budget user (in accordance with the MTEF), together with instructions for the preparation of budget requests. Budget users are required to prepare their detailed budget estimates in accordance with these ceilings. The MoF and budget users conduct discussions following the distribution of Budget Instructions No. 2; however, discussions are not held systematically and with all budget users (as is done in BiH Institutions). Some adjustments to the ceilings may be permitted in accordance with government policy priorities and subject to the approval of final budget ceilings by the F BiH government.

However most of the deadlines for the budget preparation submissions are not yet precisely defined in the legislation, so that the MoF can change the dates at any point.

Dimension rating: A

(iii) Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)

Since 2010, only the 2013 budget has been enacted before the commencement of the budget year, within the conditions of the SBA. For the 2011 budget, the delay was nearly three months. Because of this, the dimension rating is C.

Dimension rating: C

Table 4.2.20. Date of Enactment of Budget Law

<i>Fiscal year</i>	<i>Date budget law was enacted by Parliament</i>
2010	December 22, 2009
2011	March 26, 2011
2012	January 11, 2012
2013	December 4, 2012

Source: F BiH Ministry of Finance.

Table 4.2.21.PI-11: Orderliness and Participation in the Annual Budget Process

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Existence of and adherence to a fixed budget calendar	C	Reflects the fact that there is some slippage in the presentation of the budget to Parliament as well as subsequent delays.
Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	Clear budget instructions and guidelines issued.
Timely approval of the budget by the legislature or similarly mandated body (within the last three years)	C	Two of the last three budgets have been passed after the beginning of the year.

PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

This indicator refers to the extent to which the FBiH government plans its fiscal framework, expenditure policies, and budget plans over the medium-term (because of the involvement of BiH Institutions in overall medium-term projections). Four dimensions are considered: (i) multiyear fiscal forecasts and functional allocations; (ii) scope and frequency of debt sustainability analysis; (iii) existence of multiyear costed sector strategies, and (iv) linkages between investment allocations and forward functional expenditure estimates.

(i) Preparation of multiyear forecasts

Each year the countrywide Fiscal Council is charged with the responsibility to approve a Global Framework of Fiscal Balance and Policies in BiH that sets the overall macroeconomic projections and projection of indirect taxation revenues within which the BiH Institutions' and the Entities' next annual budgets should fit, with projections extending two years further ahead. Detailed multiyear fiscal projections for the FBiH level are then produced as part of the FBiH MTEF,⁹⁸ including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and two following fiscal years). The fiscal forecasts also include estimates of the revenues of the cantons, local self-governance units, and EBFs. While in some previous years (such as 2008-2010) the FBiH MTEF included both revenues and expenditures of all general government levels in FBiH, recent MTEFs include only the expenditure of the FBiH government and discussion on revenue projections for all levels. The IMF has been extending its technical assistance to the FBiH government in order to be able to produce consolidated fiscal reports for the FBiH and use bridging tables to produce data in line with the GFS.

Once approved by the FBiH government, the budget year estimates establish the budget users' budget ceilings for the forthcoming budget year. However, there is no evidence that the forward estimates are used to anchor the preparation of the following year's budget ceilings; they do not roll forward, but instead the MoF effectively rebases the budget and forward estimates for each budget cycle. It should be emphasized that the impact of the process in FBiH is limited, because the provision of the main public services is the responsibility of the cantons. In terms of the mechanism in place for coordinating fiscal planning across the Federation as a whole, in 2008 the FBiH government adopted a decree to form a Federal Fiscal Coordination Body⁹⁹ that would include the FBiH Minister of Finance, the 10 cantonal Finance Ministers, directors of Federal EBFs, and the chairperson of the Association of Municipalities and Cities of FBiH. However, in practice, this body rarely met and did not function properly. The newly Law on Budgets of FBiH adopted in December 2013 envisages legal establishment of a Fiscal Coordination Body with Federal and Cantonal Ministers and the chairperson of Association of Municipalities and Cities of FBiH as members. This new law also sets a more detailed budget calendar deadline for central government levels, but only vaguely prescribes that the cantons and local self-governance units should adhere to the same calendar without clear explanation of how would this be applicable to lower levels in the operational sense and whether consolidated MTEF for entire general government sector in FBiH will be prepared by the FMF.

The budget and forward estimates in the MTEF are prepared by administrative, economic, and functional classifications. However, the annual budget proposals are presented with economic and administrative classifications only; they do not include forward year estimates.

Dimension rating: C

⁹⁸Available at:

http://parlamentfbih.gov.ba/dom_naroda/bos/parlament/propisi/El_materijali/Dokument%20okvirnog%20budzeta%202013-2015.%20godine.pdf

⁹⁹Available at: <http://www.fbihvlada.gov.ba/bosanski/zakoni/2008/uredbe/30.htm>

(ii) Scope and frequency of debt sustainability analysis

The FBiH MoF maintains an electronic database of external and internal debt, including that of cantons and local self-governance units. The MoF regularly reviews external and internal debt, including as part of the regular review of the Scathe MoF Debt Management Unit also submits data to the BiH MFT Debt Management Unit, which maintains an access database of all internal and external debt of all governments of BiH. According to the head of the MoF Debt Management Department, FBiH total public debt (including EBFs and state-owned enterprises' borrowing) amounts to about 30% of GDP. The most recent IMF report on the current SBA (Country report 12/344) puts total BiH debt at end-2012 at 43.9% of GDP, of which 28.5% is external. Thus public external debt is not particularly high by international standards, but it has increased threefold since 2006, in large part because of budget support loans. The Entity governments' ability to borrow externally on favourable terms is also constrained by the high level of external private sector debt not matched by external assets, which corresponds to a further 24% of GDP. Furthermore, any analysis of debt level in BiH (both countrywide and Entity-specific) should be approached with caution, given the country's large infrastructure needs; further potentially large debt segments (such as restitution) that are currently excluded; and the post-crisis trend of significant debt increases, which included large budget support loans (spent in part for current expenditure, which still needs structural reform).

While data on debt status are collected regularly (with some delays at the local self-governance level) and reports on debt stock and servicing projections are provided, full debt sustainability analyses (DSAs) are not performed, except for the regular DSAs prepared by the IMF.

The Law on Borrowing, Debt and Guarantees of BiH stipulates that Advisory Committee for Debt (comprising of two representatives from Council of Ministers one of which is the Finance Minister, one representative from the Central Bank of BiH, two representatives from the Entity Governments including Finance Ministers, and Finance Directorate director from the Brčko District), which is supposed to be in charge of preparing debt management strategy. However, in practice, this has not been implemented.

Currently, the only debt sustainability analysis is the analysis IMF prepares within their Article IV Country Reports or periodically in some of the reports in reviews under the SBA (four such analyses were prepared by the IMF in 2009-2013). Since the IMF debt sustainability analyses have so far been performed without active participation of the authorities in the preparation process (other than data provision) and that the authorities do not use this analysis in their strategic planning process (the debt sustainability analysis is not linked to a specific government debt strategy in terms of future borrowing policies and needs at any government level (which are large, having in mind large infrastructure needs), the performance rating for this indicators is reduced.

However, it should be noted that the IMF has recently shared its methodology and instructions in terms of debt sustainability analysis with the Federal Ministry of Finance, based on the request of the Federal Ministry of Finance stemming from the conclusion of recent FBiH DeMPA prepared by the World Bank, which also found that no DSAs are undertaken, no sensitivity analyses are used, and no medium-term debt management strategy has been developed and it recommended that the technical assistance is provided to the Federal Ministry of Finance for the debt sustainability analysis. Thus, DSA preparation for the FBiH by the FMF can be expected in future, as it is prescribed by the new Law on Budgets in FBiH adopted in December 2013 that the debt sustainability analysis will have to be annexed to budget. The IMF DSA template has also been shared with the MFT in past years. But, given that currently there is no evidence that the authorities have prepared and used own or IMF DSA in their own strategic planning process, the performance rating for this indicator is lowered as noted.

Dimension rating: D

(iii) Existence of costed sector strategies

A Draft Development Strategy for BiH (with separate action plans for BiH Institutions, FBiH, RS, and DB) was prepared by the Directorate of Economic Planning of the Council of Ministers of BiH and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. The Fiscal Council seems to have little political appetite to endorse or even discuss such countrywide strategic documents. No costed sector strategies are formally developed for the FBiH, but some individual ministries do prepare strategic plans (e.g., Strategic Plan for the Development of the Health System in FBiH 2008-2018¹⁰⁰); however, in general these strategic plans have not been costed.

Strategic planning in FBiH is further complicated by fragmented jurisdictions among the central government and cantons, which have most responsibilities for the provision and development of services. The bulk of the central government budget, besides wages and salaries, consists of transfer payments and subsidies that simply perpetuate the current situation without doing anything to encourage social and economic development. There is not enough strategic direction from a sectoral perspective that would cut across all government levels in FBiH to ensure proper and effective implementation.

Most cantons prepare MTEFs, but they are not consolidated into an overall development plan. However, MTEFs do not represent truly costed sectoral strategies, as they basically just set up ceilings per budget user, rather than focusing on costed measures for strategy implementation. The FBiH MTEF includes an analysis of “medium-term budget priorities”—covering the forthcoming annual budget and the two following fiscal years—but these priorities generally reflect budget users’ specific individual new spending initiatives rather than forming part of a broader sector strategy. Budget and forward estimates are prepared for each budget user.

Dimension rating: D

(iv) Linkages between investment budgets and forward expenditure estimates.

The FBiH MoF prepares a three-year rolling Public Investment Programme (PIP) that also covers cantons.¹⁰¹ The preparation of the FBiH PIP appears to be broadly synchronized with the annual budget preparation undertaken by the MoF Budget Sector. The MTEF also reflects approved and funded projects within the PIP. The use of multiyear estimates enables the MTEF to reflect the future recurrent costs of completed capital investment projects.

Data from the FBiH MTEF are uploaded to the BiH Public Investment Management Information Database, which is maintained by the BiH MFT Sector for Coordination of International Economic Assistance. However, while there is an element of overall public investment planning at the FBiH level, the absence of any consolidation of canton sector strategies means that the coordination of the planning of current and capital expenditure cannot be fully effective.

Dimension Rating: C

¹⁰⁰ Available at: <http://www.fmoh.gov.ba/index.php/zakoni-i-strategije/strategije-i-politike/53-strateski-plan-razvoja-zdravstva-u-fbih>

¹⁰¹ See Draft FBiH PIP 2012-2014: http://www.fmf.gov.ba/publikacije/2013/javneinvesticije/pji_2012_2014.pdf

Table 4.2.22.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	D+	
Preparation of multiyear forecasts	C	MTEFs but not budgets include forward allocations by administrative unit, but these are prepared afresh each year rather than rolled forward from previous year.
Scope and frequency of debt sustainability analysis	D	Full DSAs are not performed yet (although envisaged for 2014, in line with new Law on Budgets adopted in December 2013), except for the regular DSAs prepared by the IMF.
Existence of costed sector strategies	D	New initiatives are partially costed, but there are no broader strategies.
Linkages between investment budgets and forward expenditure estimates	C	Investment is planned separately from current expenditure, and there is no consolidated strategic plan across the Federation to which the PIP can be related. However, forward projections of the costs and benefits of individual investment projects do include the subsequent running costs of new facilities.

PI-13: Transparency of Taxpayer Obligations and Liabilities

This indicator examines (i) whether tax legislation and regulations are clear and comprehensive and limit the discretion of authorities, especially in decisions on tax assessments and exemptions; (ii) whether reliable information about tax liabilities and procedures is readily available to taxpayers; and (iii) whether there is a fair and transparent mechanism in place to resolve differences between taxpayers and tax collectors about the amounts owed.

(i) Clarity and comprehensiveness of tax liabilities

The legislative framework for major taxes includes domestic tax laws, international treaties on avoidance of double taxation, and the laws governing administrative procedures. While the legislative framework for major taxes is generally clear and comprehensive, some important aspects of tax application are not very clearly and consistently reflected in the legislation and interpreted in practice. This mainly relates to the implementation of important provisions of double taxation treaties (e.g. determination of tax residence, reduction of tax upon deductions), and to transfer pricing. Consequently, tax inspectors tend to apply a fair amount of discretionary powers in determining tax liabilities in these areas.

Dimension rating: C

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Taxpayers have web access to information regarding their tax obligations, explanatory notices, and administrative procedures (www.pufbih.ba), and they have electronic access to their tax records (referred to as “tax cards”). There is a network of branch FBiH Tax Administration (TA) offices where taxpayers can obtain explanations, instructions, and copies of tax records. Workshops or seminars for taxpayers are organized if there is a change in the legislation¹⁰². Official binding interpretations about tax applicability can be requested individually from the Tax Administration of FBiH, and they are usually issued within the prescribed deadlines.

Dimension rating: C

¹⁰² An information desk/telephone hotline was introduced in 2013 (after the assessment period).

(iii) Existence and functioning of a tax appeals mechanism

The tax appeal system comprises three levels: (a) objection and appeal to the FBiH RA; (b) appeal to the FBiH MOF; and (c) appeal to the Administrative Court of FBiH. The decision process usually lasts longer than the timeframe specified in the rules/regulations—the backlog of cases before the court is such that any decision is likely to take several years. Decisions are not publicly available. Appeals are reviewed by bodies whose members rarely include experienced professionals from the private sector and civil society. Issued decisions are binding for all parties, with no right of appeal.

Dimension rating: C

Table 4.2.23.PI-13: Transparency of Taxpayer Obligations and Liabilities

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C	
Clarity and comprehensiveness of tax liabilities	C	Legislation and procedures for all major taxes are comprehensive and clear, while there is a fair amount of discretionary powers of the tax inspectors in areas such as interpretation of international tax treaties and transfer pricing.
Taxpayer access to information on tax liabilities and administrative procedures	C	Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited because it takes so long to obtain up-to-date and comprehensive information.
Existence and functioning of a tax appeals mechanism	C	The tax appeals system is set up and functional; however, decisions are often not issued within prescribed timeframe.

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator examines how effective a tax administration is in identifying its taxpayers and establishing their liability to pay, using three dimensions: the arrangements for the registration of taxpayers in a database and the links between that database and other relevant government registration systems; the effectiveness of penalties for failure to register and to declare tax liabilities; and the planning and monitoring of tax inspection and audit. Although the low rates of personal and company income tax mean that the yields are of less importance than the Federation’s share of indirect tax revenue, the systems for registering employers and employees also cover the payment of social contributions, whose yield is comparable in importance to indirect tax revenue.

(i) Controls in the taxpayer registration system

The registration system is automated and has recently been upgraded to a new single IT system.¹⁰³ Taxpayers are required to have sales registers electronically linked to the FBiH RA system (“fiscal registers”), enabling daily tracking of revenue.

Taxpayers are initially registered in the (cantonal) branch offices registration systems, which are not automatically linked to the central taxpayer registration system. Uploading to the central taxpayer registration system is done once a week; consequently, the central registration system is not up to date at all times.

¹⁰³IT System“nPIS.” This investment is coordinated by USAID Tax Administration Reform project.

Taxpayers are assigned a unique Tax Identification Number (TIN), which is used for all direct taxes. Tax authorities and taxpayers are obliged to use TINs in all official correspondence. TINs can be assigned only to FBiH residents and to branches of companies incorporated in RS and DB. Currently, it is not possible to assign a TIN to a permanent establishment/branch of a company with headquarters abroad, but with business operations in FBiH.

The central tax registration system of the FBiH RA is linked to the pension and social security fund system and to the FBiH governmental statistics. The 2012 Report of the FBiH SAI noted that 86 percent of automated linking was successful, whereas the unsuccessful automated controls resulted in incomplete data on pension rights for persons who retired during 2012. A project to link to other relevant registration systems (the national biometric database¹⁰⁴ or the State communication network¹⁰⁵) would require significant investment (around 2 million BAM), and because of lack of funding it is currently on hold.¹⁰⁶

Under the SBA, on June 12, 2013, the four tax agencies signed a Memorandum of Understanding on the exchange of taxpayer information, with a view to facilitating the permanent, unfettered, and automated sharing of taxpayer records.

Dimension rating: C

(ii) Effectiveness of penalties for noncompliance with registration and tax declaration

Taxpayers of direct taxes are liable to a fixed penalty of 1,000 BAM to 5,000 BAM for late registration plus 100 BAM per each late day¹⁰⁷ and to penalties for late submission of tax returns in the amount of up to 150% of late tax liabilities.¹⁰⁸ Additionally, penalties of up to 3,000 BAM are imposed on responsible persons (company directors).¹⁰⁹ The penalties appear to be high enough, but they may not always be an effective deterrent.¹¹⁰

Dimension rating: B

(iii) Planning and monitoring of tax audit programs

Tax audit plans are produced annually.¹¹¹ The selection of taxpayers for audit is based on automated risk assessment criteria, identified from tax declarations entered into the system. The system runs queries based on indications such as history of noncompliance and size of profits and revenues. During 2012 there were 8,591 tax audits and 2,892 controls of compliance with fiscal registrations. With respect to criminal and fraudulent activities, there were 70 reports and 230 open investigations.¹¹²

Dimension rating: B

¹⁰⁴ Agency for identification documents, registers, and data exchange: <http://www.iddeea.gov.ba>

¹⁰⁵ Synchronous Digital Hierarchy (SDH)

¹⁰⁶ These findings were presented in 2012 Report of the FBiH Supreme Auditor

¹⁰⁷ The Law on the FBiH Tax Administration Procedure (Zakon o poreznojupravi FBiH), Article 81

¹⁰⁸ The Law on the FBiH Tax Administration Procedure (Zakon o poreznojupravi FBiH), Article 84

¹⁰⁹ The Law on the FBiH Tax Administration Procedure (Zakon o poreznojupravi FBiH), Article 81

¹¹⁰ Tomas, Rajko (2010). Crisis and Grey Economy in BiH. Available at: <http://library.fes.de/pdf-files/bueros/sarajevo/09248.pdf>

¹¹¹ Tax audits are directed to taxpayers that are companies, and full audit generally includes corporate and personal income tax.

¹¹² 2012 Report of the FBiH Supreme Auditor.

Table 4.2.24.PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Controls in the taxpayer registration system	C	Taxpayers are registered in a database that is not always complete and is not fully and consistently linked to other relevant databases.
Effectiveness of penalties for noncompliance with tax registration and declaration	B	There are penalties for noncompliance with registration and declaration obligations, but they may not always be effective in preventing offenses.
Planning and monitoring of tax audit programs	B	There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations.

PI-15: Effectiveness in Collection of Tax Payments

This indicator assesses the performance of a tax administration in collecting the amounts assessed, paying the revenue immediately into the Treasury account, and subsequently performing reconciliations confirming that the correct amounts have been collected from each taxpayer (or the correct amount of tax arrears recorded), and that these correspond in total to the amounts received by the Treasury.

(i) Collection ratio for gross tax arrears

The total amount of tax collections related to direct taxes in the FBiH amounted to 478 million BAM in 2012, and 471 million in 2011.¹¹³ There are no published data available related to outstanding direct tax arrears.

Tax-geared penalties (i.e., a percentage of additionally assessed tax liability) are levied when tax returns are carelessly or deliberately incorrect, which results in unreported tax liability. Interest is assessed on late payments of taxes.

Dimension rating: Not Rated

(ii) Effectiveness of transfer of tax collections to the Treasury

Taxpayers make payments into commercial bank accounts. Instructions for bank payments are clearly prescribed in the applicable legislation; direct cash payments in FBiH RA office premises are prohibited. Transfers of revenue collections to the Treasury Account are made daily.

Dimension rating: A

(iii) Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury

Information on revenue collection is electronically submitted to the accounting system of FBiH RA by the banks; reconciliation of collections is automated, and payments are assigned to unique TINs. However, a significant number of revenue collections could not be reconciled to TINs because of incorrect payment order details (during 2012 there were 5,906 unidentified payments in the amount of 2.5 million BAM).¹¹⁴ FBiH RA has not developed an action plan to resolve the issue of unidentified payments. Further, there is no reconciliation of tax collections and tax arrears between the FBiH RA and MoF databases, which leads

¹¹³ Analysis of total tax collections 2012 (Pregledukupnoostvarenihirasporjednihjavnihprihodaza 2012) Available at: <http://www.fmf.gov.ba/>

¹¹⁴ These findings were presented in the Report of the FBiH Supreme Auditor for 2012.

to significant discrepancies in reporting and affects efficiency of monitoring.¹¹⁵ Information on tax collections is compiled and sent monthly to the MAU.¹¹⁶

Dimension rating: D

Table 4.2.25.PI-15: Effectiveness in Collection of Tax Payments

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	NR	
Collection ratio for gross tax arrears	NR	There are no reliable data on tax arrears for the last two fiscal years.
Effectiveness of transfer of tax collections to the Treasury	A	All tax revenue is collected into bank accounts controlled by FBiH RA and transferred daily to Treasury.
Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury	D	There is not a complete reconciliation of tax assessments, collections, and arrears.

PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

This indicator assesses the extent to which the government provides reliable information on the availability of funds to budget users to enable effective resource management. It is intended to measure performance over the last completed fiscal year before assessment. Three dimensions are considered: (i) the extent to which cash flows are forecast and monitored; (ii) the extent to which budget users can rely on future cash availability for some period ahead; and (iii) the frequency and transparency of in-year changes to the budget imposed on budget users.

(i) Extent to which cash flows are forecast and monitored

The FBiH central government and cantons have been in cash flow difficulty for some years. Total external debt service has first claim on accruing tax revenue collections, including from the ITA, and funds received under the 2009 SBA were used to pay off expenditure arrears of the FBiH central government and partially cantons. Because of this cantons and local self-governance units may not have a reliable forecast of the monthly profile of the receipts of their share of the ITA revenues (see also PI-4 and PI-8).

However, cash flow is forecasted and slowly monitored at central level in FBiH. The FMF, based on annual and quarterly cash flow forecasts sends instruction to MDAs for preparation of operational plans of expenditures and outflows. The MDAs then submit their annual operational plan each quarter, based on which the FMF approves monthly operational plans, closely paying attention to cash flow forecast (which are revised on a monthly basis). The MDAs can incur liabilities only up to the amount available in approved operational plans. The procedure of cash flow forecasts is further strengthened with the adoption of new Law on Budgets in FBiH in December of 2013, which prescribes that cash flow forecasts which are prepared quarterly will be done/verified by Budget Liquidity Committee of the FMF (whose members will be Assistant Ministers from the relevant FMF sectors – budget, treasury, debt...). The procedure seems good and functioning from the operational stand point, Although there have been issues in recent years in terms of cash flows (causing some expenditures fall into arrears), due to lower than anticipated revenues and receipts (mostly stemming from the fact that foreign budget support receipts did not come as planned, due to issues such as delay in adoption of important legislation or budgets by the Parliaments), the procedures and frequency of cash flow forecasting and monitoring appear to be

¹¹⁵ These findings were presented in the Report of the FBiH Supreme Auditor for 2012.

¹¹⁶ Available at: <http://www.oma.uino.gov.ba>

appropriate and functioning according to Treasury (with appropriate and transparent adjustment mechanism existing to deal with the cash flow problems), thus granting rating A in this dimension.

Dimension rating: A

(ii) Reliability and horizon of periodic in-year information to budget users on ceilings for expenditure commitment

The cash is being released monthly to budget users based on operational plans, in line with relevant legislation (laws on budget execution) and in accordance to cash-flow forecasts. As discussed above, the FMF approves monthly operational plans for budget users (thus “releasing” funds on the monthly basis), based on plans submitted by MDAs and reconciling them with cash forecasts. When cash flow problems occur (as was the case recently due to delay in receiving foreign budget support for example), there are procedures prescribed in legislation (Law on Budgets) to deal with cash flow problems. According to Treasury, these procedures for these cash control procedures seem to be transparent and functioning – selected expenditure (most notably capital expenditure) is “frozen” for 45 days at a time, in line with spending priorities (this is prescribed by Law on Budgets, which says that in the case of unpredicted expenditure increase or revenue/receipts reduction, Government adopts a decision on stopping execution of certain expenditure in the period of up to 45 days, which can include stopping new commitments, suggesting prolongation of contracted deadlines for payment or stopping allocation of funds for some expenditure).

The MDAs may commit up to the limits of their annual budget allocations as approved by the National Assembly, provided that their payment requests remain within the progressive releases of monthly funding by FMF through the year. However, given that there were instances of cash flow problems recently due to lower than anticipated revenues and receipts (mostly stemming from the fact that foreign budget support loans did not materialize when planned), notwithstanding the annual budget appropriations by the Assembly and quarterly operational plan, cash is being released monthly to budget users with essentially no assurance beyond that about future cash availability to meet commitments. When there are cash deficiencies, preference is given to the payment of salaries and social benefits (according to payment priorities set in legislation). Thus, rating C is given (MDAs are provided reliable information for one or two months in advance).

Dimension rating: C

(iii) Frequency and transparency of budget adjustments imposed on budget users

FBiH had to introduce “rebalanced” budgets in recent years to meet the conditions of the current and previous SBAs; it should be noted that these rebalances were not always expenditure decreasing but rather net increasing, since the government adopted insufficient original budgets that which were not based on realistic needs according to legal obligations.¹¹⁷ The September 2012 budget rebalances included measures to reduce civil service pay and freeze new employment. These revised budgets had to be approved by the Parliament, and the changes were carried out with full transparency. Any transfer of provision from one budget user to another can take place only by agreement.

Dimension rating: A

¹¹⁷For example: http://fmf.gov.ba/budzet-2010/izmjene_i_dopune/REBALANS%202010%20ZBIRNA.pdf.

Table 4.2.26.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Extent to which cash flows are forecast and monitored	A	Continuous close attention is paid to cash flows, but these are currently subject to major uncertainties.
Reliability and horizon of periodic in-year information to budget users on ceilings for expenditure commitment	C	Operational procedures prescribe that MDAs prepare monthly operational plans on quarterly basis (they submit month-by-month plans for each quarter), based on which the FMF releases funds on monthly basis, taking into account updated cash forecasts. Given that there have been recent issues with cash flows, no reliable information is available to budget users about cash availability to meet future commitments beyond the horizon of the approved monthly operational plan
Frequency and transparency of budget adjustments imposed on budget users	A	In-year reductions in budget allocations require a rebalanced budget approved by Parliament.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

This indicator looks at debt management in terms of contracting, servicing and repayment, and the provision of government guarantees, including the following dimensions:

- maintenance of a debt data system and regular reporting on main features of the debt portfolio;
- identification and consolidation of cash balances in all government bank accounts (including those for EBFs and government-controlled project accounts); and
- the proper recording and reporting of government-issued guarantees, and the approval of all guarantees by a single government entity (e.g., the ministry of finance or a debt management commission) against adequate and transparent criteria.

(i) Quality of debt data recording and reporting

As has been noted, responsibility for repayment of almost all external debt rests with the entities, except for a very small part of direct external state debt, with the payments related to the external debt are being fulfilled over the BiH institutions. Since BiH is the ultimate guarantor for essentially the entire IFI foreign debt (regardless of whether the Entities are using it and repaying it), all loans must be approved by the Council of Ministers of BiH, BiH Presidency, and BiH Parliament. The same requirements apply to external guarantees of BiH (regardless of whether the Entities are final users).

CBBiH publishes quarterly figures for total external public debt. Debt management in FBiH is coordinated with the cantons through a standing commission that reports to MoF. Cantons are permitted to borrow domestically without the consent of FBiH MoF, as long as they do not require a guarantee. Cantons and PEs have not undertaken any direct external borrowing, preferring instead that the FBiH central government should borrow and on lend to them.

The MoF must be notified of any new borrowing by cantons and municipalities/cities within eight days, and reports of debt stock have to be filed within 15 days after the end of each quarter. A quarterly report of the outstanding external and domestic debt of the central government and cantons is required as part of the surveillance under the SBA, and a half-yearly report is made to Parliament, although it is not yet on the MoF website. Until recently most debt was contracted externally on concessional terms, but in 2011 and 2012

there has been significant domestic borrowing at market rates; BAM89 million of debt securities were issued in 2011 and BAM 42.1 million in 2012 (IMF Country report 12/282, Table 4.1.5c).

The BiH Institutions MFT Debt Management Sector maintains a database of both internal and external debt at all levels of government of BiH, based on a regular exchange of information with the Entities and DB. The MoF also has a database covering the general government sector in FBiH. However, FBiH debt reporting tends to be delayed (in terms of local self-governance units), and thus overall reporting for FBiH is also hampered (and cannot qualify for the highest score).

Detailed analysis of the entire public debt stock of State and Entities (both external and internal) and debt servicing prepared by the BiH MFT is also given in the BiH Institutions MTEF (including debt stock information and debt repayment projections)¹¹⁸ and in the annual reports of Debt Stock of BiH that the MFT prepares.¹¹⁹ Each quarterly execution report for the budget of BiH Institutions includes detailed information on foreign debt servicing, and the annual budget plans of BiH Institutions include detailed projections of foreign debt servicing.

The FBiH MoF also publishes annual reports on FBiH debt,¹²⁰ and a debt overview is provided as part of the FBiH MTEF.¹²¹

Limited DSA is usually presented in the reports. However, it cannot be considered as an appropriate full DSA during the debt forecasting exercise.

Thus, overall the recording and reporting of formally contracted debt appears satisfactory (although there may be minor gaps in information from municipalities/cities).

Dimension rating: B

(ii) Extent of consolidation of government's cash balances

All transactions directly related to the central government budget pass through the FBiH single treasury account (STA), although the EBFs, the road maintenance companies, the cantons, and the local self-governance units remain outside this arrangement. The FBiH government has given an undertaking to the IMF to improve its control over canton government finances, and the IMF is providing technical assistance to extend STAs throughout the cantons, with a view to establishing direct links between the central STA and those in the cantons. At present there is only periodic manual reporting by cantons to MoF; online access to information about each canton's cash position and arrears could make it possible to reduce gross borrowing across FBiH as a whole and keep close track of the development of arrears.

Dimension rating: C

(iii) Systems for contracting loans and issuing guarantees

In accordance with the FBiH Law on Borrowing, Debt and Guarantees and the FBiH Law on Budgets, MoF controls all borrowing on behalf of the FBiH central government, as well as external borrowing for on lending to cantons and PEs, and approves the issue of guarantees for borrowing by cantons and PEs.

Within the MoF, the Debt Management Sector is in charge of federal debt management and of monitoring the overall federal-level public debt. The Debt Management Sector's main functions include preparing borrowing plans and borrowing agreements, mobilizing and coordinating funding for financing of

¹¹⁸For example: <http://www.mft.gov.ba/bos/images/stories/budzet/2013/DOB%202013-2015%20-S.pdf>

¹¹⁹For example: http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf

¹²⁰Available at: http://www.fmf.gov.ba/publikacije/2012/unutranji_vanjskidug.pdf

¹²¹For example: http://predstavnickidom-pfbih.gov.ba/upload/file/sjednice/22_sr/19.pdf

development projects, implementing procedures for issuance of federal guarantees, and preparing regular analytical reports on central-level federal debt and overall public debt of the FBiH. It is also responsible for debt service forecast and debt service payments and is involved in preparing onlending agreements and project monitoring, as well as in monitoring and reporting on the indebtedness of cantons, cities, municipalities, EBFs, and public companies.

The FBiH government may contract direct domestic and external borrowing within the legally binding limits. Direct external debt borrowing requires the approval of the FBiH government and Parliament. Domestic debt borrowing is undertaken by the MoF with the approval of the FBiH government. The approval process for new borrowing includes the submission of information to the Debt Committee and the FBiH Cabinet of Ministers. The issuance of loan guarantees is defined by the same legal framework as direct borrowing.

FBiH policy is to borrow only for investment or for debt refinancing, and the law requires debt service costs to be kept within 18% of the previous year's consolidated current revenues. According to the responsible deputy minister, the FBiH is reconsidering its debt management strategy with a view to firmer control and greater transparency. For the time being the objectives for debt are not linked to medium-term fiscal targets; there is no formal debt management strategy that would steer debt management decisions.

Dimension rating: B

Table 4.2.27.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

	<i>2013 Rating (Method 2)</i>	<i>Justification</i>
Overall rating	B	
Quality of debt data recording and reporting	B	Debt reporting is done with some delays at the level of FBiH (in terms of local self-governance units), and thus overall reporting is also hampered.
Extent of consolidation of government cash balances	C	All transactions that are part of the central government budget go through the STA, which holds all cash balances. However, some EBFs remain outside the STA.
Systems for contracting loans and issuing guarantees	B	All central government borrowing, all external borrowing for on lending to cantons and PEs, and all issues of guarantees for cantons and PEs are controlled by MoF, which aims to keep debt service costs within defined limits. However, there are no links between borrowing and fiscal targets.

PI-18: Effectiveness of Payroll Controls

Payroll and related charges represent a significant percentage of current costs of the FBiH. This indicator is intended to cover all significant government payrolls—that is, all civil servants and other government employees, including people employed in the health and education services and EBFs; state-owned entities (SOEs) are outside its scope. Four dimensions are considered: (i) the degree of integration between personnel records and the payroll; (ii) the timeliness of changes to personnel and payroll records; (iii) the operation of internal controls over changes to personnel and payroll records; and (iv) the existence of payroll audits to identify control weaknesses and/or ghost workers.

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

The FBiH Civil Service Agency (CSA) keeps a complete register of all civil servants in the central government, cantons, and local self-governance units. However, central control of numbers and grading at the canton level was undermined by the 2010 decision of the FBiH Constitutional Court, ruling on the

application of the West Herzegovina Canton that employment of civil servants was a matter for the canton structures. Central government recruitment is carried out through competitions run by CSA for vacant positions in accordance with the Rulebook on Organization and Systematization of Workplaces. The CSA establishes a shortlist from which organizations make their choice of people to appoint. Organizations are not bound to accept CSA's merit ordering of candidates, and unsuccessful candidates may appeal. Promotions to management positions must follow CSA procedures, although lower-level promotions are at* the discretion of employing organizations, which then report them to CSA.

The FBiH MoF makes all salary payments to central government employees. CSA notifies MoF of changes to be made to the payroll each month (including those for which promotion decisions are at the discretion of the employing organizations). The MoF does not make any further check on the correctness of the payments calculated by the employing organisations unless staff ceilings or budgetary provision are being exceeded. Payroll calculations have recently been simplified by decisions to reduce and rationalize the allowances formerly paid as percentages of salary, which are now paid as flat-rate additions. Since the changes to the payroll are made only on notification by CSA, and that CSA maintains a complete record of all employees, it is concluded that there is an adequate, although not automatic, link between personnel and payroll records.

Dimension rating: B

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

According to the CSA all procedures, including notification to the MoF, should be completed within a month of the decision of the employing department, so that appointments can become effective without delay and any need for retroactive adjustments avoided. There is no evidence that these procedures are not followed in practice (the implementation is necessary due to pension and health insurance arrangements).

Dimension rating: A

(iii) Internal controls over changes to personnel records and the payroll

Substantive changes to personnel records and to the payroll (i.e., new appointments and promotions) should be effectively controlled by the requirement for CSA authorization before MoF makes any changes, thereby creating an audit trail. CSA has procedures to ensure that notifications to MoF are fully justified and consistent with the systematization rulebooks; the MoF's responsibility is to ensure that changes approved by CSA are correctly entered in the payroll. These will depend on the effectiveness of hierarchical supervision, the need for which should be more generally recognized once FBiH begins to implement its intentions to improve financial management and control. (EU assistance is being provided for the development in each spending unit of a rulebook and procedures on financial management and control; see PI-20.) For the time being there is less assurance that employing organizations are effectively controlling allowances and overtime payments before notified MoF of them.

Dimension rating: C

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

According to CSA, they and other small organizations are subject to payroll inspections every six months. Further on, the SAI performs regular financial audit of the entire central government, and therefore all the institutions of the central government have been subject to financial audit at least once in the last 3 years.

In the course of auditing and payment of salaries to employees in public sector institutions, the auditors are performing tests on the basis of samples, applying all relevant standards and guidelines. The type and

the size of the sample of salaries depend on the level of the assessed risk and the level of preliminary materiality. Auditors are regularly checking during the financial audit work the number of employees, the calculation and the payment of salaries, lists and accounts to which payments are made, as well as orders for bookkeeping entries. Auditors are using audit software to test the number of employees, the regularity of salary calculation, test of analytical and summary records, and payment execution.

Dimension rating: B

Table 4.2.28.PI-18: Effectiveness of Payroll Controls

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Degree of integration and reconciliation between personnel records and payroll data	B	CSA maintains a complete record of all employees. MoF makes changes to payroll records only when authorized by CSA.
Timeliness of changes to personnel records and the payroll	A	Appointments and promotions can only take effect once all necessary procedures have been completed. This is normally done within a month of the decision by the employing authority, thereby avoiding any need for retroactive adjustments.
Internal controls of changes to personnel records and the payroll	C	Appointments and promotions are adequately controlled by the involvement of the CSA, but there is less assurance that allowances or other additions to pay are correctly calculated in every individual case, since these issues are left entirely to the employing authority concerned.
Existence of payroll audits to identify control weaknesses and/or ghost workers	B	Financial audits are partly directed to payroll audits, and such regular audits are performed for all institutions of the central government of FBiH at least once in 3 years.

PI-19: Competition, Value for Money, and Controls in Procurement

This indicator was assessed only on the level of the BiH Institutions. Accordingly, the PI for FBiH, RS, and DB has been rated as N/AA (not applicable).

PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

This indicator assesses the effectiveness of internal controls over non-salary expenditure, considering three dimensions: (i) the effectiveness of controls over the commitment of expenditure; (ii) the comprehensiveness, relevance, and understanding of internal control rules and procedures; and (iii) the degree of compliance with rules for processing and recording transactions. The controls should ensure that expenditure is incurred, and payments made, only when fully justified in accordance with budgetary provisions, and when all applicable regulations (including those concerning procurement) have been complied with.

(i) Effectiveness of expenditure commitment controls

The current operational procedures prevent the Treasury system from making payments that would exceed the amounts of funds released on the relevant budget line in operational plans which are based on forecasted cash availability. The MDAs may commit up to the limits of their annual budget allocations as approved by the Parliament, provided that their payment requests remain within the progressive releases of monthly funding by FMF through the year. Incurring liabilities and actual payments are limited to

released funds, which in turn are limited to cash availability in Treasury system. Although framework legislation has been adopted for financial management and control and implementing rules have been prepared, the government has not yet acted on them. The head of the FBiH Central Harmonization Unit (CHU), who should coordinate the implementation of improved systems, has been on the job for two years but still has no staff. In-year reports are being produced covering commitments (which are limited to available funds) as well as payments, but the coverage of commitments is not reliably complete. SAI notes that most of the budget users at the FBiH Government level established internal control systems (in line with Guidelines for establishment and strengthening internal control adopted by Federal Ministry of Finance in line with Law on Budgets in FBiH and Law on Treasury of FBiH), but that not all of the procedures undertaken by budget users are covered and not all of the control procedures are included. Furthermore, in most cases there was no supervision over control activities. While there are improvements in terms of internal control establishment, not all needed activities have been implemented yet. There were instances when not all liabilities were properly recorded and paid in full due to lack of funds and the priority for made payments were not clear in actual realization.¹²² Thus, rating is C, since expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated¹²³.

Dimension rating: C

(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures

The SAI has repeatedly identified breaches of financial controls—for example, payments of agricultural subsidies to businesses not engaged in agriculture. Very few audit opinions have been unqualified. In the Letter of Intent submitted in September 2012 to the IMF by the BiH Institutions and the two Entity governments to support the request for the current SBA, the FBiH government undertook to put forward legislation to impose penalties for commitments undertaken in excess of budget allocations.

The FBiH CHU, which is charged with coordinating the strengthening of financial management and control throughout the government and organizing the internal audit function, made some progress in 2011 through the Coordination Board with the BiH Institutions and RS in developing common rules for strengthening financial management and control; but as noted above, the necessary decisions to implement them are still pending, and the CHU still needs to increasing its staffing. EU assistance is available to support the development of rules and procedures for financial management and control in each spending unit, and to provide training in their operation, but the process has not yet started. Meanwhile there are some basic rules (e.g., a requirement for dual signatures) that are generally complied with, but they are not sufficient to ensure that funds are correctly spent. The SAI has repeatedly identified breaches of the rules—for example, in relation to the awarding of contracts.

Dimension rating: D

(iii) Degree of compliance with rules for processing and recording transactions

Some general rules for processing and recording transactions are generally observed as far as the Treasury is concerned; problems exist with the substance than the form of transactions, where the responsibility rests with the spending units. All central government transactions are channelled through the STA and are correctly recorded, but the Treasury exercises no control over their substance. The SAI has criticized the absence of adequate documentation at the level of the spending units to justify payments of agricultural subsidies. As written above, SAI notes that not all of the procedures undertaken by budget users are

¹²² For example, see pages 2, 11, 12, 14, in SAI Report for the 2012 FBH Budget. Available at: http://www.saifbih.ba/javni-izvj/budzet/pdf/Izvj_Budzet_FBiH_2012_god.pdf.

¹²³ For example: Audit Report for 2012 (page 61). Available at: http://www.gsr-rs.org/static/uploads/report_attachments/2013/08/23/RI001-13_Cyr.pdf.

covered by existing internal control rules and not all of the control procedures are included. Furthermore, in most cases there was no supervision over control activities.

Dimension rating: D

Table 4.2.29.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Effectiveness of expenditure commitment controls	C	Some commitment control (which should be limited to available funds) is in place but not yet reliably complete. There were instances when not all liabilities were properly recorded and paid in full due to lack of funds and the priority for made payments were not clear in actual realization.
Comprehensiveness, relevance, and understanding of other internal control rules/procedures	D	The SAI has repeatedly identified breaches of the rules, but no action has been taken to prevent them. The need to strengthen the rules and procedures is generally recognized, and necessary regulations have been prepared, but no action has been taken to bring them into force and make a reality of the intentions.
Degree of compliance with rules for processing and recording transactions	D	SAI notes that not all of the procedures undertaken by budget users are covered by existing internal control rules and not all of the control procedures are included. Furthermore, in most cases there was no supervision over control activities

PI-21: Effectiveness of Internal Audit

This indicator looks at the functioning of internal audit services as distinct from the internal control operations reviewed in PI-20. The internal audit function considered here is defined as an advisory service to top management on the functioning of the systems for which management is responsible; internal audit is by definition separated from any operational responsibility for the systems. Three dimensions are considered: (i) the coverage and quality of the internal audit function; (ii) the frequency and distribution of reports; and (iii) the extent of management's responses to the findings.

(i) Coverage and quality of the internal audit function

Some elements of internal audit have been operating in FBiH for some time, in cantons and local self-governance units. Ten units are in operation in the central government, including units in the Ministries of Finance and Agriculture, and there are also units in the Sarajevo and Tuzla Cantons. The SAI has been urging the extension of internal auditing, but the decisions are the responsibility of the canton and local governments concerned. In the Una-Sana canton the former internal audit unit has ceased operation, although work is continuing in Bihac municipality. The legislative basis for the general introduction of internal audit is in place,¹²⁴ and the necessary regulations and operating instructions have been prepared by the Coordinating Board made up of the CHUs of the BiH Institutions and the Entities, although they are not yet formally approved in FBiH. In FBiH these arrangements are to be put into effect as part of stand-alone legislation on financial management and control. The law has been drafted and put before the FBiH government for consideration before it is formally submitted to the FBiH Parliament for adoption. However,

¹²⁴ The Law on Internal Audit of the Public Sector in FBiH, which was adopted in 2008:
<http://www.fbihvlada.gov.ba/bosanski/zakoni/index.php>

no progress has been made in this regard because of the political impasse that has affected the FBiH government almost continually since the general elections in October 2010. Moreover, the FBiH CHU has only a director and no other staff, and little progress had been made in developing internal audit at the time of the Assessment¹²⁵.

As FBiH has inherited elements of an internal audit structure that were put in place long before internal audit became a topic of discussion as part of the BiH EU accession process, there is now some disagreement about the future structure of internal audit. Thus the director of CHU argues that the structure of internal audit ought to be developed according certain objective standards—for example, that every public institution with more than 200 employees or a budget larger than BAM 10 million ought to have an internal audit department in its formal organizational structure. This has become an issue for some existing internal audit departments—for example those in Tuzla and Sarajevo Cantons, which are attached to the Cabinets of the Prime Ministers, who would rather have a centralized internal audit structure.

Due to the lack of capacity there is limited coverage of internal audit within the BiH Institutions. In addition the main focus of the reports remains compliance audit rather than the performance of systems. Nevertheless based on the number of internal audits conducted and the content of the recommendations issued at least 20% of staff time is dedicated to systematic issues reviews.

Dimension rating: C

(ii) Frequency and distribution of reports

The SAI sees the extension of effective internal audit throughout the central government and cantons as an important element in securing better financial management in FBiH, including a reduction in the extent to which regulations are ignored or flouted. Reports are produced where the units are operating, but the MoF has no capacity to ensure that lessons learned in one place are promulgated more widely.

FBiH CHU has published one consolidated annual report so far on its website, for 2011,¹²⁶ noting some progress in developing common rules for strengthening financial management and control; however, the necessary decisions to implement the rules are still pending, and the CHU is not sufficiently staffed. As of 2011, internal audit was established in nine institutions at the FBiH government level with a total of 11 employees. Furthermore some kind of internal audit role was established in seven cantons, although in some cases changes of organizational characteristics are needed to align with the internal audit legislation. In 2011, a total of 66 internal audits at the FBiH government level were performed, as well as 93 internal audits at the canton level (there is no information about internal audits at local self-governance level). There is currently limited coverage, and a relatively small number of internal audit reports have been prepared. The internal audits made recommendations in the areas of allowances, travel expenses, expenses for education, contracted services, public procurements, and vehicle expenses. According to Law on Internal Audit,¹²⁷ Internal audit reports are submitted to the audited subject after the audit has been completed. In addition ex post reviews are being undertaken no later than 6 months after the internal audit report had been issued in order to follow up on all actions and recommendations and in order to determine the level of completion of such actions by the audited subject. Such reports are submitted to the audited subject however upon request such reports can be delivered to any legislative, executive or judiciary organ as well as to FBiH SAI. Finally there are annual internal audit report which are being consolidated by the FBiH CHU and submitted to FBiH MoF who then submits such report to the FBiH

¹²⁵ In 2013 two employees were hired (one economist and one lawyer), which enabled a more intensive operations of the CHU.

¹²⁶ Available at: <http://fmf.gov.ba/pdf/Konsolidirani%20Izvjestaj%20interne%20revizije.pdf>

¹²⁷ Law on Interna Audit in FbiH, available at: http://www.sogfbih.ba/uploaded/pravni_okvir/Relevantni%20zakoni%20za%20JLS/Zakon%20o%20internoj%20reviziji%20u%20javnom%20sektoruFBiH.pdf.

government for consideration and adoption. Thus, while internal audit coverage is not full yet, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and (upon the request) the SAI.

Dimension rating: B

(iii) Extent of management response to internal audit findings

According to the head of the CHU, many of the managers concerned act on internal audit reports, but there needs to be a wider recognition of the importance and usefulness of internal audit. No detailed information is available about management responses to specific findings, which are understood mainly to be concerned with compliance failures rather than proposals for improvements in management and control systems.

Dimension rating: C

Table 4.2.30.PI-21: Effectiveness of Internal Audit

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Coverage and quality of the internal audit function	C	Coverage of internal audit in the central government and cantons is low. Based on the number of internal audits conducted and the content of the recommendations issue, at least 20% of staff time is dedicated to systems reviews.
Frequency and distribution of reports	B	While internal audit coverage is not full yet, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and (upon the request) the SAI
Extent of management response to internal audit findings	C	According to the CHU, many managers do respond, but the administrative culture does not yet sufficiently appreciate the value of internal audit work.

PI-22: Timeliness and Regularity of Accounts Reconciliation

This indicator examines (i) whether there are frequent and regular reconciliations between accounting data in the Treasury's books and bank account data, and (ii) whether advances and suspense accounts are regularly reconciled and cleared. A further discussion with the FBiH Treasury is needed to confirm the ratings.

(i) Regularity of bank reconciliations

According to the 2012 SIGMA consolidated report, there are daily reconciliations between Treasury and all bank records of the STA.

Dimension rating: A

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

Reconciliation and clearance of suspense accounts is done on a daily bases, and advances are automatically reconciled as well without delay.

Dimension rating: A

Table 4.2.31.PI-22: Timeliness and Regularity of Accounts Reconciliation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Regularity of bank reconciliations	A	There are daily reconciliations and clearance of all accounts
Regularity of reconciliation and clearance of suspense accounts	A	Reconciliation and clearance of advances and suspense accounts is without delay.

PI-23: Availability of Information on Resources Received by Service Delivery Units

This indicator asks whether normal administrative and accounting systems provide reliable information about the resources received by primary schools and primary health clinics, whatever level of government is responsible for their operation.

In FBiH the provision of school (and university) education is the responsibility of the ten cantons, each of which has its own Ministry of Education. These units are included in Cantonal Treasury system and they report to Canton on regular basis, both in terms cash and in-kind resources. The administrative systems in each canton identify each school separately in budget estimates and expenditure out-turn statements. Schools are directly funded from canton budgets (the exception is University of Sarajevo in Sarajevo Canton, which is outside of the Treasury system, but is reporting to Canton). Thus, routine data collection or accounting system provide reliable information on both cash and in kind resources received by schools.

Primary healthcare is provided by the Health Funds operated by each canton, which are mainly financed from the social contributions paid in respect of each employee (and, in principle, paid by the self-employed). The Solidarity Health Fund under the central government provides specialized treatment and expensive drugs but does not provide primary health services. The Health Funds commission services for their subscribers from healthcare institutions that may themselves belong to cantons or local self-governance units. Services may also be commissioned from voluntary or private sector organizations, which do not generally form part of any public sector budget.

While there are systems that enable estimates to be extracted for each school separately, there are no such systems in the health sector. Thus information is routinely available about resources received by individual schools, but not about resources for all primary health clinics.

Dimension rating: B

Table 4.2.32.PI-23: Availability of Information on Resources received by Service Delivery Units

	<i>2013 Rating</i>	<i>Justification</i>
Overall rating	B	Routine data collection or accounting system provide reliable information on both cash and in kind resources received by schools, but there is no

	<i>2013 Rating</i>	<i>Justification</i>
		comparable provision of information about resources for primary health clinics.

PI-24: Quality and Timeliness of In-year Budget Reports

This indicator reviews three aspects of in-year budget execution reporting: (i) the scope of reports and the extent to which comparisons are possible with budget estimates on administrative, economic, and functional bases, with commitments covered separately from payments; (ii) the timeliness of reports; and (iii) the quality of the information.

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

Formal in-year reports are produced by the MoF¹²⁸ in the same format as the annual budget—that is, by economic and administrative classifications—and they present expenditures at both commitment and payment stages.¹²⁹ However, if a budget revision occurs during the year, the report refers to the revision only, rather than to the originally adopted budget. The reports do not cover the EBFs, whose expenditure is twice that of the central government.

Dimension rating: A

(ii) Timeliness of the issue of reports

Year-to-date financial reports are produced daily by the Treasury system, to which most budget users have direct access; they are thus able to produce reports relating to their own operations at the time of their choosing. The Rulebook on Financial Reporting requires that full reports be prepared quarterly; these reports are produced within a month after the end of each quarter. Monthly reports are also prepared for the benefit of the Minister of Finance and the IMF (the reports are not distributed to budget users). Publication of the quarterly reports has not been consistent or reliable.

Dimension rating: A

(iii) Quality of information

The formal reports produced by the MoF are derived directly from the Treasury system, and there should be no doubts about the completeness and accuracy of information on cash revenue and expenditure. The reports contain some useful commentary and analysis with respect to trends in key revenue and expenditure categories. For example, the report covering the first nine months of 2012 notes that all of the unpaid commitments dating back to 2011 were covered during the reporting period. However, the report does not mention the new commitments that the government entered into during the reporting period but was unable to pay when they were due. Thus there are some doubts whether all necessary information about commitments is being entered into the system, and there is a generally acknowledged need to improve financial management and control in budget user organizations.

Dimension rating: C

¹²⁸ The reports are available at: http://www.oma.uino.gov.ba/04_izvjestaji.asp?l=b

¹²⁹ See for example an excerpt from the Budget Execution report for Jan-Sept 2011. It is available at:

http://www.fmf.gov.ba/budzet-2011/1_9/Prikaz%20izvrsenja%20rashoda%20po%20korisnicima%20budzeta%20Federacije%20Bosne%20i%20Hercegovine.pdf

Table 4.2.33.PI-24: Quality and Timeliness of In-year Budget Reports

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Scope of reports as compared with budget, and availability of commitment as well as payment information	A	Quarterly reports are in same format as budget. Expenditure is covered at both commitment and payment stages. EBFs are not included.
Timeliness of issue of reports	A	Full reports are produced quarterly within a month after the end of each quarter.
Quality of information	C	The reports do not present the commitment position accurately. The reports are not consolidated.

PI-25: Quality and Timeliness of Annual Financial Statements

This indicator considers whether a government's annual financial statements include full information about revenue and expenditure, and financial assets and liabilities, are submitted for audit soon after the end of each year, and are prepared in accordance with accounting standards consistent with IPSAS.

(i) Completeness of the annual financial statements

The annual financial statements include full information on revenue and expenditure, and also about financial assets and liabilities. The statements cover only central government ministries; the revenue and expenditure of the Federation-wide Pension Fund, the Solidarity Health Fund, and the roads maintenance company, which together account for about twice the expenditure of the central government narrowly defined, are excluded, although these bodies are fully controlled by the government. Because the PEFA criteria allow separate reporting by such bodies, notwithstanding the incompatibility of the practice with IPSAS, the dimension rating is A.

Dimension rating: A

(ii) Timeliness of submission of annual financial statements

The central government's annual financial statements have been submitted for audit within three months after the end of each year.

Dimension rating: A

(iii) Accounting standards used

The statements are prepared in accordance with the Directive on Budget Accounting and the Rulebook on Budget Bookkeeping in FBiH, which are available in electronic format and are consistently presented from one year to the next. However, the FBiH SAI qualifies its opinion on the consolidated annual financial statements on the grounds that they do not meet the requirements of IPSAS. Full compliance with IPSAS would, among other things, require the preparation of a consolidated series of statements covering EBFs as well as government ministries and so on. In the view of the PEFA team, the omission of the EBFs from the consolidated statements, although consistent with FBiH legislation, is so important that the standards used cannot be regarded as corresponding to IPSAS.

Dimension rating: C

Table 4.2.34.PI-25: Quality and timeliness of annual financial statements

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Completeness of the annual financial statements	A	The main elements of revenue and expenditure, financial assets and liabilities are presented.
Timeliness of submission of annual financial statements	A	The statements are submitted for audit within six months after the end of each year.
Accounting standards used	C	The statements are presented in a consistent form, but the SAI considers that there are significant divergences from IPSAS.

PI-26: Scope, Nature, and Follow-up of External Audit

This indicator looks at the work of the SAI and its contribution to satisfactory public financial management. Three dimensions are considered: (i) the range and quality of the audit work performed; (ii) the timeliness of the submission of audit reports to the legislature, particularly the report on the consolidated annual financial statements; and (iii) the evidence available about audited bodies ‘follow-up of the SAI’s recommendations, and the SAI’s follow-up in subsequent audits.

(i) Scope/nature of audit performed

The FBiH SAI, like the SAIs of the BiH Institutions and RS, has benefited from the assistance of the Swedish SAI. Staff have been trained, and audit work has been judged by successive SIGMA annual reports to meet professional standards. The SAI seeks to raise questions about performance—what is actually being achieved through public expenditure programs—in addition to its financial and compliance audit work. The SAI pointed out that most of the expenditure under the control of the FBiH central government takes the form of transfer payments to individuals or subsidies to businesses, none of which contributes to economic development or the improvement of public services.

In addition to auditing the budget execution statement of the FBiH central government, the SAI covers the consolidated budgets of each of the 10 cantons, the FBiH Pension Fund, and 22 different health and employment funds, as well as all the companies in the ownership of the FBiH, cantons, and municipalities. It has only 64 staff to audit all these different bodies, whose annual expenditure adds up to more than BAM 7.5 billion. Only a few of the 78 municipalities can be audited each year, and only those Federation-wide SOEs (including companies in the ownership of municipalities and cities) with the largest turnover (railway, post office, gas). Even at the central FBiH level, not all budget users (ministries, agencies) are audited each year.¹³⁰ Only 5 of the last 150 reports gave unqualified opinions. The annual audit coverage is above 90%¹³¹ for FY 2011.

Dimension rating: B

(ii) Timeliness of submission of audit reports to the legislature

The FBiH Budget and SAI laws require MoF and its counterparts in the cantons and the Funds to submit their financial statements and budget execution statements for audit by the end of June, and require the SAI to submit its reports to Parliament by the end of September. This timetable has been adhered to in respect of the financial statements and budget execution statements of the central government, but the

¹³⁰ Information on what was audited in FBiH in 2012. Available at: <http://www.saifbih.ba/vijesti-obavj/pdf/Saopcenje%20za%20javnost%20juli%202013%20.pdf>

¹³¹ See above, as well as the Annual Report on Operations of the Office for Audit of Institutions of FBiH for 2013, February 2014.

cantons and Funds have not always respected their deadlines for submitting financial statements and budget execution statements to the SAI.

Dimension rating: A

(iii) Evidence of follow-up on audit recommendations

The SAI follows up its recommendations made to auditees in subsequent audits, and is publishing a database of the findings it has reported to the Parliament since 2002, together with information about the extent to which its recommendations have been acted on. It includes examples of findings and recommendations that have been repeated year after year without any action being taken. Overall, the SAI considers the responses by audited entities to its findings to be inadequate, as is confirmed by the continuing high number of qualified, or even adverse, audit opinions.

Dimension rating: C

Table 4.2.35.PI-26: Scope, Nature, and Follow-up of External Audit

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Scope/nature of audit performed	B	There is a good range of audit work that meets professional standards (2011: above 90%)
Timeliness of submission of audit reports to the legislature	A	Reports on the central government financial statements are sent to Parliament within 3 months after the SAI receives the statements.
Evidence of follow-up on audit recommendations	C	Despite the efforts of the SAI and the Parliament, audit recommendations are often ignored.

PI-27: Legislative Scrutiny of the Annual Budget Law

This indicator assesses F BiH Parliamentary Assembly review of the budgets of the F BiH budget users for the 2011, 2012, and 2013 fiscal years. Four dimensions are considered: (i) the scope of the Parliament's scrutiny; (ii) the extent to which the Parliament's procedures are well established and respected; (iii) the adequacy of the time allowed to the Parliament to respond to the government's budget proposals; and (iv) the extent to which in-year amendments can be made to the budget by the executive without the prior approval of the Parliament.

(i) Scope of the scrutiny by Parliament.

Both the F BiH MTEF (for the MTEF, see PI-11), which includes the government's macroeconomic and fiscal forecasts, and the annual budget proposal are formally submitted to the F BiH Parliament. Standard parliamentary procedures provide for the relevant committees of both houses of Parliament—the Economic and Fiscal Policy Board of the House of Representatives and the Board for Economic and Development Policy, Finance and Budget of the House of Peoples—to review the annual budget proposal and report to the full session of Parliament. In practice there is limited scrutiny by the committees, which have no professional staff to support their work.

Dimension rating: B

(ii) Extent to which the legislature's procedures are well established and respected

Under the Law on Budgets of the FBiH, the government is required to submit a proposed budget to the Parliamentary Assembly for adoption by November 5 each year, while the MTEFs are adopted by the Government by June 30 each year and submitted to Parliament “for information” at the same time. The Law also provides for the FBiH Parliament to discuss the proposed budget and adopt the annual budget by December 31. In practice, the budget has generally been submitted much later than the law requires (see Table 4.2.36). While the established procedures should enable the Parliament to question the government on all aspects of its proposals, in practice it is inadequately equipped to do this effectively, so that changes to budget proposals in response to Parliamentary discussions have been very small.

Table 4.2.36. Extent to which the Legislature’s Procedures are well established and Respected

<i>Budget year</i>	<i>Date draft budget proposal submitted to government</i>	<i>Date budget proposal submitted to Parliament</i>	<i>Date budget law adopted</i>
2011			26.3.11
2012			11.1.12
2013	21.11.2012.	23.11.2012.	4.12.12

Source: FBiH MoF and FBiH Parliament

Dimension rating: C

(iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).

According to the Chairman of the FBiH House of Assembly Budget and Finance Committee, the submission and approval of the MTEF is now “permanent practice. “However, he acknowledged that neither the committees nor the Parliament undertake detailed analysis of the “technical elements” of the MTEF or other planning documents, mainly because the Parliamentarians lack technical and expert support, and that examination of the actual budget proposals is limited. Moreover, the time available to the Parliament may be cut short by the government’s use of emergency procedures: for example, the 2013 budget was passed within 15 days to meet the requirements of the SBA. Thus the Parliament is not assured of even one month to review the government’s proposals. Similarly, in-year revisions to budgets are normally enacted within very limited periods of time.

There are no specific Rules of Procedure or a timetable for Parliamentary scrutiny of the annual budget law for either the House of Representatives or House of Peoples beyond the standard Rules of Procedure that apply to any legislative act considered by the FBiH Parliament. Articles 204 and 205 of the Rules of Procedure of the House of Representatives state that procedures for consideration of a basic legislative act also apply to budget consideration¹³²

Dimension rating: D

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

Article 33 of the Organic Budget Law provides for significant amendment to budget allocations within the approved budget without ex-ante approval by the Parliamentary Assembly. The law provides that at a budget user’s request the FBiH MoF may approve the restructuring of that budget user’s expenditures, up to 10% of the original allocation. The same Article provides that on an exceptional basis, on a proposal by the MoF, the government may reallocate expenditure between budget users, provided there is no overall increase in expenditure.

¹³² Rules of Procedure can be accessed at: <http://predstavnickidom-pfbih.gov.ba/bs/page.php?id=20>

Dimension rating: B**Table 4.2.37.PI-27: Legislative Scrutiny of the Annual Budget Law**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Scope of the scrutiny by Parliament	B	Covers macroeconomic situation as well as budget proposals, but scrutiny limited.
Extent to which the legislature's procedures are well established and respected	C	Proposals are received late, and the Assembly's work makes little difference.
Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	D	Most recent budget passed by emergency procedure with no opportunity for effective examination by Parliament. Even if the timetable were respected by the government, the Assembly would have only a limited time for its work.
Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	There are clear rules, but they allow for extensive reallocation of expenditure by the executive.

PI-28: Legislative Scrutiny of External Audit Reports

The remit of the FBiH Audit Office covers the entire general government, as well as enterprises owned by the government or whose debts are guaranteed by it, and also entities that receive government grants and foreign-financed projects. This indicator looks at the legislature's role in examining the Audit Office's reports on the management of public finance and in monitoring the implementation of recommendations made by the SAI. Three dimensions are considered: (i) whether the Parliament completes its consideration of audit reports within a reasonable time after receiving them; (ii) whether in-depth hearings are held on key findings with representatives of bodies audited; and (iii) whether the Parliament recommends corrective actions that the government implements.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

The Law on Audit of the Institutions in FBiH (Article 16)¹³³ specifies the timing for the submission of the reports of the Audit Office of the financial statements of FBiH. The Rules of Procedure of the FBiH Parliament Joint Committee on Audit and the accompanying Instruction for Deliberation and Analysis of Audit Reports, which were formally adopted in November 2009, specify the timing of each step the Parliamentary Committee responsible for audit is to take during its consideration of the audit reports. The instructions set out a four-step review process; each step takes two to four weeks to complete.

The key outcome of the instructions is that they have helped the Parliamentary Committee responsible for audit to focus and streamline its operations, ultimately reducing the time necessary for the Parliamentary Committee responsible for audit to complete its deliberations (from six to eight months down to just four months) while at the same time improving the quality of the entire process. The deliberation process should start on July 1 and be completed by October 31. In practice, however, the timetable has yet to be met: the process took 18 months from July 2010, and six months from July 2011, and as of April 2013 was still not completed after July 2012. The dates when the Assembly received the reports, and when it adopted its conclusions, are set out in Table 4.2.38.

¹³³ The Law is available at: <http://www.saifbih.ba/zakon/?cid=15,2,1>

Dimension rating: D**Table 4.2.38. Schedule of Audit report Dates to the FBiH Parliament**

<i>Financial year</i>	<i>Date of submission of audit report</i>	<i>Date of adoption of audit report</i>
2009	June30, 2010	December13, 2011
2010	June30, 2011	December13, 2011
2011	June30, 2012	Not adopted because of political stalemate

Source: Audit Office of the FBiH Institutions and FBiH Parliament.

(ii) Extent of hearings on key findings undertaken by the legislature

As mentioned above, the introduction of new Rules of Procedure and relevant Instructions has allowed the Audit Committee to conduct a more in-depth scrutiny of the audit reports than previously. The current practice is for the committee to focus on budget users that receive negative or qualified audit opinions. The full effect of new procedures has yet to be felt. Delayed by the 2010 general elections and their difficult political aftermath, the new joint committee was set up and started formal work to address the audit reports for 2009 and 2010 only in September 2011.

Officials of budget users can be requested to appear before the committee to answer questions on their financial statements and organizational performance. Public hearings with budget users were organized in November 2011, following a meeting with the Auditor General. The same process was followed in 2012 and completed by December 2012; however, because of the ongoing political stalemate, the conclusions of the Audit Committee were not submitted to the Parliament for adoption. Thus a useful start has been made in holding hearings with some auditees who have received qualified opinions on their financial statements, but it would be too soon to conclude that hearings are consistently held with representatives of most bodies that receive a qualified or negative opinion.

Dimension rating: B***(iii) Issuance of recommended actions by the legislature and implementation by the executive***

The Audit Reports present the SAI's recommendations on actions to be undertaken by the government. Parliament usually adopts these reports without amendment, according to the SAI.

The Audit Office complained that Parliament does not generally follow up or impose any sanctions on budget users that fail to implement recommendations, even when the same recommendations are made year after year. Most members of the Audit Committee are less senior political party members than those holding positions in the executive, a fact that reduces the scope for any meaningful dialogue about action to address key problems identified in the audit reports.

The Audit Office and budget users are required to report to Parliament on actions taken to implement recommendations. The Audit Office attempts to follow up on its recommendations; it is currently publishing the recommendations it has made in recent years and its assessment of the responses they have received. According to the SAI, this analysis shows that many recommendations have repeatedly been ignored.

Dimension rating: C

Table 4.2.39.PI-28: Legislative Scrutiny of External Audit Reports

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	D+	
Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	The Assembly has put procedures in place so as to complete its discussions within four months after it receives audit reports. However, because of the political problems that followed the general elections of 2010, it has not been able to abide by its own timetable.
Extent of hearings on key findings undertaken by the legislature	B	Hearings have recently been held with responsible officers from bodies subject to significant audit criticism.
Issuance of recommended actions by the legislature and implementation by the executive	C	Although the Assembly addresses recommendations to the executive, these are largely ignored.

IV. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

REPUBLIKA SRPSKA

Executive Summary – Republika Srpska

For the purposes of applying the PEFA performance indicators, data and information from FY 2009 – 2011 were used in the calculations and for scoring the indicators, with more current information used for some indicators where such information was available.

I. Integrated Assessment of PFM Performance

A. PFM Out-Turns: Credibility of the budget

For the three fiscal years covered in the Report (2009 to 2011), the aggregate expenditure out-turn compared to original approved budgets has had low levels of deviations indicating that the RS government does adhere well to its planned total expenditure. The composition of expenditure out-turn has also closely followed the original approved budget, further underscoring the strong planning function in the RS. The slightly poorer score for revenue performance resulted from significant over-performance of revenue out-turn in two of the three years under review.

The stock of expenditure payment arrears of the RS central government increased in 2012; predominantly as a result of unpaid agricultural subsidies, Health Fund arrears and transfers to war veterans. Data on arrears is incomplete; no arrears to suppliers are captured and payment due dates are not entered into the treasury system. In February of 2014, at the session of the Fiscal Council of BiH, the definition of arrears had been adopted, as follows: Any liability that is recorded in the treasury application in the Module AP-liabilities towards suppliers, and that had not been paid within the timeframe of accrual stipulated by Law, and within the timeframe of 90 days from the date of accrual, at the longest. Based on a common definition, each government levels will adjust their legislation.

B. Key Cross-Cutting Issues: Comprehensiveness and transparency

RS has developed a chart of accounts that collects all the information needed to meet IMF GFS2001 requirements and has produced a new financial reporting regulation which provides the basis for implementing International Public Sector Reporting Standards. The budget formulation is based only on administrative and economic classification. Current reporting templates in RS already require functional reporting from all general government levels in line with the COFOG categorization (in 10 main categories). However, in practice, reporting by function is based on a broad approximation, with likely errors, especially at the lower government levels. While MoF collects sufficient information to present a functional breakdown for both budget and out-turns; this is only presented in execution reports.

Budget documents are reasonably comprehensive although budget proposals exclude (i) disclosure of financial assets for the beginning of the current year, (ii) prior year's budget out-turn, and (iii) current year budgets (revised budget or estimated out-turn).

RS still has many public enterprises (PEs) that are the responsibility of the central government or local self-governance units. When PEs undertake investments that are part of the government's Public Investment Program (PIP), the RS MoF ensures that the economic and financial case is fully analysed and the risks understood. However, projects that are sponsored by other ministries outside this framework are not subjected to the same level of scrutiny. The provision of guarantees for PEs' borrowing is controlled by the RS MoF, and the PEs are required to report their annual business plans and financial results to their sponsor ministries. The Pension, Health, Employment, and Child Protection Funds together account for

nearly 40 percent of revenue and expenditure of the government, however they are only reported at the out-turn stage.

The new Law on Borrowing, Debt and Guarantees of RS, adopted in 2012, stipulates that the public debt of Republika Srpska cannot exceed 55% of the GDP executed in that year, the total debt of Republika Srpska cannot exceed 60% of the GDP executed in that year, that units of local self-governance may borrow in long-term only if in the course of the period of the onset of debt the total amount that accrues for repayment, on the basis of the proposed debt and the total of accrued, outstanding existing debt, in any of the subsequent years, does not exceed 18% of the amount of its regular revenues executed in the preceding fiscal year, etc.¹³⁴ The MoF must also approve borrowing for on-lending to municipal enterprises like district heating schemes. Monthly reports are made to RS MoF, which consolidates them with central government debt, with a purpose of preparing timely records for total RS debt. MF RS submits quarterly reports on the balance of debt and guarantees of the local self-governance units to the MFT.

All key fiscal information, including budget documentation, execution and audit reports as well as contract awards are made available to the public on a timely manner.

C(i). Policy-based budgeting

The key dates for the preparation of the annual budget are set out in the legislation. The budget calendar is adhered to despite delays in agreement on the Global Framework in the Fiscal Council. Detailed multiyear fiscal projections are produced as part of the RS MTEF, including forward estimates of expenditure for each budget user (i.e. estimates for the forthcoming budget year and the two following fiscal years). The fiscal forecast also includes estimates of the revenues and expenditures of local self-governance units and EBFs using administrative, economic, and functional classification. Forward estimates are not used to anchor the preparation of the following year's budget ceilings

According to RS MoF, a debt sustainability analysis (DSA) for external and domestic debt is undertaken annually, but the analysis is not publicly available, and the extent to which this DSA goes into details and scenario testing is not clear.

A Draft Development Strategy for BiH was prepared by the Directorate for Economic Planning of the Council of Ministers but was never adopted by RS government. In RS some individual ministries do prepare strategic plans, but no RS wide costed sector strategy has been developed.

The RS prepares a rolling three-year Public Investment Programme (PIP), however, public investment planning in RS is not wholly integrated. The MoF coordinates a program covering some of the government's main objectives, but other investments are planned separately by sector ministries. The use of multiyear estimates in the RS MTEF should ensure that future recurrent costs of completed capital investment projects are reflected in the MTEF. However, the planning of public investment remains separate from any development of sector strategies by the government, so there is no basis for the integration of current and capital expenditure planning.

C(ii). Predictability and control in budget execution

RS legislation and procedures for all major taxes are comprehensive and clear, while there is a fair amount of discretionary powers of the tax inspectors in areas such as interpretation of international tax treaties and transfer pricing. Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures for major taxes, and RS Tax Administration

¹³⁴The Law on Borrowing, Debt, and Guarantees of Republika Srpska, Articles 15, 40, 59, 60, and 61.

(TA) supplements this with an active taxpayer education campaign. The tax appeals system is functional, although decisions are often not issued within prescribed timeframe.

Taxpayers are registered in a complete database with some linkages to other relevant government databases. There are penalties for noncompliance with registration and declaration obligations, but they may not always be an effective deterrent. There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations. Taxpayers are assigned a unique Tax Identification Number (TIN), which is used for all direct taxes.

There are no reliable data on tax arrears for the last two fiscal years. All tax revenue is collected into bank accounts controlled by RS RA and transferred daily to RS Treasury. Complete accounts reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least quarterly.

The RS government provides reliable information on the availability of funds to budget users to enable effective resource management. The Treasury Department of the RS MoF prepares a monthly cash flow forecast taking into account the expected expenditure profiles provided by budget users. The budget users may commit up to the limits of their budget allocations, provided that their payment requests remain within the progressive releases of funding by MoF through the year. There are few changes to budget allocations and, where these take place they are conducted transparently.

RS operates as a unitary administration, with centralized debt management and reporting, and with borrowing by local self-governance units strictly limited and controlled. Most external borrowing is undertaken through the BiH Institutions. The servicing of relevant external debt of RS is being performed from the revenues of RS (indirect taxation) from the subaccount of RS that is opened with the CB BiH, and before indirect taxes are made available to RS, except for direct external debt of RS, for which the servicing is performed from the revenues of RS (direct taxation) from the RS Single Treasury Account that is opened with commercial banks, and in such a manner that RS is paying for its liabilities to the creditor directly.

The RS MoF must be notified of any new borrowing by municipalities/cities. Annual reports are submitted to RS National Assembly, and a review of debt is provided within the RS MTEF. In addition, the quarterly report on outstanding external and internal debt is also required as a part of monitoring within the framework of IMF SBA. All borrowing of the government and units of local self-governance is under control of the RS MF, which also controls the issuance of guarantees for the borrowing of public companies.

RS central government transactions, including those of the municipalities and cities, pass through the single treasury account (STA), and all cash balances are centralized in it, other than those in separate accounts associated with externally funded projects. As of January 1, 2013, local self-governance transactions have also been brought within the STA system, while all EBFs and public enterprises remain outside it.

The RS government may contract direct domestic and external borrowing within the legally binding limits. Direct borrowing requires the approval of the RS government and RS National Assembly. The issuance of loan guarantees is defined by the same legal framework as direct borrowing. Thus, all loans and guarantees must be approved by the RS government and RS National Assembly.

Government policy is based established legal limit however these are not linked to fiscal targets in the context of medium-term fiscal planning.

The legal framework for procurement is clear and readily accessible to the public. Open competition is the default method. The publication of tender notices and contract awards is transparent, with information publicly available via the PPA's website. However, there is no public access to procurement plans or to results of recent complaints.

Since there is widespread criticism by auditors, and frequent complaints by tenderers are upheld by the Public Procurement Review Board (PRB), it is clear that the exceptions to open procedures are not properly justified in many cases. Information is limited to bidding opportunities in the form of procurement plans (though these plans are not usually published) and contract awards. No information is available on results of complaints in spite of legal requirements. Although the PRB has managed to issue many decisions, it lacks sufficient human resources to fulfil all its functions quickly and efficiently.

The RS MoF Treasury operates the payroll for central government employees, but not for employees of the Pension, Health, and Employment Funds, which are not subject to central financial controls. The current treasury system controls prevent any execution of payments that would exceed the amounts of funds released on the relevant budget line and related to the non-salary expenditure. The Treasury executes changes to the payroll in response to notifications from employing organizations, which may include approval or confirmation by the Civil Service Agency, but it does not itself make any substantive checks. Internal and external audits of payroll are undertaken on a regular basis as part of the financial audit work.

Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures and may occasionally be violated. Continuing efforts are being made to strengthen internal control procedures throughout general government however audit reports identify cases of non-compliance and that rules and procedures are incomplete.

Coverage of the internal audit function is limited and internal audit staff spend little time dedicated to systems review. Management respond to some but not all internal audit recommendations.

C(iii). Accounting, recording and reporting

There are daily reconciliations between Treasury and bank records of the operation of the STA through which all government transactions flow. EBFs were already included, and local self-governance units have been brought within the STA as of January 1, 2013. Advances are cleared without delay, and there is little use of suspense accounts.

Information on resources received by service delivery units are available at the Ministry of Education about the resources received by each school and at the Ministry of Health and the Health Fund about both revenues and expenditures of each health institution in the RS. Schools are in Treasury system and prepare annual reports on cash and in-kind resources received.

Data on actual expenditures are prepared in the same format as the annual budget by economic and administrative classification. In-year financial reports are produced daily by the treasury system covering both payments and commitments.

The annual financial statements are prepared in accordance with the Rulebook on Accounting, Accounting Policies and Accounting Assessments for Budget Users in RS, the Rulebook on Criteria for Acquiring the Status of a Budget User, the Rulebook on Budget Classifications, Contents of Accounts, and Application of the Chart of Accounts for Users of Revenues of the Budgets of the Republic, Municipalities, Cities, and Funds, the Rulebook on Financial Reporting for Users of Budgets of the Republic, Municipalities, Cities, and Funds, and the Rulebook for Application of International Public Sector Accounting Standards. Both documents are available on the MoF website. These instructions reflect the government's decision to adopt international accounting standards. At the level of RS, since January 1, 2013, the IPSAS 23 – Revenues not originating from exchange (taxes, contributions etc.) has been adopted and in use, so that even the so-called public revenues are expressed on accrual basis in financial statements for 2013. The most recent translation of IPSAS goes back to 2011.

C(iv). External scrutiny and audit

In 2012 the coverage of financial audit was around 95% of expenditure at both RS Government and local self-governance level. A few performance audits are conducted each year, in addition to financial and compliance audits. The budget users submit their financial statements to the SAI by the end of June in accordance with the main budget law, and the SAI reports to RS National Assembly by the end of September each year. This timetable has been observed. The SAI follows up on its recommendations however has received limited support from Parliament; in 2010 it refused to endorse the annual report on the work of RS SAI and recommendations. It has also adopted a resolution requesting the SAI to agree with MoF on the volume, coverage, and criteria of audit work, which, if enacted would undermine the SAI's independence.

By law, the legislature has a maximum of 25 days to consider the government's budget proposal. However in practice neither the executive nor the RS National Assembly abides by this timeline. As a result, the Assembly has had only a very few days to consider two of the last three budgets. Although the MTEF is an integral part of the budget planning process in RS, it is not formally reviewed and adopted by the RS National Assembly. Neither are the operations of the EBFs included in the government's presentation of the overall fiscal outlook.

The Law on Audit of the Public Sector of RS specifies the timing of the submission of audit reports on the financial statements of budget users. The MoF should complete each year's consolidated annual financial statement by May 20 of the following year. The SAI is then required to deliver its audit report on the consolidated annual financial statement to the National Assembly within 90 days after receiving it from the government.

The National Assembly has a special nine-member Audit Board with the mandate to review SAI reports. The Board is chaired by an opposition party member. The committee considers all reports and not only those with negative or qualified opinions. Budget users that receive negative opinions are required to attend public hearings. In addition, if it issues a negative opinion to some of the reports, the SAI has an obligation to send a copy of the auditor's report under the title of "Auditor General's Report" to the Chief Republic Prosecutor of Republika Srpska.

The Audit Reports present the SAI's recommendations on actions to be undertaken by the government. The National Assembly usually considers the reports and adopts conclusions on reports without any further amendments.

REPUBLIKA SRPSKA: PEFA ASSESSMENT

Accountability (PEFA) Assessment: Overview of the Indicator Set

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>RS</i>
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	M1	C
PI-6	Comprehensiveness of information included in budget documentation	M1	B
PI-7	Extent of unreported government operations	M1	D+
PI-8	Transparency of intergovernmental fiscal relations	M2	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C+
PI-10	Public access to key fiscal information	M1	A
C. BUDGET CYCLE			
C(i) POLICY-BASED BUDGETING			
PI-11	Orderliness and participation in the annual budget process	M2	A
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D+
C(ii) PREDICTABILITY AND CONTROL IN BUDGET EXECUTION			
PI-13	Transparency of taxpayer obligations and liabilities	M2	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B
PI-15	Effectiveness in collection of tax payments	M1	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B+
PI-18	Effectiveness of payroll controls	M1	D+
PI-19	Competition, value for money, and controls in procurement	M2	N/A
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	D+
PI-21	Effectiveness of internal audit	M1	D+
C(iii) ACCOUNTING, RECORDING, AND REPORTING			
PI-22	Timeliness and regularity of accounts reconciliation	M2	A
PI-23	Availability of information on resources received by service delivery units	M1	A
PI-24	Quality and timeliness of in-year budget reports	M1	A
PI-25	Quality and timeliness of annual financial statements	M1	C+
C(iv) EXTERNAL SCRUTINY AND AUDIT			
PI-26	Scope, nature, and follow-up of external audit	M1	C+
PI-27	Legislative scrutiny of the annual budget law	M1	D+
PI-28	Legislative scrutiny of external audit reports	M1	C+

II. Assessment of the impact of PFM weaknesses

This section of the Report analyses the extent to which the performance of the assessed PFM system appears to support the three high level objectives. These are:

- Effective controls of the budget totals and management of fiscal risks contribute to maintain **aggregate fiscal discipline**.
- Planning and executing the budget in line with government priorities contributes to implementation of government's objective (**strategic allocation of resources**).
- Managing the use of budgeted resources contributes to **efficient service delivery** and value for money.

1. Aggregate Fiscal Discipline

The RS government budget process is well organized and with minor expenditure deviations either at an aggregate or sectoral level. Revenue out-turn showed significant over-performance in two of the three years under review which may indicate weaknesses in revenue forecasting. Expenditure arrears have been increasing and the government lacks comprehensive data on arrears or a legal definition for its calculation. While the tax legislation and procedures are comprehensive and clear there is no reliable data on tax arrears for the last two years. Budget documents are reasonably comprehensive and made available to the public on a timely basis.

2. Strategic Allocation of Resources

The MoF provides reliable information on the availability of funds; there are few changes to budget allocations and, where these take place they are done transparently. The existing budget process does not have a strong policy or strategic focus. There is no overall agreed national development strategy, and while a detailed medium term expenditure framework exists forward estimates are not used to anchor the preparation of the following year's budget ceilings. The RS prepares a rolling three-year Public Investment Programme (PIP), however, public investment planning in RS is not wholly integrated - other investments are planned separately by sector ministries. The planning of public investment remains separate from any development of sector strategies by the government, so there is no basis for the integration of current and capital expenditure planning which may lead to sub-optimal decisions being made on the allocation of resources. Limited time available in order to scrutinize the budget in parliament may reduce the pressure on government to allocate and execute the budget in line with its stated policies.

3. Efficient Service Delivery

Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures and may occasionally be violated, and audit reports confirm the need to ensure the operation of a stronger system of rules and procedures. Internal audit as a function is in its infancy and audit work needs to improve as does the response of management to audit recommendations. Non-observance of competitive tendering procedures may create the opportunity for inefficient procurement, corruption and leakages in the system. Weak linkages between the work of the SAI and parliament may reduce the extent the government is held to account for the efficient management of resources.

III. Prospects for PFM Reforms

Ministry of Finance of Republika Srpska will develop a Debt Management Strategy, and that reforms in this area are planned for the future period, as an integral part of the process of improving debt management. The preparation of the full debt sustainability analysis for the debt of Republika Srpska is being planned for the forthcoming period, as an integral part of the process of improvement of debt management.

In RS, a centralized payroll system for all employees in the public sector will be set up for improved recording, control, and planning. RS started this process by the end of calendar year 2013 and it is planned to be fully implemented by July 2014.

In February 2014 the Fiscal Council of BiH adopted a definition of an arrear based on any amount that is not paid within a maximum of 90 days, and similar approach will be taken by the Entities. In practice RS may choose to use a shorter period of time, as per the draft legislation available.

Assessment of PFM Systems, Processes and Institutions – Republika Srpska

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for Republika Srpska (RS) for the last three fiscal years (2009-2011). Interest payments and externally funded project expenditure are excluded because they are outside the direct control of the government. The closer the out-turn to the budget estimate, the higher the rating.

The expenditure analyzed includes that of the RS Pension, Health, Employment, and Child Protection Funds financed from social contributions. The expenditure of road companies¹³⁵ is excluded from the calculations.

RS has been relatively successful in keeping actual expenditure in line with the budget, with the differences between out-turn and budget being 0.3%, 1.0%, and 6.6% for the three years 2009-11. The larger difference in 2011 between budget and out-turn primarily reflects higher expenditure on health, child protection, education, and veterans' benefits (see Annex 4). Wage costs throughout the budget increased because of an increase in contribution rates, part of which falls on the government as employer.

Table 4.3.1. Percentage Difference between Out-turn and Budget

<i>Year</i>	<i>Budget estimate</i>	<i>Out-turn (BAM million)</i>	<i>Percentage difference</i>
2009	2,944.9	2,952.5	0.3%
2010	2,961.3	2,990.5	1.0%
2011	2,935.2	3,128.2	6.6%

Source: RS MoF

Table 4.3.2.PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method 1)</i>	<i>Justification</i>
Overall rating	A	The difference exceeded 5% in only one year.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the extent to which the composition of the budget changes from that originally planned by the Ministry of Finance (MoF) and agreed by Parliament. The PEFA Secretariat has set out a formula for calculating the variance between the out-turn from the approved budget estimates. Each budget line is adjusted by the overall deviation between budget and out-turn, and the differences between actual expenditure on each budget line and these adjusted figures are then summed to give the overall variance, shown as a percentage of actual expenditure. The second dimension of the indicator looks at the amount of expenditure charged to the contingency reserve; the larger the amount charged to the reserve rather than reallocated to specific budget lines, the less transparent the budget. The tables containing calculations for RS are set out in Annex 3 of this report.

¹³⁵ The evaluation team could not get the necessary information related to the roads companies.

(i) Additional variance of expenditure composition after allowing for overall variance in PI-1

The formula measures the additional variance over and above the overall variance calculated in PI-1 resulting from resources being reallocated from one area to another during budget execution. A good score is achieved if there are no significant reallocations from one functional area to another. Thus, there can be a good score on this indicator even if there is a substantial overall difference between the budget and out-turn as measured under PI-1, provided that the proportionate changes are similar on each budget head.

The calculations are based on the spending of the central government of RS and, of the seven extra-budgetary funds (EBFs)—Pension Fund, Health Fund, Employment Fund, Child Protection Fund, Road Reconstruction and Maintenance Company, Highway Company, and Fund for Rehabilitation and Employment of Disabled Persons—only the first four, which are financed from social contributions. The RS MoF submitted the spending information by each unit on a consolidated basis (that is, if transfers were planned at one level—e.g., RS government—they were excluded from the other—e.g., Pension Fund). In accordance with the PEFA criteria, the calculation of the variances has been based on the 20 largest budget lines, with the Funds treated as one budget line and the remaining expenditure as a single “other” line.

In the last three years the RS budget out-turn has been close to the adopted budget rebalances, but since budget rebalances are usually adopted every year, there were changes in comparison to original budget plans. The highest variance, in 2011, reflects pension expenditure remaining constant while other expenditures, particularly on health and education, increased, both relatively and absolutely (see the detailed figures in Annex 4). Since the sum of variances exceeded 5% of the total out-turn in only one of the three years. The dimension rating is A.

Dimension rating: A

Table 4.3.3. Percentage Variance in Out-turn Composition compared to Budget

<i>Year</i>	<i>Expenditure out-turn (BAM million)</i>	<i>Sum of variances (BAM million)</i>	<i>Variances as a percentage of out-turn</i>
2009	2,952.5	121.3	4.1%
2010	2,990.5	124.9	4.2%
2011	3,128.2	182.8	5.8%

Source: RS MoF

(ii) Amount of expenditure charged to the contingency reserve

RS includes a contingency reserve in its budgets. The contingency reserve is limited to 2.5% of total planned revenues (less grants), according to Article 44 of the Budget System Law of RS.¹³⁶ Budget Reserve is (according to Law on Budget Systems in RS) used for: unpredicted expenditure which are not planned in adopted budgets, for expenditures which show higher needs than in the planned budgets, for temporary coverage of budget liabilities in the case of lower than planned revenue inflow, and in extraordinary cases for other purposes for which the Government adopts necessary Decrees/Decisions. For example, in the 2011 budget execution, budget reserve in the amount of 6.8 mil BAM was spent, in comparison to budget plan of 8.5 mil BAM. It needs to be noted that (due to accounting rules), while the budget reserve is planned in the budget as a lump sum on a separate budget line (since the planned reserve is general, there are no specific type of spending it is devoted for in the budget plan), budget execution reports shows spending from this budget line at the appropriate budget line according to purpose

¹³⁶ The Law is available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Servisi/Poslovanje/Documents/Zakon%20o%20budzetskom%20sistemu%20RS.pdf>

of actual expenditure (e.g. social transfers). However, the budget execution reports give overview of the usage of budget reserve in detail.¹³⁷

Dimension rating: A

Table 4.3.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Additional variance of expenditure composition	A	The additional variance exceeded 5% in only one of the three years 2009-11.
Amount of expenditure charged to the contingency reserve	A	No expenditure was charged to the contingency reserve.

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares actual total domestic revenue to the budgeted domestic revenue. Countrywide indirect taxation administered by BiH Institutions is shared among the four main government levels—BiH Institutions, Federation of Bosnia and Herzegovina (FBiH), RS, and District Brčko (DB)—while all other taxation and non-tax revenue are under the exclusive jurisdiction of each level separately.

Table 4.3.5 shows RS consolidated revenue and receipts by general government sector level. Indirect taxation is the most important revenue source, comprising 41% of total RS consolidated revenues (identical to FBiH), followed by social contributions, which account for 37% of consolidated RS revenues. Direct taxation revenue makes up only 11% of consolidated RS revenue.

Table 4.3.5. 2011 Annual Statement of Operations for RS (million BAM)

<i>Description</i>	<i>Consolidated RS</i>	<i>RS government</i>	<i>Local self-governance units</i>	<i>RS EBFs</i>
Revenue	3,685.6	1,656.4	589.4	1,725.6
Taxes	1,918.8	1,475.3	390.2	53.3
Taxes on income profits and capital gains	390.5	329.3	61.1	0.0
Taxes on payroll and workforce	0.0	0.0	0.0	0.0
Taxes on property	20.2	0.0	20.2	0.0
Taxes on goods and services and international trade and transactions	1,500.5	1,140.9	306.6	53.0
Other taxes	7.5	5.0	2.1	0.3
Social contributions	1,351.0	0.0	0.0	1,351.0
Grants	2.3	0.4	8.1	279.6
Other revenue	413.3	180.6	191.0	41.5

Source: Central Bank of BiH. Includes total expenses and transactions in nonfinancial assets. Includes all seven EBFs in RS. Excludes foreign-financed projects, which do not go through budgets. Foreign debt servicing of RS is not presented here (it is represented at the State level, since foreign debt servicing for both Entities and DB goes through the BiH Institutions budget, data shown in Chapter 2).

¹³⁷For example, see pages and 223 in the 2011 Report on Budget Execution of RS, available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Servisi/Poslovanje/Documents/Konsolidovani%20izvjestaj%20o%20izvršenju%20budzeta-%202011.pdf>.

The overall system for distributing indirect taxation revenues among the four main levels in BiH is explained in detail in Chapter 2 and under this same indicator for BiH Institutions. In summary, once the share of BiH Institutions is deducted from total revenues, DB receives a fixed 3.55% of the remaining funds or BAM 124 million at the minimum, and the rest of the funds are divided between the two Entities on the basis of data on final consumption locations identified in tax forms. The coefficients for distributing revenues between the Entities are variable; they are periodically adjusted to reflect changes in final consumption and are formally adopted by the Governing Board of the Indirect Tax Authority (ITA). Periodic reconciliation is also envisaged when changes of coefficients occur. Out of each Entity's share, relevant foreign debt servicing is first deducted, and the remaining funds are then shared among the general government sector levels. Of the indirect taxation funds remaining to RS after foreign debt servicing is deducted, 72% belongs to the RS budget 24% to local self-governance units (based on population, area, and number of students), and 4% to the Public Company JP Putevi RS.

In practice, in the past five years, there have been political problems/delays in the decision on the amount BiH Institutions will get from the indirect taxation revenues, as well as disputes about final consumption data and consequent delays on decisions on the formula for sharing indirect taxation revenues between the two Entities.

For direct taxes, which are under the sole jurisdiction of each of the Entities and DB, the structure and rates of personal and company income tax and social contributions are set at the central level in RS, and revenues are then shared with local self-governance units and the EBFs.

In both Entities and in DB, the revenue of EBFs includes social contributions relevant to the specific fund and transfers from the central governments for some funds; Public Company JP Putevi and Public Company JP Autoputevi RS receive part of the indirect taxation revenues and other road fees.

The Macroeconomic Analysis Unit (MAU) of the ITA is responsible for preparing forecasts of indirect taxes, taking into account countrywide macroeconomic projections prepared by the Department for Economic Planning under the Fiscal Council. These revenue projections are used by the Fiscal Council, Ministry of Finance and Treasury (MFT) of the BiH Institutions, the Entities' Ministries of Finance (MoFs), and the DB Finance Directorate during the budget preparation process. However, the amounts entered into the budget of each government in respect of indirect tax revenue are the responsibility of that government. Forecasting of revenue from direct taxes and other Entity revenues is the responsibility of the respective MoFs; so in RS, the MoF is responsible for projections.

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

As noted above, the Entities and DB have their own mandate over direct taxes. RS has the authority to legislate in the field of property taxation, taxation of personal income, corporate income tax, and social contributions. The revenue allocation system within RS, for both the Entity level and the local self-governance units, is regulated by the Law on Budget System of RS. The allocation in 2011 among the central government, local self-governance units, and the Funds is shown in Table 4.3.5. Personal income tax is shared between the central government and local self-governance units (the government receives 100% of income tax on copyrights and intellectual property, capital income, and capital gains and 75% of personal wages and allowances and income from independent work), while corporate profit tax belongs to the RS budget.

It was not possible to use consolidated data from the Central Bank of BiH (CBBiH) for indicator calculations because they are available only for out-turns and not at the stage of the budget estimates. Thus the ratings for this indicator are based on the data received directly from the MoF. Revenue budget forecasts, and actual out-turns are shown in Table 4.3.6.

Table 4.3.6. Government of Republika Srpska Budgeted and Actual Revenues 2009-11
(BAM million)

	2009		2010		2011	
	<i>Budget</i>	<i>Out-turn</i>	<i>Budget</i>	<i>Out-turn</i>	<i>Budget</i>	<i>Out-turn</i>
Total tax revenues	1,849.8	1,495.8	1,522.0	1,579.8	1,594.5	1,779.6
Direct tax receipts	404.7	321.2	336.1	304.6	312.7	421.7
Indirect tax receipts	1,434.5	1,166.8	1,179.5	1,273.0	1,277.4	1,350.5
Social contributions	1,281.7	1,199.2	1,279.8	1,233.5	1,334.7	1,365.7
Other revenues	445.2	550.4	354.8	483.4	340.3	330.8
Total revenues	3,400.4	3,240.5	2,945.0	3,294.3	3,255.9	3,468.6
Difference between budget and out-turn (%)		-4.7%		11.9%		6.5%

Source: Republika Srpska MoF.

If this indicator is assessed on the basis of the divergence between budgeted and actual total consolidated revenues, the rating is B, reflecting the fact that out-turns were never outside the 94%-112% range in any of the three years.

Table 4.3.7.PI-3: Aggregate Revenue Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	Execution of domestic revenues ranged between 94% and 112% of domestic revenues planned in the budget in at least two of the last three years.

PI-4: Stock and Monitoring of Payment Arrears

This indicator examines whether there are significant payment arrears, and whether there is a system that enables the amounts of payment arrears to be monitored.

In RS at the moment of this assessment there is no legal definition of what constitutes arrears; no legal period has been established (e.g., 45 days) after which an unpaid invoiced obligation is considered to be in arrears; and within current Treasuries no payment due date were entered from the invoices until July 1, 2013 in RS. Under the SBA with the IMF, the authorities the BiH Institutions and Entity Government authorities were obliged to establish, before October 2013, a common definition of spending arrears by the BiH Institutions and Entity governments (with any amount that is not paid within 90 days after the due date considered to be in arrears) and, from July 2013, procedures for budget users to enter all due dates of invoices into the Treasury. These deadlines were not met. As of end 2013, the payment due data have started to be recorded in the Treasuries at the BiH Institutions and Entity Government level (however, the complete 2013 reports on arrears have not been ready in time to be included in this Report), while the deadline for establishing definition of arrears was extended to early. In February 2014 the Fiscal Council of BiH adopted a definition of an arrear reading as follows: any obligation that is recorded in the treasury application in the AP module - liabilities to suppliers, and that has not been paid within the timelines for accrual defined by Law, and within the deadline of 90 days at the longest from the date of accrual. On the basis of the common definition, each of the levels of governance shall adjust their legal frameworks.

(i) Stock of expenditure payment arrears

The stock of expenditure payment arrears of the RS central government increased in 2012:¹³⁸ according to the MoF, amounts outstanding rose from BAM 62.5 million at the end of 2011 to BAM 82.5 million at the end of 2012. The 2012 expenditure arrears consisted predominantly of unpaid agricultural subsidies (BAM48 million) and transfers to war veterans (BAM18 million). There was no specific policy with respect to expenditure arrears; the government took ad hoc decisions to delay payment of transfers and subsidies. Overall, since within current Treasuries no payment due date is entered from the invoices, current data on arrears are not all-encompassing (e.g., no arrears to suppliers are captured).

In addition, arrears in the Health Fund have been increasing each year, amounting to some BAM 200 million at the end of 2012, according to information received from the Health Fund. This reflects the fact that revenue from health contributions has not been keeping pace with the costs of providing treatment to insured patients. Given that reliable data on arrears in line with legal definition is not yet available (it is expected that first data will be available in Spring 2014 for 2013), insufficient information is available to score this dimension or indicator.

Dimension rating: Not Rated given the absence of reliable data

(ii) Availability of data for monitoring the stock of expenditure payment arrears

RS collected some estimated data about general government arrears, including for the Pension and Health Funds, for the SBA. However, since no official data on arrears in line with the legal definition of arrears are not available yet (as of end 2013), the rating for this dimension is D.

Dimension rating: D

Table 4.3.8.PI-4: Stock and Monitoring of Payment Arrears

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	NR	
Stock of expenditure payment arrears	NR	Not Rated given the absence of reliable data
Availability of data for monitoring the stock of payment arrears	D	No official data on arrears in line with the legal definition of arrears available yet (as of end 2013).

PI-5: Classification of the Budget

The PEFA criteria look for arrangements that make it possible to compare budget and out-turn for the same year, and also provide for consistent comparisons from one year to the next, according to administrative, functional, and economic classifications. Ideally the 10 main functions of government as defined by the United Nations Classification of the Functions of Government (COFOG) should be broken down into sub functions (e.g., different levels of education) or programs. This objective is facilitated by recording all transactions in accordance with a chart of accounts (CoA) that captures sufficient information about each transaction to enable reports according to each of the classifications.

The RS MoF established a new department within its formal structure to supervise financial reporting and associated issues related to accounting standards. This department has developed a new CoA that collects all the information needed to meet GFS requirements and has produced a new financial reporting regulation (bridging tables produced with the assistance of the CBBiH and the IMF are used to convert CoA reporting into GFS reporting submitted to the CBBiH and the IMF). The new CoA entered into force as of January 1, 2011. The RS MoF implemented series of training seminars for Entity and local

¹³⁸ Records of arrears for 2010 are not available as RS MoF claims it was not obliged to keep such records at the time.

institutions of government to smooth out the implementation of the new CoA and financial reporting regulation. This new RS CoA would be the first in BiH to provide an initial basis for implementing International Public Sector Reporting Standards. In terms of International Public Sector Accounting Standards (IPSAS), as of 2012, all of the 31 IPSAS that define the accrual basis for budgetary accounting were implemented, except for IPSAS 23 (taxes and transfers). Until 2013, revenues were recorded on the modified cash basis, while from 2013 accrual accounting is being applied. However, accrual recognition of public revenue will be used only for income statements and balance sheets and other financial statements in line with IPSAS standards; but for budget planning and budget execution reporting the modified cash basis will continue to be used.

The RS government presents its budget showing the economic breakdown of the expenditure of each administrative unit. The government maintains a Treasury system through which all transactions pass—or are recorded, if they are made from separate bank accounts serving externally financed projects—which provides for consistent reporting by administrative and economic classifications. The Treasury system of RS has been much improved in the course of the period from 2004 to 2013, and since January 1, 2013, it has included local self-governance transactions. The Minister of Finance of RS has adopted the Rulebook on the Form and Contents of the Budget and Budget Execution Reports, which eliminated the discrepancy between the plan and the report, and in the context of the presentation by standard budget classifications, which includes the functional classification as obligatory, as well (the Rulebook was adopted at the end of 2013).

Table 4.3.9 PI-5: Classification of the Budget

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C	The budget formulation is based only on administrative and economic classification using GFS standards, although there is a functional presentation of the out-turn.

PI-6: Comprehensiveness of Information Included in Budget Documentation

This indicator is rated according to the extent to which the budget documentation submitted to the Parliament meets nine benchmarks.

Table 4.3.10. Comprehensiveness of Budget Documentation (Republika Srpska)

<i>Element</i>	<i>Included</i>	<i>Comment</i>
The macroeconomic assumptions, including at least aggregate growth, inflation, and the exchange rate.	Y	An Economic Policy Statement is submitted to Parliament at the same time as the budget proposal, which also includes this information.
Fiscal deficit, according to GFS or some other internationally recognized standard.	Y	Included in 2013 budget documentation.
Deficit financing, describing the anticipated composition, domestic and external.	Y	Included in 2013 budget documentation.
Debt stock, including details at least for the current year.	Y	Detailed debt analysis that includes debt stock levels is produced regularly and made available to Parliament alongside budget proposals.
Financial assets, including details at least for the beginning of the current year.	N	Not in 2013 budget documentation.
Prior year's budget out-turn, presented in the same format as the budget proposals.	N	Not in 2013 budget documentation.
Current year's budget (either the revised	N	Not in 2013 budget documentation.

<i>Element</i>	<i>Included</i>	<i>Comment</i>
budget or the estimated out-turn), presented in the same format as the budget proposals.		
Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	N	Not in 2013 budget documentation.
Explanation of the implications of new policy initiatives, with estimates of the revenue effects of tax changes, and/or of the expenditure impact of major changes in public services.	Y	Included in 2013 budget documentation (Explanation of the Budget).

Table 4.3.11.PI-6: Comprehensiveness of Information included in Budget Documentation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	RS meets five of the nine benchmarks.

PI-7: Extent of Unreported Government Operations

Annual budget estimates, in-year execution reports, and year-end financial statements should cover all budgetary and extra-budgetary operations of the government. This indicator evaluates the extent to which operations under government control, including those of extra-budgetary funds, are not reported at both estimate and out-turn stages. It also looks at the extent to which donor-funded projects are included in fiscal reports.

(i) Level of extra-budgetary expenditure omitted from fiscal reports

Estimates of the revenue and expenditure of the Pension, Health, Employment, and Child Assistance Funds are not presented as part of or alongside the central government budget.¹³⁹ The out-turns of these funds are fully reported, though not in a format consolidated with other general government sector levels in RS; the RS Government budget execution report is sent to the Parliament alone, not as a consolidated RS general government sector budget plan or execution. Social contributions collected alongside personal income tax currently account for about 37% of total central government revenue, including the Funds. There are also some relatively small expenditures (on the order of 3% of the total expenditure of the central government and Funds taken together) in the health and education sectors financed from their own revenues, which are not included in budget estimates, although they are reported in the out-turn and pass through the STA. About 40% of revenue and expenditure under government control is not fully reported at both budget and out-turn stages.

Dimension rating: D

(ii) Inclusion in fiscal reports of information about income/expenditure of externally funded projects

Only the cofinancing element in externally funded projects is included in budget estimates, although total expenditure is included in out-turn statements when the projects are executed under government control. In other words, to the extent that projects are executed by the RS central government, the amounts are not included at the budget estimates stage, but are reflected in the out-turn financial statements.

¹³⁹ According to Article 34 of the Budget System Law of Republika Srpska, EBFs are only required to get the consent of the RS government regarding their budget proposal.

Dimension rating: C**Table 4.3.12.PI-7: Extent of Unreported Government Operations**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Level of extra-budgetary expenditure omitted from fiscal reports	D	The revenue and expenditure of the Pension, Health, Employment, and Child Assistance Funds, which together account for nearly 40% of revenue and expenditure under government control, are reported only at the out-turn stage.
Inclusion in fiscal reports of information about income/expenditure of externally funded projects	C	Only the cofinancing element is included in budget estimates, although all expenditure is included in out-turn statements.

PI-8: Transparency of Intergovernmental Fiscal Relations

This indicator evaluates the transparency of and accountability for the resources that were transferred between different levels of government. It also assesses the timeliness and reliability of the information passed to subnational governments on their allocations.

Given the specificities of the BiH fiscal sector and the approach taken by this PEFA, under this indicator the report considers the intergovernmental relations for the four main government levels separately. Thus, only intergovernmental relations related to RS are given under this indicator. However, the indirect taxation revenue—which is administered at BiH level but shared among the four main government levels—is covered under this same indicator for BiH Institutions.

Out of the funds remaining from indirect taxation that are available for RS after foreign debt servicing is deducted, 72% belongs to the RS budget, 24% to local self-governance units (based on population, area, and number of students), and 4% to Public Company JP Putevi RS.

For direct taxes, the structure and rates of personal and company income tax and social contributions are set at the central level in RS, and revenues are then shared with local self-governance units and different EBFs.

- Personal income tax is shared between the RS Budget and local self-governance units (the government receives 100% of income tax on copyrights and intellectual property, capital income and capital gains and 75% of personal wages and allowances and income from independent work), and corporate profit tax belongs to the government.
- Property tax comprises the tax on utilization of state owned wealth, the so-called tax on movable property that belongs fully to the Budget of the Republic, and the real estate tax, which comprises the tax on inheritance and gifts, while the tax on transfer of real estate and rights was phased out upon the effectiveness of the Law on Real Estate Tax. Real estate taxation in RS is performed at market value.

In addition to tax revenues, the RS government shares some other revenues with the local self-governance level: 70% of fees from the change of agricultural land purpose; 50% of rent fees for land owned by the government; 70% of concession fees for mineral raw materials; revenues from special water fees (with different shares for different types; for most 70% is shared with local self-governance units); and 30% of the revenue from confiscated assets. Other revenues of the RS government include administrative taxes and service and penalty fees from RS government institutions. Local self-governance units in RS have, in

addition to tax revenues, municipal/city administrative, service, and penalty fees and revenues from assets or natural resources owned by the local self-governance level. In both Entities and in DB the revenue of EBFs includes social contributions relevant to the specific fund and transfers from the central government for some funds; and for the public entities for roads, part of indirect taxation revenues and other road fees.

(i) Transparency and objectivity in the horizontal allocation among subnational governments

As has been noted, concerning indirect taxation sharing, in the past five years there have been political problems/delays in deciding on the amount BiH Institutions will get from the indirect taxation revenues and disputes about final consumption data and consequent delays on decisions on formula for indirect taxation revenues between the two Entities.

In RS, the flow of information between the RS central government and local self-governance units in the early budget planning stages is better than in FBiH (both for revenue projection/distribution and for information such as the amounts and precise timing of debt service payments that significantly affect the monthly flow of revenue to the lower levels), thus enabling lower levels' budget planning, facilitated by a department dedicated to local self-governance units and EBFs within the Budget Sector in the RS MoF. Furthermore, budget planning by lower levels of the RS general government sector is managed quite well in terms of data/information-sharing about needed parameters for budget planning, since RS usually adopts its medium-term expenditure framework (MTEF) on time, regardless of whether the Global Framework of Fiscal Balance and Policies in BiH is adopted. The MTEF establishes total revenue projections, on which each level of the RS general government sector in RS can base their own revenue projections using shares established in legislation.

Formulas for transfers to sub-national levels (discussed above) are clear and transparent, set in legislation. In terms of indirect taxation, 24% of RS revenues (after foreign debt servicing is deducted) goes to local self-governance units (based on population, area, and number of students), and 4% to public entities for roads. In terms of direct taxes, local self-governance units get 25% of revenue from personal wages and allowances and income from independent work, while real estate tax revenue (including taxes on the transfer of immovable property and rights) belongs to local self-governance units.

Dimension rating: B

(ii) Timeliness of reliable information to the different governments on their allocations

The budget planning process is intended to provide, by April each year, macroeconomic projections and revenue forecasts on which, in May each year, the Fiscal Council would base the following year's allocations of indirect taxation revenues—drawing on the Global Framework of Fiscal Balance and Policies in BiH. Entity governments, cantons, local self-governance units, and road companies could then be given a credible and timely projection of the resources that would be available to them for the following year. Thus each level of government would have the information needed to prepare its MTEF (i.e., fiscal plan for the following three years, see PI-12) and, subsequently, for the forthcoming budget.

Law on Budget System of RS prescribes that upon adoption of RS MTEF by the RS Government, Ministry of Finance distributes MTEF to municipalities, cities and extra-budgetary funds every year on July 1st. Next, municipalities and cities submit draft budgets to Ministry of Finance (RS MoF can provide recommendations to municipalities and cities for development of their budget proposals) by November 5th. By December 15th, cities and municipalities adopt their budgets and deliver them to Ministry of Finance; extra-budgetary funds adopt their annual financial plans.

It has been noted that there are often delays in deciding what portion of the indirect taxation revenues RS will receive, that the flow of information between the RS central government and local self-governance units in the early budget planning stages is relatively good, and that the RS usually adopts its MTEF on

time, regardless of whether the Global Framework of Fiscal Balance and Policies in BiH is adopted. Thus, the initial revenue sharing assumptions are usually available on time for all general government sector units in RS (by July 1st), even though late decisions on the share that will go to the of BiH Institutions can also affect the revenue-sharing assumptions later in budget planning process.

Dimension rating: B

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

In terms of consolidation of fiscal data for the whole general government sector in RS, each year the CBBiH compiles information on consolidated general government revenue and expenditure by economic classification, including local self-governance units and all EBFs. This is out-turn information only (no consolidated information is available for budget estimates), and does not include any functional/sectoral analysis. None of the planned budgets at any level in RS is presented in functional classification; rather, they show only the economic breakdown of the expenditure of each administrative unit.

Current reporting templates in RS¹⁴⁰ already require functional reporting from all general government levels in line with the COFOG categorization (in 10 main categories); however, in practice, reporting by function is based on a broad approximation, with likely errors, especially at the lower government levels. The RS MoF consolidates data (including functional data) and uses them to prepare MTEFs. Budget plans and execution reports of lower government levels are not consolidated with the RS government reports that are sent to Parliament. In other words, the consolidation of general government sectors in RS is not done within RS budgets plans sent to Parliament (the budget which is submitted to adoption to Parliament only includes RS Government), nor in the budget execution reports sent to Parliament for adoption, although lower government levels submit their budgets, as well as their budget execution data to RS Ministry of Finance. However, the MF RS does perform consolidation of the data of general government sector in RS, which it uses for reporting to the IMF, for MTEF preparation (albeit at aggregate level) and for sending data for Global Framework (at even more aggregate level).

Dimension rating: C

Table 4.3.13.PI-8: Transparency of Intergovernmental Fiscal Relations

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall Rating	B	
Transparency and objectivity in the horizontal allocation among different governments	B	Revenue allocation assumption may be delayed by the inability of Fiscal Council to reach agreement. However, RS government adopts medium-term budget frameworks on time, providing initial assumptions for revenue allocation for budget planning of the lower general government sector units in RS.
Timeliness of reliable information to different governments on their allocations	B	Information not delayed within RS, but delays may be caused by delays in adoption of Global Framework of Fiscal Balance and Policies in BiH.
Extent of consolidation of general government fiscal data according to sectoral categories	C	Consolidation of data (including functional data) performed by the RS MoF and used for preparation of MTEFs of RS. Budget plans and execution reports of lower government levels are not consolidated with RS Government reports sent to Parliament.

¹⁴⁰ Available at: <http://www.fintech.ba/downloads/pravilnik-o-finansijskom-izvjestavanju-i-godisnjem-obracunu-budzeta-FBiH.pdf>

PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

This indicator assesses whether the government adequately monitors and manages the fiscal risks¹⁴¹ arising from public sector activities or operations outside its direct control, including (i) the activities of public enterprises (PEs) and autonomous government agencies (AGAs) financed outside the budget; and (ii) the activities of subnational governments.

(i) Extent of monitoring of PEs and AGAs

RS still has many PEs that are the responsibility of the central government or local self-governance units. When PEs undertake investments that are part of the government's Public Investment Program (PIP), the MoF Investment Management Department ensures that the economic and financial case is fully analyzed and the risks understood. However, projects that are sponsored by other ministries outside this framework are not subjected to the same level of scrutiny. The provision of guarantees for PEs' borrowing is controlled by the MoF Debt Management Section, and the PEs concerned are required to report their annual business plans and financial results to their relevant line ministries; but there is no mechanism in place to put together an overall view of the fiscal risks they might present to the government.

The Pension, Health, Employment, and Child Protection Funds and the roads maintenance company have to be considered as AGAs. The Pension Fund's payment obligations are met if necessary by additional funding from the budget, while the Road Fund finances its work from its share of indirect tax revenue. However, the Health Fund's payment arrears are increasing each year: its short-term liabilities increased from BAM 87 million at the end of 2011 to BAM 175 million at the end of 2012, partly balanced by a reduction in liabilities on long-term loans from BAM 234 million at the end of 2011 to BAM 203 million at the end of 2012. However, its financial position seems to be fully known to the government, even though the operations of EBFs and road companies are not integrated into one STA with the government.

The rating for this dimension reflects an absence of any consolidated overview of the fiscal risks presented by PEs.

Dimension rating: C

(ii) Extent of central government monitoring of lower-tier governments' fiscal position

A new 2012 law covering public debt (debt of the central government, local self-governance units, and social insurance Funds) requires that the debt of the RS general government sector be kept below 55% of GDP (and below 60% of GDP when PEs, RS Investment-Development Bank, and other public institutions are included). There is a separate limit on guarantees of 15% of GDP. At the end of 2012 public debt, at BAM 3770 million, was about 42% of GDP, while guarantees represented a further 2.7%.

Units of local self-governance may borrow in long-term only if in the course of the period of the onset of debt the total amount that accrues for repayment, on the basis of the proposed debt and the total of accrued, outstanding existing debt, in any of the subsequent years, does not exceed 18% of the amount of its regular revenues executed in the preceding fiscal year. RS MoF has to approve any borrowing and issuance of guarantees of units of local self-governance (regardless of whether it concerns the borrowing of the unit of local self-governance itself, or its borrowing on behalf of the companies that are in its ownership). Units of local self-governance submit to the RS MoF monthly and quarterly data on their debt, and for the purpose of updated keeping of records on total debt of RS. The RS MoF reports to the MFT BiH on the quarterly basis on the stock of debt and guarantees of units of local self-governance.

Dimension rating: A

¹⁴¹ Fiscal risks are defined as debt service defaulting, operational losses, expenditure payment arrears, and unfunded pension obligations.

Table 4.3.14.PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Extent of central government monitoring of PEs and AGAs	C	There is no consolidated overview of the fiscal risks presented by the considerable number of PEs owned by the central government and local self-governance units.
Extent of central government monitoring of lower-tier governments' fiscal position	A	Full reports are collected every month.

PI-10: Public Access to Key Fiscal Information

Public access to key fiscal information is assessed through the six criteria for the indicator shown in Table 4.3.15.

Table 4.3.15. Benchmarks to assess Public Access to Key Fiscal Information

<i>Criterion</i>	<i>Publicly available</i>	<i>Explanation</i>
The budget documentation submitted to Parliament.	Y	Annual budgets and Economic Policy Documents submitted to Parliament are publicly available on the website of the RS National Assembly at the time they are presented to the Assembly.
In-year budget execution reports: are they made available to the general public?	Y	Quarterly reports are prepared for the government and are publicly available every six months: http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/Pages/Budzet.aspx
Year-end financial statements: are they made available within six months after completion of the audit?	Y	Prepared by budget users by 28/2, submitted to Parliament by 31/5, available on RS MoF website: http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/Pages/Budzet.aspx
External audit reports: are they published within six months after audit completion?	Y	Audit reports submitted by 31/8. The audit reports are available, and the dates of its publishing are also available. ¹⁴²
Contract awards: is the award of all contracts with a value of \$100,000 (or equivalent) published at least quarterly?	Y	Contract awards are published in the Official Gazette upon award. The Official Gazette can be accessed via the PPA website: http://www.javnenabavke.ba/index.php?id=04h&jezik=bs
Information about the resources available to primary service units (e.g., schools and health clinics): is such information published at least annually, or available on request to interested parents, patients, etc.?	No	Information is available about schools but not health clinics.

Table 4.3.16.PI-10: Public Access to Key Fiscal Information

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	Five of the six benchmarks are met.

¹⁴² Available at: http://www.gsr-rs.org/front/reportsearch/?up_mi=1

PI-11: Orderliness and Participation in the Annual Budget Process

This indicator aims to assess whether budget formulation adheres to a fixed and predictable budget calendar each year and is organized in a way that facilitates effective participation by budget users. It also assesses whether the instructions given to budget users for the preparation of their budget submissions reflect high-level political decisions about the allocation of available funding, and whether the budget circular fixes spending ceilings within which budget users have to work. Finally, it looks at whether the budget is approved before the beginning of each fiscal year.

(i) Existence of and adherence to a fixed budget calendar

The key dates for the preparation of the annual budget are set out in the Law on Budget System of RS. The budget process for the preparation of the budget of RS government begins in January or February each year with the distribution of Budget Instructions No. 1, which includes a detailed budget calendar setting out the requirements, responsibilities, and timelines for each stage of the budget process. In practice, the budget calendar is fully adhered to despite delays in agreement on the Global Framework in the Fiscal Council

Table 4.3.17 sets out the budget calendar presented in the 2013 Budget Instructions No. 1 issued on February 15, 2012, and the actual dates each task was completed during the 2013 budget process. It should be noted that the deadlines in Table 4.3.17 reflect current actual deadlines in the Law on Budget Systems of RS, adopted in December 2012. This law was not in force during the 2013 budget preparation, and in the previous law there were no detailed deadlines for budget procedures, so the deadlines in Table 4.3.17 were based on the overall calendar set by the RS MoF in the instructions to the budget users.

Table 4.3.17: Republika Srpska Budget Calendar (for 2013 budget)

<i>Task</i>	<i>Responsibility</i>	<i>Date in budget calendar (or law)</i>	<i>Actual date for 2013 budget preparation</i>
Distribution of Budget Instructions No. 1	MoF	February 15	February 15
Submission of Budget User Priority Review Tables	Budget users	April 30	April 30
MTEF submitted to the Government	MoF	June 30	June 20
Budget Instructions No. 2 issued (with budget ceilings)	MoF	July 1	July 1
Budget users submit budget requests to the RSMoF.	Budget users	September 1	September 1
Budget user discussions	MoF	by September 25	by September 25
Budget submitted to RS government	MoF	October 15	November
RS government submits budget to National Assembly	RS government	November 5 for draft budget and December 1 for budget proposal	December 2
National Assembly approves budget	RS National Assembly	December 15	December 15

Source: Ministry of Finance, Republika Srpska.

Dimension rating: A***(ii) Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)***

Two sets of budget instructions are issued. Budget Instructions No. 1 sets out the detailed guidelines and instructions for the preparation of Budget User Priority Review Tables, including high-priority new spending proposals and savings options, consistent with the priorities of the Council of Ministers. Following the RS government's approval of the three-year MTEF, the MoF issues Budget Instructions No. 2, setting out initial budget ceilings for each budget user (in accordance with the MTEF), together with instructions for the preparation of budget requests. Budget users are required to prepare their detailed budget estimates in accordance with these ceilings. The MoF and budget users conduct discussions following the distribution of Budget Instructions No. 2. Some adjustments to the ceilings may be permitted in accordance with government policy priorities and subject to the approval of final budget ceilings by the RS government.

Table 4.3.18. Date of Enactment of Budget Law

<i>Fiscal year</i>	<i>Date budget law was enacted by Parliament</i>
2010	17.12.2009.
2011	28.12.2010.
2012	28.12.2011.
2013	05.12.2012.

Source: Ministry of Finance, Republika Srpska.

Dimension rating: A***(iii) Timely approval of the budget by the legislature or similarly mandated body (within the last three years)***

The budget was adopted in a timely fashion in all of the last four years.

Dimension rating: A**Table 4.3.19.PI-11: Orderliness and Participation in the Annual Budget Process**

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	A	
Existence of and adherence to a fixed budget calendar	A	Clear budget calendar that is adhered to.
Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	Clear budget instructions and guidelines issued.
Timely approval of the budget by the legislature or similarly mandated body (within the last three years)	A	Budgets are approved before the start of each year.

PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy and Budgeting

This indicator refers to the extent to which the governments of BiH plan their fiscal framework, expenditure policies, and budget plans over the medium term. Four dimensions are considered: (i) multiyear fiscal forecasts and functional allocations; (ii) scope and frequency of debt sustainability analysis (DSA); (iii) existence of multiyear costed sector strategies, and (iv) linkages between investment allocations and forward functional expenditure estimates.

(i) Preparation of multiyear forecasts

Each year the countrywide Fiscal Council is charged with the responsibility to approve a Global Framework of Fiscal Balance and Policies in BiH that sets the overall macroeconomic projections and projection of indirect taxation revenues within which the BiH Institutions' and the Entities' next annual budgets should fit, with projections extending two further years ahead. Detailed multiyear fiscal projections for RS are then produced as part of the RS MTEF,¹⁴³ including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and the two following fiscal years). The fiscal forecasts also include estimates of the revenues and expenditures of the local self-governance units and EBFs.

Once approved by the RS government, the budget year estimates establish the budget users' budget ceilings for the forthcoming budget year. However, there is no evidence that the forward estimates are used to anchor the preparation of the following year's budget ceilings; thus they do not roll forward, but instead the MoF effectively rebases the budget and forward estimates for each budget cycle.

The budget and forward estimates in the MTEF are prepared by administrative, economic, and functional classifications. However, the annual budget proposals are presented only with economic and administrative classifications, and do not include forward year estimates (while budget requests also require program budget programs, that information is not included in the annual budget proposal).

Dimension rating: C

(ii) Scope and frequency of debt sustainability analysis

The RS MoF maintains an electronic database of external and internal debt, including that of local self-governance units. RS regularly reviews external and internal debt, including as part of the regular review of the SBA. The RS MoF Debt Management Sector also submits data to the BiH MFT Debt Management Unit, which maintains an access database of all internal and external debt of all governments of BiH. According to RS MoF, DSA for external and domestic debt is undertaken annually, but the analysis is not publicly available, and the extent to which this DSA goes into details and scenario testing is not clear.

In compliance with the information on debt as of the date of December 31, 2012, the total debt of RS amounted to BAM 4,669 million, which represents 54.39% of GDP, while the public debt of RS amounted to BAM 3,770 million, representing 44% of RS GDP for 2012.

The most recent IMF report on the current SBA (Country report 12/344) puts total BiH debt at end-2012 at 43.9% of GDP, of which 28.5% is external. Public external debt is thus not particularly high by international standards, but it has increased threefold since 2006, in large part because of budget support loans. The Entity governments' ability to borrow externally on favorable terms is also constrained by the high level of external private sector debt not matched by external assets, which corresponds to a further 24% of GDP. Furthermore, any analysis of debt level in BiH (both countrywide and Entity-specific) should be approached with caution, given the country's large infrastructure needs; further potentially large debt segments (such as restitution) that are currently excluded; and the post-crisis trend of significant debt increases, which included large budget support loans (spent in part for current expenditure, which still needs structural reform).

While data on debt status are collected regularly and reports on debt stock and servicing projections are provided, there is no evidence that full, detailed DSAs are performed and publicly available, except for the regular DSAs prepared by the IMF.

¹⁴³ Available at: http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/Pages/Dokument_okvirnog_budzeta.aspx

The Law on Borrowing Debt, and Guarantees of BiH stipulates that Advisory Committee for Debt (comprising of two representatives from State Council of Ministers one of which is the Finance Minister, one representative from the Central Bank of BiH, two representatives from the Entity Governments including Finance Ministers, and Finance Directorate director from the Brčko District), which is supposed to be in charge of preparing state debt management strategy. However, in practice, this has not been implemented.

Currently, the only debt sustainability analysis is the analysis IMF prepares within their Article IV Country Reports or periodically in some of the reports in reviews under the SBA (four such analyses were prepared by the IMF in 2009-2013). Since the IMF debt sustainability analyses have so far been performed without active participation of the authorities in the preparation process (other than data provision) and that the authorities do not use this analysis in their strategic planning process (the debt sustainability analysis is not linked to a specific government debt strategy in terms of future borrowing policies and needs at any government level (which are large, having in mind large infrastructure needs), the performance rating for this indicators is reduced.

However, it should be noted that the IMF has recently shared its methodology and instructions in terms of debt sustainability analysis with the Federal Ministry of Finance, based on the request of the Federal Ministry of Finance stemming from the conclusion of recent FBiH DeMPA prepared by the World Bank, which also found that no DSAs are undertaken, no sensitivity analyses are used, and no medium-term debt management strategy has been developed and it recommended that the technical assistance is provided to the Federal Ministry of Finance for the debt sustainability analysis. Thus, DSA preparation for the FBiH by the FMF can be expected in future, as it is prescribed by the new Law on Budgets in FBiH adopted in December 2013 that the debt sustainability analysis will have to be annexed to budget. The IMF DSA template has also been shared with the MFT in past years. But, given that currently there is no evidence that the authorities have prepared and used own or IMF DSA in their own strategic planning process, the rating for this dimension is D.

Dimension rating: D

(iii) Existence of costed sector strategies

A Draft Development Strategy for BiH was prepared by the Directorate for Economic Planning of the Council of Ministers and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. The Fiscal Council seems to have little political appetite to endorse such countrywide strategic documents.

In RS some individual ministries do prepare strategic plans. There are currently sector strategies for five sectors—for example, the Strategy for the Development of Small and Medium Enterprises in RS¹⁴⁴—which sometimes include preliminary cost implications, but there is no comprehensive systematic costing of all strategies. There is no evidence that properly costed strategies represent up to 25% of primary expenditure.

No costed sector strategies are formally developed for RS as a whole. MTEFs include planned expenditure levels, but they do not represent truly costed sectoral strategies, as they basically just set up ceilings per budget user, rather than focusing on costed measures for strategy implementation. The RS MTEF includes an analysis of “medium-term budget priorities”—covering the forthcoming annual budget and two following fiscal years—but these priorities generally reflect budget users’ specific individual new

¹⁴⁴http://www.google.ba/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=2&cad=rja&sqi=2&ved=0CDUQFjAB&url=http%3A%2F%2Fwww.opstinaleslic.com%2Findex.php%2Fde%2Fdokumenti%2Fdoc_download%2F43-strategija-razvoja-msp-u-rs-2006-2010-god&ei=rduMUpnxKvjNsQTqwoCgDw&usq=AFQjCNFP_hZWqxvkrKtAqgvo4ZqCB-Y8g&sig2=dLUhZTrPkyiLviXVOEVDO&bvm=bv.57799294.d.cWc

spending initiatives rather than forming part of a broader sector strategy. However, budget and forward estimates are prepared for each budget user. The Economic Policy Statement that is submitted with the annual budget proposal also includes the major revenue and expenditure policy announcements.

Dimension rating: D

(iv) Linkages between investment budgets and forward expenditure estimates.

All four governments prepare a rolling three-year PIP. In addition, the BiH MFT Sector for Coordination of International Economic Assistance prepares a consolidated country PIP. All PIP proposals and funded investment projects are captured by the Public Investment Management Information System – PIMIS. PIMIS is the information management system for the management of public development investments which facilitates all entity and state level budget users online access to planning and monitoring of all projects/programmes that are defined by the Strategic Framework and mid-term and annual plans and contribute to the realization of development objectives, and it is maintained by the Sector for Coordination of International Economic Assistance. The PIP also maintains a donor-mapping database covering all donor-funded projects in BiH. The PIP information management system is designed to match public investment proposals with the National Development Plan, once it has been adopted.

The RS MTEF reflects approved and funded projects within the PIP. However, public investment planning in RS is not wholly integrated: the MoF coordinates a program covering some of the government's main objectives, but other investments are planned separately by sectoral ministries. The use of multiyear estimates in the RS MTEF should ensure that future recurrent costs of completed capital investment projects are reflected in the MTEF. However, the planning of public investment remains separate from any development of sector strategies by the Entity government, so there is no basis for the integration of current and capital expenditure planning.

Dimension rating: C

Table 4.3.20.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	D+	
Preparation of multiyear forecasts	C	MTEFs but not budgets include forward allocations by administrative unit, but these are prepared anew each year rather than rolled forward from previous year.
Scope and frequency of debt sustainability analysis	D	There is no evidence of full detailed DSAs being performed and publicly available, except for the regular DSAs prepared by the IMF.
Existence of costed sector strategies	D	Program objectives and performance indicators included with the budget are not projected forward. Recurrent expenditures are taken into account. There is no evidence that properly costed strategies represent up to 25% of primary expenditure.
Linkages between investment budgets and forward expenditure estimates	C	Public investment planning is partly fragmented, and is not linked to sectoral development strategies, although the future costs of specific investments are taken into account in MTEFs.

PI-13: Transparency of Taxpayer Obligations and Liabilities

This indicator examines (i) whether tax legislation and regulations are clear and comprehensive and limit the discretion of authorities, especially in decisions on tax assessments and exemptions; (ii) whether taxpayers have easy access to information about tax liabilities and procedures; and (iii) whether there is a satisfactory tax appeals mechanism.

(i) Clarity and comprehensiveness of tax liabilities

The legislative framework for major taxes includes domestic tax laws, international treaties on avoidance of double taxation, and the laws governing administrative procedures. While the legislative framework for major taxes is generally clear and comprehensive, some important aspects of tax application are not very clearly and consistently reflected in the legislation and interpreted in practice. This mainly relates to the implementation of important provisions of double taxation treaties (e.g. the determination of tax residence, reduction of tax upon deduction), and to transfer pricing. Consequently, tax inspectors tend to apply a fair amount of discretionary powers in determining tax liabilities in these areas.

Dimension rating: C

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Taxpayers have web access to information regarding tax obligations, explanatory notices, and administrative procedures (www.poreskaupravars.org). There is a network of regional branch offices where taxpayers can obtain explanations, instructions, and copies of tax records in a short time. During 2012 the taxpayers had access to information through meetings in person (704 meetings), e-mail enquiries (966), workshops and seminars (6), and media announcements (25).¹⁴⁵ An information desk/telephone hotline is available in the central tax office, and taxpayers' questions are generally answered in due time and with due professional care. Official interpretations about tax applicability can be requested at the MoF, and they are generally issued within prescribed deadlines.

Dimension rating: A

(iii) Existence and functioning of a tax appeals mechanism

The tax appeal system comprises three levels: (a) objection and appeal to the minutes of the tax auditor in the RS RA office; and an objection may also be lodged concerning real-estate tax; (b) appeal to RS MoF; and (c) appeal to the District Court, Department for Administrative Disputes. The decision process usually lasts longer than the timeframe specified in the rules/regulations—the backlog of cases before the court is such that any decision is likely to take several years. Decisions are not publicly available. Appeals are reviewed by bodies whose members rarely include experienced professionals from the private sector and civil society. Issued decisions are binding for all parties, with no discrimination in respect of rights to appeal.

Dimension rating: C

Table 4.3.21.PI-13: Transparency of Taxpayer Obligations and Liabilities

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Clarity and comprehensiveness of tax liabilities	C	Legislation and procedures for all major taxes are comprehensive and clear, while there is a fair amount of discretionary powers of the tax

¹⁴⁵RS RA Annual Report for 2012

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
		inspectors in areas such as interpretation of international tax treaties and transfer pricing.
Taxpayer access to information on tax liabilities and administrative procedures	A	Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures for major taxes, and RS RA supplements this with an active taxpayers education campaign.
Existence and functioning of a tax appeals mechanism	C	The tax appeals system is set up and functional; however, decisions are often not issued within prescribed timeframe.

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator looks at how effective a tax administration is in identifying taxpayers and establishing the amounts they are liable to pay, using three dimensions: the links between the database of direct taxpayers and other government databases, including the indirect tax and business licensing databases; the effectiveness of penalties in inducing taxpayers to register for tax and make the correct declarations about the amounts of their liabilities; and the planning and monitoring of tax audit programs.

(i) Controls in the taxpayer registration system

Taxpayers are registered in the central registration system, and the registration process is automated. Taxpayers are required to have their sales registers electronically linked to the RS RA system (“fiscal registers”), which enables daily tracking of revenue. Also, there is a complete registration system for real property (fiscal register) for accurate assessment of taxes on real estate.

Taxpayers are assigned a unique Tax Identification Number (TIN), which is used for all direct taxes. Tax authorities and taxpayers are obliged to use TINs in all official correspondence. A TIN can also be assigned to a permanent operating unit of a non-resident or a branch of a company with headquarters abroad.

The RS central tax registration system is linked to the pension and social security fund system and to the RS commercial court registry. Under the SBA, on June 12, 2013, the four tax agencies assigned the Memorandum of Understanding on the exchange of taxpayer information, with a view to facilitating the permanent, unfettered, and automated sharing of taxpayer records.

Dimension rating: B

(ii) Effectiveness of penalties for noncompliance with registration and tax declaration

Companies (taxpayers of corporate income tax) are liable to a fixed penalty of 1,000 BAM to 3,000 BAM for late registration¹⁴⁶, as well as for late submission of tax returns. Individual taxpayers (taxpayers of personal income tax) are liable to a fixed penalty of 500 BAM to 1,500 BAM for late registration, and to a fixed penalty of 500 BAM to 1,500 BAM for late submission of tax returns.¹⁴⁷ The penalties appear to be high enough, but they may not always be an effective deterrent.

Dimension rating: B

¹⁴⁶The Law on Tax Procedure of RS (“Official Gazette of RS”, issue No. 102/11), Article 94, Paragraph 1.

¹⁴⁷The Law on the Tax Procedure of RS, Article 95

(iii) Planning and monitoring of tax audit programs

Tax audit plans (for corporate income tax) are produced monthly and annually.¹⁴⁸ The selection of taxpayers for audit is based on automated risk assessment criteria, identified from tax declarations entered into the system. The system runs queries based on indications such as history of noncompliance and size of profits and revenues. During 2012 there were 4,226 corporate income tax audits and 7,624 controls of compliance with fiscal registrations.¹⁴⁹ Tax audits and fraud investigations are generally reported and followed up in accordance with the prescribed tax administration procedures.

Dimension rating: B**Table 4.3.22.PI-14: Effectiveness of measures for taxpayer registration and tax assessment**

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Controls in the taxpayer registration system	B	Taxpayers are registered in a complete database with some linkages to other relevant government databases.
Effectiveness of penalties for noncompliance with registration and tax declaration	B	There are penalties for noncompliance with registration and declaration obligations, but they may not always be an effective deterrent.
Planning and monitoring of tax audit programs	B	There are annual tax audit plans as well as a continuous program of tax audits and fraud investigations.

PI-15: Effectiveness in Collection of Tax Payments

This indicator assesses the performance of a tax administration in actually collecting amounts assessed, including its degree of success in controlling the build-up of arrears, paying revenue collected immediately into the Treasury, and thereafter carrying out reconciliations between the accounts of individual taxpayers and the overall amounts paid to the Treasury.

(i) Collection ratio for gross tax arrears

Total tax collections related to direct taxes were 419 million BAM¹⁵⁰ in both 2012 and 2011.¹⁵¹ There are no available data on tax arrears related to direct taxes for 2011 and 2012 respectively.

Tax-geared penalties (i.e., a percentage of additionally assessed tax liability) are levied when tax returns are carelessly or deliberately incorrect, which results in less reported tax liability. Interest is assessed on late payments of tax.

Dimension rating: Not Rated

¹⁴⁸ Tax audits are directed to taxpayers that are companies, and full audit generally includes corporate and personal income tax.

¹⁴⁹ 2012 Annual Report of the RS RA

¹⁵⁰ The amount provided concerns direct taxes only and does not include contributions and other public revenues collected by RA RS. In 2012, the RA RS collected the total of KM 2,045,249,779 of public revenues that are within its scope of competence (in 2011: KM 2,054,990,749 of public revenues)

¹⁵¹ Annual Reports of RS RA (for 2012 and 2011) <http://www.poreskaupravars.org/SiteCir/GodisniIzvestajioRadu.aspx>

(ii) Effectiveness of transfer of tax collections to the Treasury

Taxpayers make payments into commercial bank accounts. Instructions for bank payments are clearly prescribed in the applicable legislation; direct cash payments in the RS RA office premises are prohibited. Transfers of revenue collections to the Treasury Account are made daily.

Dimension rating: A

(iii) Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury

Information on revenue collection is electronically submitted to the accounting system of RS RA by the banks each day; reconciliation of collections is automated, and payments are assigned to taxpayers' TINs. Information on tax collections is compiled and sent monthly to MAU.

RS RA issues detailed annual reports each year, outlining reconciliation analyses and data related to such areas as tax collections, debt collections, and tax assessments.

Dimension rating: B

Table 4.3.23.PI-15: Effectiveness in Collection of Tax Payments

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	NR	
Collection ratio for gross tax arrears	NR	There are no reliable data on tax arrears for the last two fiscal years.
Effectiveness of transfer of tax collections to the Treasury	A	All tax revenue is collected into bank accounts controlled by RS RA and transferred daily to Treasury.
Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury	B	Complete accounts reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least quarterly.

PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

This indicator assesses the extent to which the government provides reliable information on the availability of funds to budget users to enable effective resource management. It is intended to measure performance over the last completed fiscal year before assessment. Three dimensions are considered: (i) the extent to which cash flows are forecast and monitored; (ii) the extent to which budget users can rely on future cash ability for some period ahead; and (iii) the frequency and transparency of adjustments to budget allocations imposed on budget users.

(i) Extent to which cash flows are forecast and monitored

The Treasury Department of the RS MoF prepares a monthly cash flow plan taking into account the expected expenditure profiles provided by budget users. Until the end of 2012 RS government cash flows had been managed so as to avoid any expenditure arrears. An exception is the Health Fund, whose arrears have been increasing steadily since 2009; the Treasury has been fully informed about this.

Dimension rating: A

(ii) Reliability and horizon of periodic in-year information to budget users on ceilings for expenditure commitment

Experience in RS has been that budget users may commit up to the limits of their budget allocations as approved by the National Assembly, provided that their payment requests remain within the progressive payments of funding by MoF through the year.

The cash is being paid monthly to budget users based on operational plans, in line with relevant legislation (Law on Budget System), based on financial plans.

Dimension rating: A

(iii) Frequency and transparency of adjustments to budget allocations imposed on budget users

A “rebalanced” budget was enacted in 2012 to meet IMF conditions under the SBA, cutting expenditure on both pay and goods and services. The changes had to be approved by the National Assembly, and were therefore carried out with full transparency. The transfer of provision from one budget user to another within the approved aggregate budget can take place only by agreement of the government,¹⁵² but the approval of the Assembly is only required for overall increases or imposed general reductions.

Dimension rating: A

Table 4.3.24.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Extent to which cash flows are forecast and monitored	A	Treasury prepares a cash flow plan based on budget users’ predictions and updates it monthly
Reliability and horizon of periodic in-year information to budget users on ceilings for expenditure commitment	A	Budget users commit up to limits of budget allocations, provided resulting payments remained within cumulative payments by MoF.
Frequency and transparency of adjustments to budget allocations imposed on budget users	A	Overall reductions in provision require a “rebalanced” budget approved by Parliament, and so are fully transparent.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

This indicator looks at debt management in terms of contracting, servicing and repayment, and the provision of government guarantees, including the following dimensions:

- maintenance of a debt data system and regular reporting on main features of the debt portfolio;
- identification and consolidation of cash balances in all government bank accounts (including those for EBFs and government-controlled project accounts); and
- the proper recording and reporting of government-issued guarantees, and the approval of all guarantees by a single government entity (e.g., the ministry of finance or a debt management commission) against adequate and transparent criteria.

(i) Quality of debt data recording and reporting

As has been noted, the responsibility for the servicing of virtually all external debt of the country is on the entities, apart from a very small part of the direct external state debt, although payments related to the servicing of external debt are executed through BiH Institutions. Since BiH is ultimate guarantor for essentially the entire IFI foreign debt (regardless of whether the Entities are using it and repaying it), all

¹⁵²As per Article 41 of the Republika Srpska Law on Budget System. Available at: <http://www.narodnaskupstinars.net/lat/stranica/zakon-o-budzetskom-sistemu-republike-srpske-lat>

loans must be approved by the Council of Ministers of BiH, BiH Presidency, and BiH Parliament. The same requirements apply to external guarantees of BiH (regardless of whether the Entities are final users).

CBBiH publishes quarterly figures for total external public debt.

RS has a centralized management of debt and reporting on debt, with borrowing that is constrained by Law and controlled. RSNA has to approve each borrowing and issuance of guarantees of Republika Srpska. The RS MoF regularly collects monthly and quarterly data on debt and guarantees, for the purpose of keeping updated records on debt, guarantees, and indirect debt of Republika Srpska, debt and guarantees of units of local self-governance, and the debt of social security funds, it prepares projections of debt servicing, performs debt sensitivity analysis, monitors the legislated limits for borrowing, and prepares reports on the stock of total debt of Republic of Srpska, including a detailed analysis of the structure, the stock, and the servicing of the aforementioned debt, on which it reports to the RSNA on annual basis. The RS MoF has to issue consent to each borrowing of units of local self-governance (regardless of whether it concerns the borrowing of the unit of local self-governance itself or its borrowing on behalf of a company that is in its ownership), as well as issuance of guarantees of units of local self-governance.

The RS MoF must be notified of any new borrowing by municipalities/cities. A quarterly report of the outstanding external and domestic debt is required as part of the surveillance under the SBA. Annual reports are made to Parliament, but are not on the MoF website.

Quarterly reports are made in the context of IMF surveillance under the SBA. The MFT Debt Management Sector at the BiH Institutions level maintains a database of both internal and external debt at all levels of government of BiH, based on a regular exchange of information with the Entities and DB. The RS MoF also has a database covering the general government sector in RS. There do not seem to be delays in debt reporting from lower levels of the general government sector in RS. A detailed analysis of the entire public external and internal debt stock and debt servicing of the State and the Entities, prepared by the MFT of BiH, is also given in the BiH Institutions MTEF (including debt stock information and debt repayment projections)¹⁵³ and in annual reports of the Debt Stock of BiH that the MFT prepares.¹⁵⁴ Each quarterly execution report for the budget of BiH Institutions includes detailed information on foreign debt servicing, and the annual budget plans of BiH Institutions include detailed projections of foreign debt servicing.

The RS MoF prepares information on the stock of total RS debt, accompanied by the detailed analysis of the structure, the stock, and the servicing of aforementioned debt, for the purpose of reporting to the RSNA, and the review of debt is also provided within the Consolidated Report on Budget Execution, as well as in the RS Budget Framework Document for the mid-term.¹⁵⁵

Limited debt sustainability analysis is usually presented in the reports. However, the preparation of the full debt sustainability analysis for RS is being planned for the forthcoming period, as an integral part of the process of improvement of debt management, which is being implemented in cooperation with the World Bank team, as well as within the IPA projects.

Dimension rating: A

(ii) Extent of consolidation of government cash balances

RS central government transactions, including those of the municipalities and cities, pass through the STA, and all cash balances other than those in separate accounts associated with externally funded

¹⁵³ See for example: <http://www.mft.gov.ba/bos/images/stories/budzet/2013/DOB%202013-2015%20-S.pdf>

¹⁵⁴ See for example: http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf

¹⁵⁵ See for example http://predstavnickidom-pfbih.gov.ba/upload/file/sjednice/22_sr/19.pdf; also see http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/Pages/Dokument_okvirnog_budzeta.aspx

projects are centralized in it. As of January 1, 2013, local self-governance transactions have also been brought within the STA system, but all EBFs and public enterprises remain outside it.

Dimension rating: B

(iii) Systems for contracting loans and issuing guarantees

All the borrowing of Republika Srpska and of units of local self-governance, as well as the issuance of guarantees of RS and units of local self-governance is under control of the RS MoF – Section for Debt Management and Section for Budget and Finance.

The Section for Debt Management in the RS MoF is in charge of debt management in RS, as well as for the monitoring and reporting on the overall debt of RS. The basic functions of the Section are the following: participating in the drafting of laws and bylaws that regulate the area of internal and external borrowing and guarantees, participating in the preparation of projects and in negotiations, preparation of decisions on borrowing, monitoring of realization of international aid; cooperation with project implementation units, credit beneficiaries, competent line ministries, domestic and international institutions, collecting and systematizing cumulative data on contracted and realized international credits and grants, preparation and drafting of the budget and the three-years based budget framework paper in the part that concerns debt, performance of tasks relating to the issuance of guarantees and issuance of securities of RS, implementation of the procedure of issue and sale of securities, keeping records on borrowing, debt, guarantees, preparing reports and official information on borrowing, guarantees of RS, the management of the debt portfolio, taking into account the sources, the maturity, the currency and interest rate structure, as well as the monitoring and suggesting options for indebtedness in compliance with legislated limits.

RS may also contract direct internal and external borrowing, within the binding limits prescribed by the Law. Any borrowing of Republika Srpska demands an approval of the RS Government and the RSNA. The issuance of guarantees is defined in the same legal framework as the borrowing.

Government policy¹⁵⁶ is based on the recently installed legal limit to keep total public debt below 55% of GDP.¹⁵⁷ However, this policy has not yet been linked to fiscal targets in the context of medium-term fiscal planning, as is required for the highest rating on this dimension.

Dimension rating: B

Table 4.3.25.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B+	
Quality of debt data recording and reporting	A	Reports of internal and external debt are accurate and complete.
Extent of consolidation of government cash	B	All transactions of government departments (excluding EBFs and PEs) take place through the

¹⁵⁶ Analysis of public debt of BiH (done by the State MoF) is available at: http://www.mft.gov.ba/bos/images/stories/javni_dug/INFORMACIJA%2031%2012%202012%20BOSANSKI.pdf, as well as the Information on RS Debt as of the date of December 31, 2012, available at: <http://www.vladars.net/sr-sp-cyrl/vlada/ministarstva/mf/Documents/%D0%98%D0%BD%D1%84%D0%BE%D1%80%D0%BC%D0%B0%D1%86%D0%B8%D1%98%D0%B0%20%D0%BE%20%D0%B4%D1%83%D0%B3%D1%83%20%D0%A0%D0%B5%D0%BF%D1%83%D0%B1%D0%BB%D0%B8%D0%BA%D0%B5%20%D0%A1%D1%80%D0%BF%D1%81%D0%BA%D0%B5%2031%D0%B4%D0%B5%D1%8612.pdf>

¹⁵⁷ As per Article 15 of the Law on borrowing, debt and guarantees of RS, available at: <http://www.narodnaskupstinars.net/lat/stranica/zakon-o-zaduzivanju-dugu-i-garancijama-republike-srpske-lat>

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
balances		STA, in which almost all cash balances are consolidated. Local self-governance transactions are within the STA since January 1, 2013.
Systems for contracting loans and issuing guarantees	B	MoF controls all borrowing by central government and local self-governance units, as well as the issue of guarantees. However, the policy is not yet linked to fiscal targets.

PI-18: Effectiveness of Payroll Controls

Payroll and related charges represent a significant percentage of current costs of the RS budget. This indicator is intended to cover all significant government payrolls—that is, all civil servants and other government employees, including people employed in the health and education services and EBFs. Four dimensions are considered: (i) the degree of integration between personnel records and the payroll; (ii) the timeliness of changes to personnel and payroll records; (iii) the operation of internal controls over changes to personnel records and the payroll; and (iv) the existence of payroll audits to identify control weaknesses and/or ghost workers.

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

The Civil Service Agency (CSA) is responsible for producing shortlists for all appointments in central governments, including vacancies for promotion, but the final choice rests with the organizations concerned. The RS MoF Treasury performs the payment of wages for central government employees, but not for employees of the Pension, Health, and Employment Funds, which are not subject to central financial controls. The treasury performs centralized payment of wages upon the order of the budget organizations keeping the payrolls of employees. In the course of the year 2013, the realization of the project for the centralized calculation of wages had started, and its completion and commissioning is expected from January 1, 2015. Overall, substantial improvement is needed.

Dimension rating: D

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

CSA stated that the procedures for appointments and promotions (including notifications to the tax authorities) are normally completed within a month, thereby largely removing any need for retroactive pay adjustments. No detailed information was available about the number of retroactive adjustments to monthly salary payments.

Dimension rating: B

(iii) Internal controls of changes to personnel records and the payroll

Although the responsibilities of employing authorities, CSA, and the Treasury are clear, so that substantive changes to the payroll should provide an audit trail, it does not appear that the individual amounts employing authorities provide each month for their staff, including payment of the different allowances in addition to salaries, are adequately controlled.

Dimension rating: C

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

The SAI performs regular financial audit of the entire central government, and therefore all the institutions of the central government have been subject to financial audit at least once in the last 3.

In the course of auditing the calculation and payment of salaries for employees in public sector institutions the auditors perform tests on the basis of samples, applying all relevant ISA standards and ISSAI guidelines (1000-1700). The type and the size of the sample of wages depends on the level of assessed risk and the level of preliminary materiality. The auditors check the following, at the minimum: the number of employees (on the basis of personnel records and records of truancy, comparing it all with the number of employees for whom the calculation of wages has been performed and payrolls), calculation and payments of wages (summaries for all months, calculation for at least 4 months, if necessary more; individual calculations by groups of employees, and for certain months for all employees), lists and accounts into which payments are being made, as well as orders for bookkeeping entries. Auditors use checklists and software for the requirements of testing whether the salaries have been paid correctly, and for the tests of analytical and summary records for payments executed,

Dimension rating: B

Table 4.3.26.PI-18: Effectiveness of Payroll Controls

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Degree of integration and reconciliation between personnel records and payroll data	D	RS government recognizes the need for substantial action to establish a unified and well-controlled public sector payroll.
Timeliness of changes to personnel records and the payroll	B	Procedures are normally completed within a month, thereby removing any need for retroactive adjustments. However, EBFs are not covered by these arrangements.
Internal controls of changes to personnel records and the payroll	C	Although substantive changes should leave an audit trail, controls over amounts paid each month to individuals are considered inadequate.
Existence of payroll audits to identify control weaknesses and/or ghost workers	B	Payroll audit covering the central government of RS is being performed regularly as part of financial audit.

PI-19: Competition, Value for Money, and Controls in Procurement

This indicator was assessed only on the level of the BiH Institutions. Accordingly, the PI for FBiH, RS, and DB has been rated as N/A (not applicable).

PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

This indicator assesses the effectiveness of internal controls over non-salary expenditure, considering three dimensions: (i) the effectiveness of controls over the commitment of expenditure; (ii) the comprehensiveness, relevance, and understanding of internal control rules and procedures; and (iii) the degree of compliance with rules for processing and recording transactions. The controls should ensure that expenditure is incurred, and payments made, only when fully justified in accordance with budgetary provisions, and when all applicable regulations (including those concerning procurement) have been complied with.

(i) Effectiveness of expenditure commitment controls

The current arrangements prevent the Treasury system from making payments that would exceed the amounts of funds released on the relevant budget line. RS has enacted new legislation that provides statutory backing for efforts to strengthen financial management and control and internal audit throughout the Entity. The financial management information system allows for the registration of expenditure commitments at the time they are made. The requirement for spending units to comply with this applies for all budget users within the budget of Government of RS (Law on Budget System prescribes that liabilities cannot be above budget plan or available resources). However, the Audit Reports note that there are cases when liabilities are higher than available. Thus, rating is C, since expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.¹⁵⁸

Dimension rating: C

(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures

In recent years the RS Central Harmonization Unit (CHU) has coordinated continuing efforts to improve discipline in financial management and control in the spending units. New legislation and procedures have been introduced, and training has been given to the responsible officials in the spending units. The CHU, which is responsible for coordinating financial management and control, and for developing internal audit throughout the government and local self-governance units, produces an annual progress report. The SAI stated that in its view the performance of spending units has improved, however it is noted that implementation of actual activities is still not full and that rules and procedures are not complete.¹⁵⁹

Dimension rating: D

(iii) Degree of compliance with rules for the processing and recording of transactions

All government transactions pass through the STA, and since January 1, 2013, this has now been extended to local self-governance units. Continuing efforts are being made to strengthen internal control procedures throughout general government, coordinated by the CHU, and drawing on EU assistance under the IPA program. However, SAI states that there are cases of incompliance (identified by budget inspections) and that rules and procedures are not complete.¹⁶⁰

Dimension rating: D

Table 4.3.27.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Effectiveness of expenditure commitment controls	C	Coverage of commitment controls largely complete, but there are cases when liabilities are higher than available funds
Comprehensiveness, relevance, and understanding of other control	D	Recent training efforts, but SAI notes that implementation of actual activities is still not full

¹⁵⁸ For example, see Audit Report for 2012 (page 61): http://www.gsr-rs.org/static/uploads/report_attachments/2013/08/23/RI001-13_Cyr.pdf.

¹⁵⁹ For example, see Audit Report for 2011 (page 7): http://www.gsr-rs.org/static/uploads/report_attachments/imported/RI039-12.pdf.

¹⁶⁰ For example, see Audit Report for 2012 (page 7): http://www.gsr-rs.org/static/uploads/report_attachments/2013/08/23/RI001-13_Cyr.pdf.

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
rules/procedures		and that rules and procedures are not complete
Degree of compliance with rules for processing and recording transactions	D	Continuing work, but SAI states that there are cases of non-compliance (identified by budget inspections) and that rules and procedures are not complete.

PI-21: Effectiveness of Internal Audit

This indicator looks at the functioning of internal audit services as distinct from the internal control operations reviewed in PI-20. The internal audit function considered here is defined as an advisory service to top management on the functioning of the systems for which management is responsible; internal audit is by definition separated from any operational responsibility for the systems. Three dimensions are considered: (i) the coverage and quality of the internal audit function; (ii) the frequency and distribution of reports; and (iii) the extent of management responses to internal audit findings.

(i) Coverage and quality of the internal audit function

Although more auditors still need to be recruited and trained, RS has made a start on the introduction of internal audit, and reports are being produced in the majority of ministries and local self-governance units. The principal legislation, regulations, and operating instructions are all in place, and they provide for work to be done in accordance with international professional standards. Training is being given to internal audit staff. The managers of units for internal audit prepare, and the managers of organizations receive strategic and annual plans, as well as annual reports on activities of internal audit. The manager of RS CHU prepares the annual consolidated report of internal audit, and, pending the consent of the Minister of Finance, submits it to the Republika Srpska Government.¹⁶¹ However, the RS CHU does not approve the work plans of the internal audit units, nor does it automatically receive all their reports. In 2011 RSCHU published a consolidated report on internal financial control (including internal audit),¹⁶² which noted that the function of internal audit had been established in 18 institutions of the public sector with 27 internal auditors in total. The report did not discuss particular internal audits conducted during 2011. However, it did state that the RSCHU regards the internal audit function as not yet fully operational until the standards it has prescribed are fully met. SAI Report for 2012 notes that only two internal audits were performed in 2012 for RS Government level – for MoF and for Ministry of Economic Relations and Regional Cooperation. Two internal audit reports were made available for this review, one for the city of Bijeljina and one for the MoF, both covering 2012. It is clear from these reports that the internal audit function remains exclusively focused on compliance. Attention now needs to be paid to systems efficiency and value for money. SAI notes that internal audit is still not being implemented since the staff is only now being trained to conduct such audits and there is no evidence that at least 20% of staff time is dedicated to systems reviews, thus rating D is assigned.

Dimension rating: D

(ii) Frequency and distribution of reports

Reports are issued in accordance with internal audit units' work plans, and summaries are reported to the CHU in annual reports. It will also give more information about the recommendations made and the responses to them. Auditor time on each audit is being monitored with a view to increasing productivity and efficiency. The coverage remains very limited, and the capacity of the CHU needs to be strengthened

¹⁶¹ Source: Articles 16 and 26 of the Law on Internal Audit in the Public Sector of Republika Srpska ("Official Gazette of Republika Srpska", No. 11/08)

¹⁶² See for example CHU Consolidated Report for 2011

so that lessons learned can be exploited throughout the government. According to Law on Internal Audit in RS,¹⁶³ internal audit reports for audited institutions are submitted to heads of audited institutions upon completion of each individual audit, and the annual report is also submitted to the RS SAI. Upon request of the RS SAI such reports can be delivered to any legislative, executive or judiciary organ as well. Consolidated annual reports prepared by the CHU are submitted to the RS Government, upon approval of the Minister of Finance of RS. It is also submitted to all legislative, executive, or judicial body and relevant external auditor, based on their request. Thus, while internal audit coverage is very limited, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.

Dimension rating: B

(iii) Extent of management response to internal audit findings

According to the CHU, managers make some response to most reports, although the scope and quality of the responses has so far been limited. SAI notes that in response to an internal audit of loans and receivables done in 2012 by the CHU of Ministry of Finance in 2012, only a portion of recommendations have been addressed.

Dimension rating: C

Table 4.3.28.PI-21: Effectiveness of Internal Audit

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Coverage and quality of internal audit function	D	Coverage is limited, SAI notes that internal audit is still not being implemented since the staff is only now being trained to conduct such audits and there is no evidence that at least 20% of staff time is dedicated to systemic issues reviews, thus rating D is assigned.
Frequency and distribution of reports	B	While internal audit coverage is very limited, for the purpose of PEFA rating for this indicator, B rating is appropriate since reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI
Extent of management response to audit findings	C	According to the CHU, managements respond to some recommendations from the internal audit reports, but SAI notes that in one example of 2012 internal audit, only some recommendations have been addressed.

PI-22: Timeliness and Regularity of Accounts Reconciliation

This indicator examines (i) whether there are frequent and regular reconciliations between accounting data in the Treasury's books and bank account data, and (ii) whether advances and suspense accounts are regularly reconciled and cleared.

¹⁶³Available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/OM/harmonizacija/Documents/Zakon%20o%20internoj%20reviziji%20u%20javnom%20sektoru%20RS.pdf>

(i) Regularity of bank reconciliations

According to the Treasury, there are daily reconciliations between Treasury and bank records of the operation of the STA through which all government transactions flow. EBFs were already included, and local self-governance units have been brought within the STA as of January 1, 2013.

Dimension rating: A

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

According to Treasury, advances for travel and similar purposes, as well as suspense accounts are cleared on a daily basis, and further advances are not paid to contractors until the previous advances have been cleared. Furthermore, the recording of more detailed information relating to each transaction as a result of improvements to the CoA should have reduced any possible need to keep transactions in suspense accounts.

Dimension rating: A

Table 4.3.29.PI-22: Timeliness and Regularity of Accounts Reconciliation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Regularity of bank reconciliations	A	There are daily reconciliations between treasury and bank account records of transactions of the STA through which all general government transactions now pass.
Regularity of reconciliation and clearance of suspense accounts	A	Advances and suspense accounts are cleared without delay (daily), and there is little use of suspense accounts.

PI-23: Availability of Information on Resources Received by Service Delivery Units

This indicator asks whether normal administrative and accounting systems provide reliable information about the resources received by primary schools and primary health clinics, whatever level of government is responsible for their operation.

In RS the provision of school education is the responsibility of the central government, which determines what resources should be allocated to each school in terms of staff and provision for goods and services, including utilities and maintenance. Schools may secure additional resources through charges for the use of their facilities and through donations, which are reported in out-turn statements. However, healthcare is provided through the Health Fund, which commissions services for its subscribers (the government pays contributions on behalf of the unemployed) from health institutions that may belong to local self-governance units, voluntary organizations, or the private sector, and that are operated separately from the Health Fund. Nevertheless, information about the spending of health clinics is collected annually by the Health Fund and made available to the Ministry of Health.¹⁶⁴ Since schools and hospitals are in Treasury system and prepare annual reports on cash and in-kind resources received, information is routinely available about resources received by individual schools as well as primary health clinics and the rating is A.

¹⁶⁴ RS Health Fund provided the research team with a table containing data on expenditures and revenues of each health institution in the RS for years 2005 through 2011.

Table 4.3.30.PI-23: Availability of Information on Resources received by Service Delivery Units

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	Information is available at the Ministry of Education about the resources received by each school and at the Ministry of Health and the Health Fund about both revenues and expenditures of each health institution in the RS. Schools and hospitals are in Treasury system and prepare annual reports on cash and in-kind resources received.

PI-24: Quality and Timeliness of In-year Budget Reports

This indicator reviews three aspects of in-year budget execution reporting: (i) the scope of reports and the extent to which comparisons are possible with budget estimates on an administrative, economic, and functional basis, with commitments covered separately from payments; (ii) the timeliness of reports; and (iii) the quality of the information.

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

Data on actual expenditures are prepared in the same format as the annual budget—that is, by economic and administrative classification. The reports cover both payments and commitments.¹⁶⁵

Dimension rating: A*(ii) Timeliness of the issue of reports*

Year-to-date financial reports are produced daily by the Treasury system. According to Article 26 of the Rulebook on Financial Reporting, ministries are required to deliver quarterly budget execution reports to the MoF 25 days after the end of each quarter.¹⁶⁶

Dimension rating: A*(iii) Quality of information*

The information is derived directly from the Treasury system, with sufficient detail collected through the CoA to make possible the reliable classification of each transaction.

Dimension rating: A**Table 4.3.31.PI-24: Quality and Timeliness of In-year Budget Reports**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Scope of reports as compared with budget and availability of commitment as well as payment information	A	Reports are in the same format as the budget, both payments and commitments are covered.
Timeliness of issue of reports	A	Reports are issued quarterly within four weeks after the end of each period.

¹⁶⁵ See for example Budget Execution Report for Jan-Jun 2012. The Budget Execution Report is available as part of the documentation considered during the 23rd Session of the RSNA. The documentation is available at: <http://www.narodnaskupstinaris.net/stranica/materijal>

¹⁶⁶ Rulebook is available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Servisi/Poslovanje/Documents/Pravilnik%20o%20finansijskom%20izvjestavanju.pdf>

	2013 Rating (Method M1)	Justification
Quality of information	A	There are no material concerns about data accuracy.

PI-25: Quality and Timeliness of Annual Financial Statements

This indicator examines (i) whether a government produces annual financial statements containing full information about revenue and expenditure, and financial assets and liabilities;(ii) whether the statements are submitted for audit within a short period after the end of each year; and (iii) whether they are prepared in accordance with accounting standards broadly in line with International Public Sector Accounting Standards (IPSAS).

(i) Completeness of the financial statements

The annual financial statements are prepared in accordance with Article 41 of the Law on the Budget System of RS and contain full information on revenue and expenditure, and financial assets and liabilities. The detailed instructions reflect the government's decision to adopt IPSAS

Dimension rating: A

(ii) Timeliness of submission of annual financial statements

All financial statements of budget users are submitted to the Ministry of Finance of Republika Srpska within the deadlines stipulated by Law, and consolidated financial statements are, in addition to that, also submitted to the Agency for Intermediary, Information Technology, and Financial Services, with headquarters in Banja Luka. In addition, the deadlines for preparation and presentation of individual and consolidated financial statements are stipulated in budgetary regulations that are in effect in RS (The Law on the Budget System of RA and the relevant bylaws), as well as the Law on Accounting and Audit of Republika Srpska. Annual financial statements are submitted by the end of February of the current year for the preceding year, and consolidated statements are submitted by the end of April at the latest of the current year for the preceding year.

Dimension rating: A

(iii) Accounting standards used

The financial statements are prepared in accordance with the Rulebook on Accounting, Accounting Policies and Accounting Assessments for Budget Users in RS, the Rulebook on Criteria for Acquiring the Status of a Budget User, the Rulebook on Budget Classifications, Contents of Accounts, and Application of the Chart of Accounts for Users of Revenues of the Budgets of the Republic, Municipalities, Cities, and Funds, and the Rulebook on the Application of International Accounting Standards for the Public Sector. All the documents are available on the MoF website. These instructions reflect the government's decision to adopt international accounting standards. However, the financial statements for the public sector are compiled on a modified accruals basis in RS. Therefore, not all aspects of cash-based or accruals IPSAS are adopted and applied in practice. In addition, the latest available translation of IPSAS into the local language dates from 2011.

As of 2012, all of the 31 IPSAS standards that define accrual basis for budgetary accounting were implemented, except for IPSAS 23 (taxes and transfers). Until 2013, revenues were recorded on a modified cash basis, while from 2013, accrual accounting is supposed to be enforced in terms of revenue recognition as well. However, accrual recognition of public revenue will be used only for income

statements and balance sheets and other financial statements in line with IPSAS standards; for budget planning and budget execution reporting, the modified cash basis will continue to be used.

Dimension rating: C

Table 4.3.32: PI-25 Quality and Timeliness of Annual Financial Statements

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Completeness of the financial statements	A	Complete information is provided about revenue, expenditure, and financial assets and liabilities as required by the relevant laws and regulations.
Timeliness of submission of annual financial statements for audit	A	Consolidated statements are submitted by the end of April of the current year for the preceding year.
Accounting standards used	C	The statements are presented in a consistent form, but there are significant divergences from IPSAS, since the modified accruals basis of accounting is used, and also the latest available translation of IPSAS into the local language is from 2011. ¹⁶⁷

PI-26: Scope, Nature, and Follow-up of External Audit

This indicator looks at the work of the SAI and its contribution to satisfactory public financial management. Three dimensions are considered: (i) the range and quality of the audit work performed; (ii) the timeliness of the submission of audit reports to the legislature, particularly the report on the consolidated annual financial statements; and (iii) the evidence available about audited bodies' follow-up of the SAI's recommendations, and the SAI's follow-up in subsequent audits.

(i) Scope/nature of audit performed

Like the SAIs of the BiH Institutions and FBiH, the RS SAI has over several years benefitted from the assistance of the Swedish SAI, including most recently support in the execution of performance audits. Staff have been well trained, and work is performed in accordance with INTOSAI standards. The SAI uses a financial audit manual developed by the Coordination Board made up of the BiH and two Entity SAIs, which implements those standards. A few performance audit reports are produced each year in addition to reports on financial and compliance audit. The audit remit extends to central government; the Pension, Health, Employment, and Child Protection Funds; SOEs; and 70 local self-governance units. There are 57 staff to cover a total annual expenditure of around BAM 4 billion. Because of the considerable number of bodies to be audited, annual coverage is limited, and some smaller municipalities are audited only occasionally. However, the SAI determines its detailed coverage each year according to its judgment of the risks, based on previous experience, size of turnover, and time elapsed since the last detailed audit. When there are known problems of expenditure arrears—as in the case of the Health Fund. However, the audit of the Health Insurance Fund is performed regularly, each year, regardless of the degree of problems noticed in its operations.

According to RS SAI, in 2012 the coverage of financial audit was around 95% of expenditure at both RS Government and local self-governance level. As at least 75% of central government entities' expenditure is audited annually, at least covering revenue and expenditure, and since a wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues, the rating is B.

¹⁶⁷ Available at: http://www.ifac.org/sites/default/files/compliance-assessment/part_3/201301BosniaHerzegovinaAAARS.pdf

Dimension rating: B*(ii) Timeliness of submission of audit reports to the legislature*

The budget users submit their financial statements to the SAI by the end of June in accordance with the main budget law, and the SAI reports to RS National Assembly by the end of September each year. This timetable has been observed.

Dimension rating: A*(iii) Evidence of follow-up on audit recommendations*

The SAI seeks to follow up its own recommendations, and also seeks Parliamentary support. However, the RS National Assembly has given only muted support to the work of the SAI, and in 2010, against the advice of its Audit Board (the committee responsible for reviewing audit reports), it refused to endorse the report and recommendations. Moreover it has adopted a resolution requesting the SAI to agree with MoF on the volume, coverage, and criteria of audit work, which threatens to undermine the SAI's independence. The SAI informed the review team that there has been a reduction in the number of qualified audit opinions; however support for the work of the SAI in legislature could be improved.

Also the audited budget users have 15 days upon receipt of the draft SAI auditor's report, to object findings and provide additional evidence if necessary. The SAI is obliged to take these formal objections into consideration and modify its report if the justifications are reasonable. The details on the audits conducted as well as on the number of objections received by the SAI, are published in SAI's annual report.¹⁶⁸

Dimension rating: C**Table 4.3.33.PI-26: Scope, Nature, and Follow-up of External Audit**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Scope/nature of audit performed	B	A wide range of audit is performed to good professional standards. The coverage of financial audit was around 95% of expenditure at both RS Government and local self-governance level.
Timeliness of submission of audit reports to the legislature	A	Audit reports are submitted to RS National Assembly within 3 months of the receipt of financial statements from the audited subjects.
Evidence of follow-up on audit recommendations	C	Although the SAI seeks to follow up on its recommendations, evidence is insufficient to support the conclusion that the recommendations are being implemented by the audited entities.

PI-27: Legislative Scrutiny of the Annual Budget Law

This indicator is concerned with whether the RS NA undertakes a comprehensive and timely review of the annual budget proposed by the executive government. It takes into account the review of the budgets for the 2011, 2012, and 2013 fiscal years. Four dimensions are considered: (i) the scope of the Assembly's scrutiny; (ii) whether the Assembly's procedures in considering the budget are well established and respected; (iii) whether the Assembly has sufficient time for its review of budget

¹⁶⁸ Available at: http://www.gsr-rs.org/static/uploads/izvjestaji_o_radu/RG001-12.pdf

proposals; and (iv) the extent of possible in-year changes to the budget without prior approval by the Assembly.

(i) Scope of the scrutiny by Parliament

Although the MTEF is an integral part of the budget planning process in RS, it is not formally reviewed and adopted by the RS National Assembly. Only the annual budget is considered and adopted by the RS National Assembly.

The RS government submits the RS Economic Policy paper with updated macroeconomic and fiscal forecasts as well as the government's specific policy announcements along with the annual budget proposal. However, the operations of the EBFs are not included in the government's presentation of the overall fiscal outlook.

The Annual RS Budget and the Law on RS Budget Execution is reviewed by the majority of committees of the RS National Assembly, before they are submitted to parliamentary procedure for adoption. Representatives of RS Government and RS MoF are required to attend the discussions in aforementioned boards, as well as to discussions at the session of the RS NA in the course of adoption of aforementioned documents.¹⁶⁹

Dimension Rating: B

(ii) Extent to which the legislature's procedures are well established and respected

All the relevant procedures of the RS NA are set out in the standard Rules of Procedure and the Budget System Law of the RS. In practice they are well established and are respected, except that neither the executive nor the RSNA abides by the timeline set out in the Budget System Law. As a result, the Assembly has had only a very few days to consider two of the last three budgets.

Table 4.3.34. Extent to which the Legislature's Procedures are well Established and Respected

<i>Date draft budget proposal submitted to government</i>	<i>Date budget proposal submitted to government</i>	<i>Date budget proposal submitted to Parliament</i>	<i>Date budget law adopted</i>
2011	November	December 21 ^a	28.12.10
2012	November	November 23 ^b	28.12.11
2013	November	December 2	5.12.12

^aAccording to the Minutes of the 1st Special Session of the RSNA:

<http://www.narodnaskupstinar.net/stranica/zapisnik-sa-1-posebne-sjednice>

^bAccording to the Minutes of the 13th Session of RSNA:

<http://www.narodnaskupstinar.net/stranica/zapisnik-sa-13-redovne-sjednice>

Dimension rating: C

(iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).

The timetable for RSNA scrutiny of the annual budget law is set out in the Article 21 of the Law on Budget System of RS, as follows:

- by November 5 the government develops the draft budget and submits it to the RS NA;
- the RS NA determines its position concerning the draft budget by November 10;
- by December 1 the government develops a budget proposal for the next fiscal year and submits it to the RS NA; and

¹⁶⁹ The requirement is stated in the Article 44 of the Rules of Procedure of the RSNA and it refers to the procedures of all committees of RSNA and not only BFC: <http://www.narodnaskupstinar.net/stranica/poslovník>

- the RS NA adopts a decision concerning the budget for the next fiscal year by December 15.

According to this timetable, the legislature has a maximum of 25 days to consider the government's budget proposal. However, as explained in (ii) above, in practice the RSNA has had only a very few days to consider the budget proposal.

Dimension rating: D

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

The Law on Budget Systems of RS allows for amendments to budget allocations within the approved budget without prior approval by the RSNA. The extent of allowable reallocations is set in each year's budget execution law. The 2012 Budget Execution Law allows the RS government to reallocate resources on the basis of the MoF's recommendation within the total amount approved for each particular budget user. Reallocation between budget users within the overall approved total also requires the approval of the government: according to Article 13 of the 2012 Budget Execution Law, each budget user's total adopted budget can be reduced by a maximum of 5% to carry out such reallocations.¹⁷⁰

Dimension rating: B

Table 4.3.35.PI-27: Legislative Scrutiny of the Annual Budget Law

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Scope of the scrutiny by Parliament	B	The RS NA's scrutiny is relatively limited, although it covers the macroeconomic background as well as the budget proposals. It does not cover the EBFs.
Extent to which the legislature's procedures are well established and respected.	C	The prescribed procedures are followed in part. However, the requirement for adequate time to consider the final budget proposals is frequently overridden.
Adequacy of time for the legislature to provide a response to budget proposals, both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	D	The timetable as set out in the Budget System Law allows for a maximum of 25 days for the RS RS NA to consider the budget proposal. In reality the Assembly has only a few days to consider the budget proposal. In two out of three years emergency legislative procedure was invoked to speed up the decision-making process.
Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	Clear rules exist for in-year budget amendments and the extent of allowable reallocations is set in each year's budget execution law

PI-28: Legislative Scrutiny of External Audit Reports

The report of the RS Supreme Public Sector Audit Services (RS SAI) covers the entire general government of RS, as well as public enterprises and entities that receive government grants and foreign-financed projects. This indicator looks at the legislature's role in examining the RS Supreme Public Sector Audit Services' reports on the management of public finance and in monitoring the implementation of recommendations made by the RS SAI.

¹⁷⁰ 2012 Budget Execution Law is available at: <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Servisi/Poslovanje/Documents/Zakon%20o%20izvršenju%20Budzeta%20RS%20za%202013%20godinu.pdf>

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

The Law on Audit of the Public Sector of RS (Article 21)¹⁷¹ specifies the deadlines for the submission of audit reports on the financial statements of budget users. In accordance with the Law on Budget System of RS (Article 58), the MoF should complete each year's consolidated annual financial statement by May 20 of the following year. The SAI is then required to deliver its audit report on the consolidated annual financial statement to the RS NA within 90 days after receiving it from the government. The dates of submission and adoption of the last three audit reports are set out in Table 4.3.36.

The criterion for an A rating is that the National Assembly completes its work within three months after receiving the audit report. The SAI delivers its report by August 20; since the RS NA completed its work each year within two months after August 20, the rating is A.

Dimension rating: A

(ii) Extent of hearings on key findings undertaken by the legislature

The National Assembly has a special nine-member Audit Board with the mandate to review SAI reports. The Board is chaired by an opposition party member. The committee considers all reports. Budget users that receive negative opinions are required to attend public hearings. In addition, if it issues a negative opinion to some of the reports, the SAI has an obligation to send a copy of the auditor's report under the title of "SAI's Report" to the Chief Republic Prosecutor of Republika Srpska.¹⁷²

Table 4.3.37 sets out details on the number of reports submitted, the status of audit opinions, and the number of hearings conducted with budget users. It is clear that in-depth hearings take place only rarely, and that no hearings have been held in response to qualified reports.

Table 4.3.37. National Assembly Scrutiny of Audit Reports

<i>Reporting year</i>	<i>Total number of budget users</i>	<i>Number of unqualified reports</i>	<i>Number of qualified reports</i>	<i>Number of negative reports</i>	<i>Number of budget users attending hearings</i>
2009 ^a	28	13	15	0	0
2010 ^b	41	17	23	1	1
2011	44	26	18	0	0

^aSource: Report by Auditor General on the completed audits of the consolidated financial statement of Republika Srpska and financial statements of the budget users for 2009, p. 7: http://www.gsr-rs.org/izvjestaji/2010/gl_rev/Iz_GR_o_FI_za_2009_revid_u%202010_sa_prilozima-v1.pdf.

^bSource: Report by Auditor General on the completed audits of the Consolidated financial statement of Republika Srpska and financial statements of the budget users for 2010, p.8:http://www.gsr-rs.org/izvjestaji/2011/Budz_kor/Izvjestaj%20GSR%20o%20FI%20za%202010%20revid%20u%202011_konacan.pdf.

Dimension rating: C

¹⁷¹ Available at: http://www.gsr-rs.org/Zakoni_i_standardi/Zakon.pdf

¹⁷² The Law on Public Sector Audit in Republika Srpska ("Official Gazette of RS", issues No. 98/05 and 20/14), Article 24, Paragraph 2.

Table 4.3.36. Schedule of Audit Report Dates to the RS National Assembly

<i>Financial year</i>	<i>Date of submission of audit report</i>	<i>Date of adoption of audit report</i>
2009	August 2010	Report was rejected (see PI-26)
2010	August 2011	October 13, 2011 ^a
2011	August 2012	October 24, 2012 ^b

Source: Republika Srpska Supreme Public Sector Audit Services.

^ahttp://pressrs.ba/sr/vesti/vesti_dana/story/2102/Usvojen+konsolidovani+revizorski+izve%C5%A1taj+za+2010.+godinu.html.

^b<http://www.narodnaskupstinars.net/lat/stranica/zakljucak-broj-01-1530-12-lat>.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

The Audit Reports present the SAI's recommendations on actions to be undertaken by the government. The RS NA usually considers the reports and adopts conclusions on reports without any further amendments.

The Audit Board does not issue recommendations to impose sanctions on budget users for noncompliance with the recommendations of the RS SAI. The RS NA did not participate with the BiH Institutions and FBiH Parliamentary Assemblies in the UK DFID's technical assistance program to improve their capacity to make effective use of audit reports in pressing for improvements in public financial management.

Dimension Rating: C**Table 4.3.38.PI-28: Legislative Scrutiny of External Audit Reports**

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	A	The RS NA completes its work on audit reports within 3 months from the time they are submitted.
Extent of hearings on key findings undertaken by the legislature	C	Hearings take place occasionally and mostly when budget users receive negative reports.
Issuance of recommended actions by the legislature and implementation by the executive	C	The RS NA normally adds nothing to the recommendations, and adopts conclusions on reports.

IV. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

DISTRICT BRČKO

Executive Summary – Brčko District

For the purposes of applying the PEFA performance indicators, data and information from FY 2009 – 2011 were used in the calculations and for scoring the indicators, with more current information used for some indicators where such information was available.

I. Integrated Assessment of PFM Performance

A. PFM Out-Turns: Credibility of the Budget

Aggregate expenditure out-turns for the three fiscal years used in this Report (2009 to 2011) in Brčko District (DB) demonstrate a consistent underspending relative to planned spending targets, resulting from delays in execution of capital projects. The composition of expenditure out-turn compared to original approved budget also shows significant variances from the original approved budget.

Indirect taxation is the most important revenue source, comprising 64% of total DB consolidated revenues, and its collection is outside the control of the DB administration, and subject to delays. Nevertheless total revenue outturn performs reasonably in line with the approved budget; except in FY09 which showed 12.8 percent underperformance.

In common with the other three governments, DB also has not established a common definition of spending arrears nor the invoice due dates currently being entered in the accounting system. However according to data collected from the Directorate of Finance, DB does not have any accumulated arrears.

B. Key Cross-Cutting Issues: Comprehensiveness and Transparency

The DB government presents its budget showing the economic breakdown of the expenditure of each administrative unit as well as a breakdown into 14 functions, based on which the 10 main COFOG functions can be extracted. The government maintains a Treasury system through which all transactions pass and provides for consistent comparisons between budgeted and actual out-turns on administrative, functional, and economic classifications.

The DB budget documentation is reasonably comprehensive when compared to the norms presented in the PEFA methodology. However the documentation omits: (i) macroeconomic assumptions; (ii) detailed information on debt; (iii) details on financial assets. In addition the current year's budget is not presented in the same format as the budget proposals.

DB maintains its own Health Insurance Fund, Employment Fund, and Public Entity JP Putevi Brčko outside the budget; however, these funds detailed revenues and expenditures are presented to the Assembly alongside the budget. Out-turn statements are also published. There are no other significant government expenditures that are part of the budget.

DB has hitherto undertaken only one investment project: The District of Brčko Water Supply Project, which had been financed in part from external sources, by a loan amounting to € 4,96 million from Bank Austria Creditanstalt AG, and in part from domestic sources, by a loan of the Hypo Alpe-Adria- Bank a.d., Banja Luka amounting to BAM 6.87 million. In principle, and based on these examples, all investment projects are shown in the budget with their sources of financing however their execution is subject to delays in the procurement process and the approval of the annual budget by the Assembly.

In DB the public has access to a broad range of fiscal information including: (i) budget proposals, (ii) year-end financial statements, (iii) external audit reports, (iv) contract awards, and (v) information about the resources available to schools. Currently the public does not have access to in-year budget execution reports.

C(i).Policy-Based Budgeting

The key dates for the preparation of the annual budget are set out in the Law on Budgets of the DB. In practice budget approval has been delayed since 2010; for a variety of reasons including elections and failure to reach agreement on budget ceilings. The ultimate constraint is that the budget must be adopted by March 31, when the legal authority for temporary financing at the same rate as the previous year expires.

Multiyear fiscal forecasts are produced as part of the process leading to the preparation of the DB MTEF, including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and two following fiscal years). However, forward estimates are not used to anchor the preparation of the following year's budget ceilings.

The DB Directorate of Finance maintains an electronic database of external and internal debt and exchanges information with the MFT of BiH Institutions. External and internal debt is regularly reviewed, including as part of the regular review of the IMF SBA. DB also submits data to the BiH MFT Debt Management Unit, which maintains an access database of all internal and external debt of all BiH governments. The stock of debt of Brčko District as of the date of December 31, 2013, inclusive of interest, amounts to BAM 46.5 million, of which BAM 33.9 million concerns internal debt, while BAM 12.6 million concerns external debt. While data on debt status are collected regularly and reports on debt stock and servicing projections are provided, DSAs are not performed, except for the regular DSAs prepared by the IMF.

A Draft Development Strategy for BiH (with specific action plans separately for BiH Institutions, FBiH, RS, and DB) was prepared by the Directorate of Economic Planning of the Council of Ministers of BiH and was adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government. DB has a Development Strategy for 2008-2017, but the strategy lacks cost information. While there are sector strategies they lack cost information. The DB MTEF includes an analysis of "medium-term budget priorities", but these priorities generally reflect budget users' specific individual new spending initiatives rather than forming part of a broader sector strategy. Budget and forward estimates are, however prepared for each budget user.

C(ii). Predictability and Control in Budget Execution

Legislation and procedures for all major taxes are comprehensive and clear, and the discretionary powers of the tax inspectors are fairly limited. Taxpayers have access to some information on tax liabilities, but the availability of the information is limited. The DB Tax Administration (TA) maintains a website containing only copies of relevant laws. Taxpayers usually obtain information upon request (through meetings, e-mails, or telephone calls). Education campaigns or workshops for taxpayers are rarely organized. The DB TA issues individual tax certificates confirming tax liabilities, but the confirmed amounts are not always accurate.

The tax appeal system comprises three levels: (a) objection and appeal to the DB RA; (b) appeal to the independent Administrative Appeals Tribunal; and (c) appeal to the Administrative Court of DB. The decision process usually lasts longer than the timeframe specified in the rules/regulations. Decisions are

not publicly available. The tax appeals system is set up and functional; however, decisions are often not issued within the prescribed timeframe.

Tax audit plans are produced annually by the chief inspectors of DB RA and submitted to the head of the Tax Audit Department. The selection of taxpayers for audit is based on clearly defined risk assessment criteria, identified from tax declarations entered into the system. The system runs queries based on indications such as history of noncompliance and size of profits and revenues.

The total amount of tax collections in DB in 2011 was 16.8 million BAM. The average debt collection ratio in 2011 was above 90% for major taxes. However, because of omissions related to incorrect manual entry into the system by DB RA officials, the assessed amount personal income tax (from employment) was under-recorded by 7.5 million BAM. The total amount of tax collections for 2012 was 22.6 million BAM. The average debt collection ratio was above 80%. The personal income tax (from employment) assessment was also under-recorded in 2012, but it improved significantly in relation to 2011: tax assessments amounted to 5.8 million BAM, and tax collections amounted to 8.4 million BAM—an underassessment of 30%.

Noncompliance with payment obligations is subject to penalties. Tax-related penalties (i.e., percentage of additionally assessed tax liability) are levied for matters such as tax returns that are carelessly or deliberately incorrect, which results in unreported tax liability. Interest is assessed on late payments. DB RA does not issue reminders for late tax payments, which has hampered the collection of tax arrears.

Taxpayers remit payments into commercial bank accounts. Instructions for bank payments are clearly prescribed in the applicable legislation; direct cash payments in DB RA offices are prohibited. Transfers of revenue collections to the Treasury Account are made daily. However there is an absence of complete reconciliation of tax assessments, collections, and arrears.

Full details are published about the small amounts of debt owed by DB. Apart from the Health Insurance and Employment Funds, cash balances are all consolidated in the STA. Borrowing on any terms is tightly controlled by the Directorate of Finance. However, there are no links between borrowing and fiscal targets.

Personnel records are the responsibility of the Human Resources Management Authority (HRMA), which functions separately outside the Directorate of Finance. Payroll is under the control of a special section in Directorate of Finance. Databases for payroll and for personnel records are not directly linked and are not mutually consistent in term of data nor updated and reconciled on a monthly basis. Delays of up to three months can occur. Payroll data is updated when the data is submitted to Tax Administration. There are cases of retroactive adjustments. No audits specifically focused on the payroll have been undertaken in recent years.

The legal framework for procurement is clear and readily accessible to the public. Open competition is the default method. The publication of tender notices and contract awards is transparent, with information publicly available via the PPA's website. However, there is no public access to procurement plans or to results of recent complaints.

Since there is widespread criticism by auditors, and frequent complaints by tenderers are upheld by the Public Procurement Review Board (PRB), it is clear that the exceptions to open procedures are not properly justified in many cases. Information is limited to bidding opportunities in the form of procurement plans (though these plans are not usually published) and contract awards. No information is available on results of complaints in spite of legal requirements. Although the PRB has managed to issue many decisions, it lacks sufficient human resources to fulfil all its functions quickly and efficiently.

DB considers that the current control arrangements effectively prevent payments from being made beyond the budgetary provision for them. However, some processes are missing and detailed procedural rules and processes are not well defined. Internal control rules are increasing being implemented although further improvements in financial management and control are still needed in spending units.

DB has not yet taken any action to provide or implement internal audit.

C(iii). Accounting, Recording and Reporting

There are daily reconciliations between Treasury and bank records of transactions of the STA. However, the EBF's accounts are not covered by the STA. The Treasury ensures that advances are cleared without delay, with only few suspense accounts existing.

In DB, schools fall directly under the authority of government. In DB government systems identify the resources allocated to each school at both the budget (planning) and out-turn stages. The payments by which schools may earn funds through fees or charges raised for the use of school facilities and through donations, which are accounted for in out-turn statements, are paid into the BD Single Treasury Account. Accounting system provides reliable information on both cash and in kind resources received by schools. Financial resources for health services are provided through the Health Insurance Fund, which is financed mainly through contributions Health Insurance Fund revenues and expenditures are reported to the Assembly alongside the budget, but not the expenditures of individual clinics, or health facilities. While information is routinely available regarding resources received by individual schools, this is not the case for resources received by health care facilities.

Quarterly data on actual expenditures are prepared in the same format as the annual budget—that is, by economic and administrative classifications. The reports are prepared on a cash but not a commitments basis. The quarterly budget reports are submitted to the District Assembly within four weeks after the end of the quarter. The reports are produced in spreadsheets rather than being generated directly from the Treasury system, however the SAI does not report any major problems with the accuracy of the data presented in the reports.

The consolidated annual financial statements include full information on revenue and expenditure, and financial assets and liabilities. The lengthy delays in the District Assembly's adoption of each year's budget have resulted in some delays in the Directorate of Finance's submission of the financial statements for audit.

The accounting standards applied are defined by the 2008 Decision on Establishing Accounting Policies for Budget Users and Treasury of DB. DB aims to comply with IPSAS, but this does not necessarily mean that IPSAS are being consistently applied, bearing in mind that accounting and reporting are mainly done on a modified accruals basis. The latest available translation of IPSAS is from 2011, so recent revisions of the standards are not being applied.

C(iv). External Audit and Scrutiny

DB has its own SAI (Office for Audit of Public Administration of District Brčko). It conducts a range of financial, compliance audits and has also undertaken 4 performance audits and has full audit coverage of all government operations, including those of the Health Insurance Fund and local public utilities. Central government entities representing at least 75% of total expenditures are audited annually.

The SAI submits its audit reports to the Assembly each year in June, within three months after receiving the budget execution statements from the Directorate of Finance, in compliance with the law on SAI of DB. The SAI began its work only on March 1, 2007, and the recommendations it has made so far have

been relatively limited in scope. The Office, in its reports on financial audit performed, includes a special chapter under the title of “Review of findings and implementation of recommendations from the preceding audit”, which lists the recommendations from the preceding year which the client had not implemented, i.e. which the client had implemented only partially. In addition to that, following the publication of the report on performance audit, the Office checks on the degree of implementation of the recommendations provided, on the annual level, by requesting information in writing from the client. Besides the aforementioned, the Office, in its reports on operations from 2012 and on, on which it informs the Assembly of Brčko District of BiH and the public, separately discusses the chapter on “Realization of recommendations provided”.

The Directorate of Finance submits the draft budget to the DB government within the timetable established by the law (October 1). The budget should be approved by the Assembly by December 1. In practice budget negotiations in government take several weeks, and the eventual draft proposals are then submitted for public consultation—which in recent years has taken place in January and February of the budget year. Only thereafter are the formal proposals submitted to the Assembly. Less than a month may remain between the time of the formal submission of the government’s proposals to the Assembly and the end-March deadline beyond which temporary financing at the level of the previous year’s budget ends. Formal scrutiny of the proposals by the Assembly appears to be rather limited, although Assembly members are fully engaged in the preliminary consultations and the public hearings on the administration’s draft proposals.

DB SAI is required to deliver to the DB Assembly, DB government, and Office of the Public Prosecutor (i) the audit report on the government’s annual financial statements (actually it also delivers an audit report for each budget user), and (ii) the public report on the audits conducted by DB SAI. It normally takes up to eight months for the Assembly to complete its work on the SAI reports. The DB Assembly has not conducted budget user hearings; this practice has yet to be introduced in DB. The audit reports present the DB SAI’s recommendations on actions to be undertaken by the government. These recommendations are usually adopted by the DB Assembly without amendment.

Budget users do not address the recommendations of the DB SAI, or do so only in a superficial manner. Unlike in other levels of government in BiH, there is no specialized parliamentary committee that is designated to deal with audit reports.

The table below presents the overall scoring of the performance indicators.

DISTRICT BRČKO: PEFA ASSESSMENT

Accountability (PEFA) Assessment: Overview of the Indicator Set

<i>Indicator</i>	<i>Description</i>	<i>Meth</i>	<i>DB</i>
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR
B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	M1	B
PI-6	Comprehensiveness of information included in budget documentation	M1	B
PI-7	Extent of unreported government operations	M1	A
PI-8	Transparency of intergovernmental fiscal relations	M2	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C
PI-10	Public access to key fiscal information	M1	B
C. BUDGET CYCLE			
C(i)POLICY-BASED BUDGETING			
PI-11	Orderliness and participation in the annual budget process	M2	C+
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D+
C(ii)PREDICTABILITY AND CONTROL IN BUDGET EXECUTION			
PI-13	Transparency of taxpayer obligations and liabilities	M2	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B
PI-15	Effectiveness in collection of tax payments	M1	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B+
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B+
PI-18	Effectiveness of payroll controls	M1	D+
PI-19	Competition, value for money, and controls in procurement	M2	N/A
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	D+
PI-21	Effectiveness of internal audit	M1	D
C(iii)ACCOUNTING, RECORDING, AND REPORTING			
PI-22	Timeliness and regularity of accounts reconciliation	M2	B+
PI-23	Availability of information on resources received by service delivery units	M1	B
PI-24	Quality and timeliness of in-year budget reports	M1	C+
PI-25	Quality and timeliness of annual financial statements	M1	C+
C(iv) EXTERNAL SCRUTINY AND AUDIT			
PI-26	Scope, nature, and follow-up of external audit	M1	C+
PI-27	Legislative scrutiny of the annual budget law	M1	D+
PI-28	Legislative scrutiny of external audit reports	M1	D+

II. Assessment of the impact of PFM weaknesses

This section of the Report analyses the extent to which the performance of the assessed PFM system appears to support the three high level objectives. These are:

- Effective controls of the budget totals and management of fiscal risks contribute to maintain **aggregate fiscal discipline**.
- Planning and executing the budget in line with government priorities contributes to implementation of government's objective (**strategic allocation of resources**).
- Managing the use of budgeted resources contributes to **efficient service delivery** and value for money.

1. Aggregate Fiscal Discipline

Delays in agreeing budget ceiling and in establishing the amount of input taxes due to DB have resulted in delays in approval the budget and restrictions in the time to scrutinize the budget in the Assembly. The budget expenditure outcomes significantly under –perform the approved budget and significant deviations of the composition of the budget suggest also suggest concerns with the quality of the budget planning process. Revenue outturn showed significant over-performance in two of the three years under review which may indicate further weaknesses in revenue forecasting (in the case of input taxes is outside DBs control). Expenditure arrears have been increasing and the government lacks comprehensive data on arrears or a legal definition for its calculation. While the tax legislation and procedures are comprehensive and clear there is no reliable reconciliation of tax assessments, collections and arrears. Budget documents are reasonably comprehensive and made available to the public on a timely basis.

2. Strategic Allocation of Resources

The MoF provides reliable information on the availability of funds; there are few changes to budget allocations and, where these take place they are done transparently. The existing budget process does not have a strong policy or strategic focus. While there is an agreed development strategy and medium term expenditure framework sector strategies lack detailed costing information; priorities tend to reflect specific budget user initiatives rather than being seen as part of a broader sectoral strategy. The limited time available in order to scrutinize the budget in parliament may reduce the pressure on government to allocate and execute the budget in line with its stated policies.

3. Efficient Service Delivery

Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures and may occasionally be violated. The lack of a public sector internal audit function is a missing piece of DBs system of checks and balances. Non-observance of competitive tendering procedures may create the opportunity for inefficient procurement, corruption and leakages in the system. Weak linkages between the work of the SAI and parliament may reduce the extent the government is held to account for the efficient management of resources.

III. Prospects for PFM Reforms

DB sees an opportunity to increase budget discipline through revision of existing Law on Budget of Brčko District. The main task will be to prepare guidelines for the new law on budget which will bring in the budget discipline and responsibility, enable institutionalization of budget inspections and sanctions for non-compliance. Strategic planning will be improved in future and program budgeting is to be introduced. Training is planned to support these reforms. A Public Investments Programme (PIP) is also proposed for the future.

Assessment of PFM Systems, Processes and Institutions - District Brčko

PI-1: Aggregate Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the difference between the actual and the originally budgeted primary expenditure for District Brčko (DB) for the last three fiscal years (2009-2011). The expenditure taken into consideration is the aggregate budget, from which debt service payments (interest and principal) and externally funded project expenditure are excluded because they are outside the direct control of the government. The expenditure of the government-controlled Health and Employment Funds is also included. DB does not have its own pension fund: DB residents choose between the pension funds of the two Entities, Republika Srpska (RS) and Federation of BiH (FBiH). Because of this, extra-budgetary funds (EBFs) are of less importance relative to budget expenditure in DB than they are in RS and FBiH.

DB has generally budgeted cautiously to avoid any risk of exceeding its available revenue (see PI-3 for DB), and has persistently underspent its budget. The Director of Finance stated that the main reason for the underspending was delay in the execution of capital projects, which had been insufficiently prepared. Budgeted and actual expenditures for 2009-2011 are shown in Table 4.4.1. Because the expenditure shortfall exceeded 10% in two of the three years, but never reached 15%, the rating for this dimension is C.

Table 4.4.1. Percentage Difference between Out-turn and Budget

<i>Year</i>	<i>Original budget (BAM million)</i>	<i>Expenditure out-turn (BAM million)</i>	<i>Percentage difference</i>
2009	241.0	211.4	-14.3%
2010	231.0	198.9	-13.9%
2011	216.4	202.2	-6.6%

Source: DB Directorate of Finance.

Dimension rating: C

Table 4.4.2. PI-1: Aggregate Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C	The difference between budget and out-turn exceeded 10% in two of the three years.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator assesses the extent to which the composition of the budget changes from that originally planned by the Directorate of Finance (DoF) and agreed by the District Assembly. The PEFA Secretariat has set out a formula for calculating the variance of the out-turn from the approved budget. Each of the 20 largest lines in the original budget is adjusted by the percentage difference between the aggregate budget and out-turn as calculated for PI-1, and the differences between the actual expenditure on each line and these adjusted figures are then summed to measure the overall variance for the first dimension of this indicator as a percentage of the aggregate out-turn. The second dimension of the indicator looks at the amount of expenditure charged to the contingency reserve; the larger the amount charged to the reserve rather than reallocated to specific budget lines, the less transparent the budget. The tables containing calculations for the DB government are set out in Annex 4 of this report.

(i) Additional variance in expenditure composition, after taking into account the overall variance as in PI-1

The formula measures the additional variance over and above the overall variance calculated in PI-1 resulting from resources being reallocated from one area to another during budget execution. A good score is achieved if there are no significant reallocations from one functional area to another. Thus, there can be a good score on this indicator even if there is a substantial overall difference between the budget and out-turn as measured under PI-1, provided that the proportionate changes are similar on each budget head. The total variances are shown as percentages of the aggregate expenditure out-turn in Table 4.4.3. The very high variance in 2011 largely reflects considerable increases over the original budget by both the Health Fund and the Health Department. Because the total expenditure variance exceeded 15% in one of the three years, the rating on this dimension is C.

Table 4.4.3. Percentage Variance in Out-turn Composition compared to Budget

<i>Year</i>	<i>Expenditure out-turn (BAM million)</i>	<i>Sum of variances (BAM million)</i>	<i>Variances as % of expenditure</i>
2009	211.4	30.3	14.3%
2010	198.9	28.6	13.9%
2011	202.2	58.4	28.9%

Source: DB DoF

Dimension rating: C

(ii) Amount of expenditure charged to the contingency reserve

The average amount charged to the contingency reserve was 0.4% of total expenditure, well below the 3% threshold.

Dimension rating: A

Table 4.4.4.PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Additional variance in expenditure composition	C	Additional variance exceeded 15% in only one of the three years.
Amount of expenditure charged to the contingency reserve	A	The amount charged was far below 3% of total expenditure.

Table 4.4.5. 2011 Annual Statement of Operations for DB
(in million BAM)

<i>Description</i>	<i>Consolidated Brčko District</i>
Revenue	237.3
Taxes	169.2
Taxes on income profits and capital gains	15.6
Taxes on payroll and workforce	0.0
Taxes on property	1.1
Taxes on goods and services and international trade and transactions	152.5
Other taxes	0.0
Social contributions	34.5

Grants	0.0
Other revenue	33.5

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares actual total domestic revenue to the budgeted domestic revenue. Country-wide indirect taxation administered by BiH Institutions is shared among the four main government levels (BiH Institutions, FBiH, RS, and DB), while all other taxation and non-tax revenues are under the exclusive jurisdiction of each level separately.

DB consolidated revenue and receipts for the consolidated general government sector level (central government and EBFs), as reported by the Central Bank of BiH (CBBiH), are shown in Table 4.4.5. Indirect taxation is the most important revenue source, comprising 64% of total DB consolidated revenues—a significantly higher share than in the Entities, partly because DB total expenditure does not include a pension fund. The second most important revenue source is social contributions, which account for 17% of consolidated DB revenues. Direct taxation revenue makes up only 7% of consolidated DB revenue.

The overall system for distributing indirect taxation revenues among the four main levels in BiH is explained in detail in Chapter 2 and under this same indicator for BiH Institutions. In summary, once the share of BiH Institutions is deducted from total revenues, DB receives a fixed 3.55% of the remaining funds, and the rest of the funds are divided between the two Entities on the basis of data on final consumption locations identified in tax forms. The coefficients for distributing revenues between the Entities are variable; they are periodically adjusted to reflect changes in the final consumption and are formally adopted by the Governing Board of the Indirect Tax Authority (ITA). Periodical reconciliation is also envisaged when changes of coefficients occur. Out of each Entity's share, foreign debt servicing is first deducted, and the remaining funds are then shared among the general government sector levels.

For DB the coefficient (3.55%) is fixed in accordance with the Law on Payments into the Single Account and Allocation of Revenues, which was adopted in 2007 following a decision by the Office of the High Representative. In practice, in the past five years, there have been political problems/delays in the decision on the amount BiH Institutions will get from the indirect taxation revenues, as well as disputes about final consumption data and consequent delays on decisions on the formula for sharing indirect taxation revenues between the two Entities. Delays in the decision on the amount BiH Institutions will get from the indirect taxation revenues can affect DB, since DB's 3.55% share comes from the revenues available after the State's share is deducted.

For direct taxes, which are under the sole jurisdiction of each of the Entities and DB, the structure and rates of personal and company income tax and social contributions are set at the central level in DB, and revenues are then shared with local self-governance units and the two EBFs (Health and Employment).

In both Entities and in DB, the revenue of EBFs includes social contributions relevant to the specific fund and transfers from the central government for some funds; road public entities receive part of the indirect taxation revenues, as well as other road fees.

The Macroeconomic Analysis Unit (MAU) of the ITA is responsible for preparing forecasts of indirect taxes, taking into account countrywide macroeconomic projections prepared by the Department for Economic Planning under the Fiscal Council. These revenue projections are used by the Fiscal Council, Ministry of Finance and Treasury (MFT) of the BiH Institutions, the Entities' Ministries of Finance (MoFs), and the Finance Directorate of DB during the budget preparation process. However, the amounts entered into the budget of each government in respect of indirect tax revenue are the responsibility of that

government. Forecasting of revenue from direct taxes and other Entity/DB revenues is the responsibility of the respective MoFs—so in DB, the DoF is responsible for projections.

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

As noted above, the Entities and DB have their own mandate over direct taxes. The DB has the authority to legislate in the field of property taxation, taxation of personal income, corporate income tax, and social contributions for health and employment funds.

It was not possible to use consolidated data from the CBBiH for performing indicator calculations because it is available only for out-turns and not for plans. Therefore, the ratings for this indicator are based on the data from the DB DoF.

Table 4.4.6 shows revenue, budget forecasts, and actual out-turns. The table excludes the revenues of the DB Health and Employment Funds. Because DB residents pay their pension contributions into either of the two Entity funds they choose, Fund contributions are excluded from the analysis.

Table 4.4.6. District Brčko Revenues, with and without Indirect Taxes
(In million BAM)

	2009		2010		2011	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total revenue	213.3	185.9	195.6	204.2	196.6	208.7
% difference between out-turn and budget		-12.8%		4.4%		6.2%
Indirect tax revenue	156.0	130.5	137.2	148.9	138.6	150.1
Total revenue excluding indirect taxes	57.3	55.4	58.4	55.3	58.0	58.6
% difference between budget and out-turn		-3.3%		-5.3%		1.0%

Source: District Brčko Finance Directorate.

Table 4.4.7.PI-3: Aggregate Revenue Out-turn compared to Original Approved Budget

	2013 Rating (Method M2)	Justification
Overall rating	B	Total revenues were between 94% and 112% in two of the last three years, which results in a B rating. If indirect tax revenue is excluded from consideration, as being outside the control of the DB administration, the % differences between budget and out-turn are smaller. However, since revenue fell below 97% of budget in two of the three years, the rating would still be B.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

This indicator examines whether there are significant expenditure arrears, and whether there is a system that enables expenditure arrears to be effectively monitored. In DB at the moment of this assessment there is no legal definition of what constitutes arrears; no legal period has been established (e.g., 45 days) after which an unpaid invoiced obligation is considered to be in arrears; and within current Treasuries no payment due date is entered from the invoices until end 2013. Under the SBA, the BiH Institutions and Entity government authorities were obliged to establish, before October 2013, a common definition of arrears (with any amount that is not paid within 90 days after the due date considered to be in arrears)

and, from July 2013, procedures for budget users to enter all due dates of invoices into the Treasury. These deadlines were not met. As of end 2013, the payment due data have started to be recorded in the Treasuries at the BiH Institutions and Entity Government level (however, the complete 2013 reports on arrears have not been ready in time to be included in this Report), while the deadline for establishing definition of arrears was extended to early 2014. In February 2014 the Fiscal Council of BiH adopted a definition of an arrear which is described as any obligation that is recorded in the treasury application in the AP module - liabilities to suppliers, and that has not been paid within the timelines for accrual defined by Law, and within the deadline of 90 days at the longest from the date of accrual. On the basis of the common definition, each of the levels of governance shall adjust their legal frameworks. It is probable that the District of Brcko shall also do so.

(i) Stock and monitoring of expenditure payment arrears

DB does not have any arrears, according to the information received from the DoF. Note that while indirect taxation revenues finance the bulk of DB expenditures, the fact that DB receives a fixed share of indirect taxation revenues does not guarantee that arrears cannot be accumulated: DB also has its own additional revenues and, in addition, total indirect taxation revenue (on which DB's share is applied) can still fluctuate throughout year. However, expenditure policies in DB exhibit high-level discipline that prevents the accumulation of arrears. But, given that reliable data on arrears in line with legal definition is not yet available, insufficient information is available to score this dimension or indicator.

Dimension rating: NR

(ii) Availability of data for monitoring the stock of payment arrears

While there is no evidence that the DB budget incurred any arrears, since no official data on arrears in line with the legal definition of arrears are not available yet (as of end 2013), the rating for this dimension is D.

Table 4.4.8.PI-4: Stock and Monitoring of Expenditure Payment Arrears

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	NR	
Stock and monitoring of expenditure payment arrears	NR	According to DB they have never incurred any payment arrears. However there is no definition of expenditure payment arrears and there is insufficient information available to score this dimension.
Availability of data for monitoring the stock of payment arrears	D	No stock of arrears incurred however there is no reliable system for monitoring expenditure arrears.

PI-5: Classification of the Budget

The PEFA criteria look for arrangements that make it possible to compare budget and out-turn for the same year, and also provide for consistent comparisons from one year to the next, according to administrative, functional, and economic classifications. Ideally the 10 main functions of government as defined in the United Nations Classification of Functions of Government (COFOG) should be broken down into sub functions (e.g., different levels of education) or programs. This objective is facilitated by recording all transactions in accordance with a chart of accounts (CoA) that captures sufficient information about each transaction to enable reports according to each of the classifications.

Although there has been some progress, Public Finance Statistics still remain fragmented and incoherent across the different jurisdictions in BiH, a situation that most observers regard as a significant impediment

to proper governance. The EU has paid special attention to the issue; it has been providing technical assistance in this area since June 2012,¹⁷³ but progress has not yet been evaluated.

The DB government presents its budget showing the economic breakdown of the expenditure of each administrative unit as well as a functional breakdown following in total 14 function (same as in FBiH), based on which the 10 main COFOG functions can be extracted. The government maintains a Treasury system through which all transactions pass—or are recorded, if they are payments made from separate bank accounts established for externally funded projects—which provides for consistent reporting by administrative and economic classifications. The Treasury systems have been much improved since 2000, and the CoAs are broadly similar across all four governments. However, since the CoAs are not harmonized across the four governments, no consolidation is possible on a functional basis for the country as a whole.

Nevertheless, DB provides for consistent comparisons between budget and out-turn on administrative, functional, and economic classifications.

Dimension rating: B

Table 4.4.9.PI-5: Classification of the Budget

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	A functional (but not sub functional) breakdown is provided at both budget and out-turn stages, following the 10 main COFOG functions, in addition to breakdowns by economic and administrative classifications.

PI-6: Comprehensiveness of Information Included in Budget Documentation

The evidence for this indicator was drawn from the 2012 budget and from the medium-term expenditure frameworks (MTEFs) 2012-2014.

Table 4.4.10.Comprehensiveness of Budget Documentation (District Brčko)

<i>Element</i>	<i>Included</i>	<i>Comment</i>
The macroeconomic assumptions, including at least aggregate growth, inflation, and the exchange rate.	N	Macroeconomic assumptions are presented only in the MTEF but not the budget (See p.9 of the MTEF 2012-2014: http://www.DBcentral.net/images/stories/Vazni_akti/Budzet/Ba/dob-2012-2014-ba.pdf)
Fiscal deficit, according to GFS or some other internationally recognized standard.	Y	See p. 3 of the 2012 budget.
Deficit financing, describing the anticipated composition, domestic and external.	Y	See p.4 of the 2012 budget.
Debt stock, including details at least for the current year, i.e., the year before that to which the budget proposals relate.	N	Information regarding internal debt is available in the table on p. 31 of the MTEF 2012-2014: http://www.DBcentral.net/images/stories/Vazni_akti/Budzet/Ba/dob-2012-2014-ba.pdf . There is also information regarding debt servicing obligations in Annex 8 of the MTEF. However, information on debt stock levels is not available.
Financial assets, including details at least for the beginning of the current year.	N	We have been told that DB has about BAM 100 million deposited with commercial banks. This

¹⁷³ The main purpose of the project is to support the BiH's and Entities' MoFs, DB Finance Directorate, and other beneficiaries in providing reliable and inter-institutionally harmonized data on public finance on the basis of accrual accounting and in line with internationally recognized, in particular EU, principles, standards and practices.

<i>Element</i>	<i>Included</i>	<i>Comment</i>
Prior year's budget out-turn, presented in the same format as the budget proposals.	Y	information is not available in the MTEF or budget. 2012 budget document.
Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposals.	N	In the 2012 budget document, execution figures for the first half of the current year are shown instead of the budget.
Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	Y	In the 2012 budget document, the summary budget for 2012 is presented together with summary budgets for 2010 and 2011 (see p. 3).
Explanation of the implications of new policy initiatives, with estimates of the revenue effects of tax changes, and/or of the expenditure impact of major changes in public services.	Y	Relatively detailed information is available in the MTEF and also in the budget on how, for example, new policy initiatives introduced by ITA will affect DB tax revenues (pp. 154 - 171 of the 2012 budget).

Table 4.4.11.PI-6: Comprehensiveness of Information included in Budget Documentation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	Budget documentation fulfils five of the nine information benchmarks.

PI-7: Extent of Unreported Government Operations

Annual budget estimates, in-year execution reports, and year-end financial statements should cover all budgetary and extra-budgetary operations of the government. This indicator evaluates the extent to which operations under government control, including those of so-called extra-budgetary funds, are not reported at both estimate and out-turn stages. It also looks at the extent to which donor-funded projects are included in fiscal reports.

(i) Level of extra-budgetary expenditure omitted from fiscal reports

DB maintains its own Health Insurance Fund, Employment Fund and Public Company JP Putevi Brčko outside the budget. Similarly, from 1 July 2013 primary and secondary health protection as well as part of public health is outside of the budget. However, full details of their revenue and expenditure are presented to the Assembly alongside the budget. Out-turn statements are published. It does not appear that there are significant other expenditures under the control of the government that are not part of the budget.

Dimension rating: A

(ii) Inclusion in fiscal reports of information about income/expenditure of externally funded projects

DB has hitherto undertaken only one investment project: The District of Brčko Water Supply Project, which had been financed in part from external sources, by a loan amounting to € 4,96 million from Bank Austria Creditanstalt AG, and in part from domestic sources, by a loan of the Hypo Alpe-Adria- Bank a.d., Banja Luka amounting to BAM 6.87 million. In principle all investment projects are shown in the budget with their sources of financing, although execution has generally been seriously delayed by poor preparation, delays in the procurement process, and the Assembly's practice of approving the annual budget only on March 31 each year.

Dimension rating: A

Table 4.4.12.PI-7: Extent of Unreported Government Operations

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	A	
Level of extra-budgetary expenditure omitted from fiscal reports	A	Details of the budgets of Health, Employment, and public entities for roads are published alongside the government budget, and full details of out-turns are also published.
Inclusion in fiscal reports of income/expenditure of externally funded projects	A	Funding of all investment projects is presented in the budget, and this would in principle include any that are externally financed. In practice there has so far been little external financing of projects in DB.

PI-8: Transparency of Intergovernmental Fiscal Relations

This indicator evaluates the transparency of and accountability for the resources transferred between different levels of government. Three dimensions are considered: (i) the transparency and objectivity of the allocation of resources; (ii) the timeliness of reliable information to the government(s) concerned about their allocations; and (iii) the extent of consolidation of fiscal data for the general government according to sectoral categories.

Given the specificities of the BiH fiscal sector and the approach taken by this PEFA, under this indicator the report considers intergovernmental relations for the four main government levels separately. Thus, only intergovernmental relations related to DB are given under this indicator. However, the indirect taxation revenue—which is administered at BiH level but shared among the four main government levels—is covered under this same indicator for BiH Institutions.

As has been noted, DB receives a fixed share of 3.55% of revenues from indirect taxation after the State share is deducted. For direct taxes, the structure and rates of personal and company income tax and social contributions for the Health and Employment Funds are set at the central level in DB, and revenues are then shared with local self-governance units and the EBFs.

(i) Transparency and objectivity in the horizontal allocation among subnational governments

Dimension rating: Not Applicable, the DB does not have local self-governance level

(ii) Timeliness of reliable information to the different governments on their allocations

Within DB, which does not have subordinate local self-governance levels but only EBFs, there are no other issues in terms of the timeliness of reliable information on allocation.

Dimension rating: Not Applicable, the DB does not have local self-governance level

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

DB has no subordinate local self-governance units and only two EBFs. The DoF collects data about the functional classification of all its expenditure. For DB, therefore, consolidated information exists about general government expenditure according to sectoral categories within the normal timeframe for the production of budget execution statements.

Functional classification of expenditures is included in DB's MTEFs and in annual budgets. In practice, reporting by function is likely based on a broad approximation. Budget plans and execution reports of EBFs are reported to Parliament, consolidated with DB government reports.

Dimension rating: Not Applicable, the DB does not have local self-governance level

Table 4.4.13.PI-8: Transparency of Intergovernmental Fiscal Relations

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall Rating	NA	
Transparency and objectivity in the horizontal allocation among different governments	NA	The DB does not have local self-governance level
Timeliness of reliable information to different governments on their allocations	NA	Not Applicable. DB does not have local self-governance level
Extent of consolidation of general government fiscal data according to sectoral categories	NA	Not Applicable. DB does not have local self-governance level

PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

This indicator assess whether the government adequately monitors and manages the fiscal risks¹⁷⁴ arising from public sector activities or operations outside its direct control, including (i) the activities of public enterprises (PEs) and autonomous government agencies (AGAs) financed outside the budget, and (ii) the activities of subnational governments.

(i) Extent of central government monitoring of AGAs and PEs

DB has three PEs that are not effectively supervised by the DoF, however it receives full information about their business plans and results. The Health insurance fund, Employment fund, and Public Company JP Putevi Brčko submit their financial plans and reports on an annual basis, but also they are introducing a practice to submit quarterly reports as to the DoF. PEs report to Parliament of Brčko District BiH and submit their annual financial statements to Finance Directorate. However, no consolidated fiscal risk reports are produced.

Dimension rating: C

(ii) Extent of central government monitoring of lower-tier governments' fiscal position

DB has no lower-tier governments.

Dimension rating: Not Applicable

Table 4.4.14.PI-9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C	
Extent of central government monitoring of PEs and AGAs	C	The DoF effectively supervises the finances of both PEs and EBFs, but no consolidated fiscal risk reports are produced
Extent of central government monitoring of lower-tier governments	NA	There are no lower-tier governments in DB.

¹⁷⁴ Fiscal risks are defined as debt service defaulting, operational losses, expenditure payment arrears, and unfunded pension obligations.

PI-10: Public Access to Key Fiscal Information

Public access to key fiscal information is assessed through the six benchmarks for the indicator shown in Table 4.4.15.

Table 4.4.15. Benchmarks to assess Public Access to Key Fiscal Information

<i>Criterion</i>	<i>Publicly available</i>	<i>Explanation</i>
The budget documentation submitted to Parliament.	Y	DB holds extensive public consultations on the budget proposal and through them makes relevant budget documentation available to the general public. In recent years, because of delays in the government's budget deliberations, the consultations took place in March. For example, for the 2012 budget proposal the public consultations took place between March 5 and 16, 2012. The consultations take place at a number of localities throughout DB. None of the other BiH governments holds consultations about budget proposals.
In-year budget execution reports: are they made available to the general public?	N	The reports are not published on the website of the DB government on a regular basis, nor are they otherwise available to the general public unless requested specifically.
Year-end financial statements: are they made available within six months after audit completion?	Y	The Budget Execution Report for 2011 was not published on the government website until May 2013. The Budget Execution Report for 2012 was published in April 2013.
External audit reports: are they published within six months after audit completion?	Y	The reports can be accessed at: http://revizori-bdbih.ba/cms/index.php?option=com_joomdoc&view=documents&path=Izvjestaji%2Fsr&Itemid=16&lang=sr , within 6 months of completed audit.
Contract awards: is the award of all contracts with a value of \$100,000 (or equivalent) published at least quarterly?	Y	Contract awards are published in the Official Gazette upon award. The Official Gazette can be accessed via the PPA website: http://www.javnenabavke.ba/index.php?id=04h&je_zik=bs
Information about the resources available to primary service units (e.g., schools and health clinics): is such information published at least annually, or available on request to interested parents, patients, etc.?	N	Information about schools is contained in the DB budget, but no information is available for health clinics.

Table 4.4.16. PI-10: Public Access to Key Fiscal Information

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B	Four of the six benchmarks are met.

PI-11: Orderliness and Participation in the Annual Budget Process

This indicator aims to assess whether budget formulation adheres to a fixed and predictable budget calendar each year and is organised in a way that facilitates effective participation by budget users. Three dimensions are considered: (i) whether a fixed calendar is complied with; (ii) whether budget users are given clear expenditure ceilings approved by the government within which to prepare their submissions; and (iii) whether the budget is approved by the District Assembly before the beginning of each year.

(i) Existence of and adherence to a fixed budget calendar

The key dates for the preparation of the annual budget are set out in the Law on Budgets of the DB. The budget process begins in January or February each year when the DoF distributes Budget Instructions No. 1, which includes a detailed budget calendar setting out the requirements, responsibilities, and timelines for each stage of the budget process.

The budget calendar was generally not adhered to during the preparation of the 2013 budget, for several reasons. First, because of delay in the adoption of the 2012 budget, the DoF issued the instructions about a month later than foreseen by the calendar. Further slippage was caused by the fact that the DB government could not reach an agreement on initial budget ceilings. Additional delays followed the elections in fall 2012. As a result, the budget for 2013 was not adopted until March 28, 2013. However the delays are not unique to this budget year; rather, they have been a prominent feature of the budget preparation process since 2010. These delays also reflect the DB government's practice of submitting its draft budget to a process of public consultation before submitting the final proposals to the Assembly.

Table 4.4.17 sets out the budget calendar presented in the 2013 Budget Instructions No. 1 issued on February 29, 2012, and the actual dates each task was completed during the 2013 budget process. As long as the process depends on the DoF, deviations from the calendar are relatively minor, but delays may occur at the point when final political decisions have to be taken by the government, and during the process of discussion in the District Assembly. The ultimate constraint is that the budget must be adopted by March 31, when the legal authority for temporary financing at the same rate as the previous year expires.

Table 4.4.17. District Brčko Budget Calendar (for 2013 budget)

<i>Task</i>	<i>Responsibility</i>	<i>Date in budget calendar (or law)</i>	<i>Actual date for 2013 budget preparation</i>
Distribution of Budget Instructions No. 1	DoF	31.01.2012.	29.02.2012.
Submission of Budget User Priority Review Tables, new spending proposals, and savings options	Budget users	15.04.2012.	15.04.2012.
MTEF adopted	DB government	30.06.2012.	13.07.2012.
MTEF submitted to Parliament	DB government	01.07.2012.	16.07.2012.
Budget Instructions No. 2 issued (with budget ceilings)	DoF	01.07.2012.	18.07.2012.
Budget user discussions	DoF/Budget users	01.08.-01.09.2012.	02.10.-05.10.2012.
Budget submitted to government	DoF	15.09.2012.	21.02.2013.
DB government submits budget to District Assembly	DB government	01.10.2012.	22.02.2013.
Assembly approves budget	Assembly	01.12.2012.	28 March 2013

Source: Finance Directorate, District Brčko.

Dimension rating: C

(ii) Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)

Two sets of budget instructions are issued. Budget Instructions No. 1 sets out the detailed guidelines and instructions for the preparation of Budget User Priority Review Tables (BUPRTs) including high-priority new spending proposals and savings options, consistent with the priorities of the DB government. Following the submission of the BUPRTs, the DoF prepares the draft MTEF, which sets out, among other things, the underlying macroeconomic indicators and fiscal outlook, budget expenditure priorities for the budget and forward estimates period, and budget ceilings for each budget user.

Following the government's approval of the three-year MTEF, the DoF issues Budget Instructions No. 2, setting out initial budget ceilings for each budget user (in accordance with the MTEF) together with instructions for the preparation of budget requests. Budget users are required to prepare their detailed budget estimates in accordance with these ceilings. The DoF and budget users conduct discussions following the distribution of the Budget Instructions No. 2. Some adjustments to the ceilings may be permitted in accordance with government policy priorities and subject to the approval of final budget ceilings by the DB government.

Dimension rating: A

(iii) Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)

Since 2010, none of the budgets has been enacted before the beginning of the budget year.

Dimension rating: D

Table 4.4.18. Date of Enactment of Budget Law

<i>Fiscal year</i>	<i>Date budget law was enacted by Parliament</i>
2010	December 30, 2009
2011	March 2, 2011
2012	April 1, 2012
2013	March 28, 2013

Source: Finance Directorate, District Brčko and District Brčko Assembly (<http://skupstinaDB.ba/ba/zakoni/ba.html>).

Table 4.4.19.PI-11: Orderliness and Participation in the Annual Budget Process

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C+	
Existence of and adherence to a fixed budget calendar	C	A detailed budget calendar exists, but approval by the Assembly is usually delayed until well into the budget year.
Clarity/comprehensiveness in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	Clear budget instructions and guidelines are issued.
Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)	D	The budgets for the last three years have been delayed by more than two months.

PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

This indicator refers to the extent to which the governments of BiH and in this case DB plan their fiscal framework, expenditure policies, and budget plans over the medium term. Four dimensions are considered: (i) multiyear fiscal forecasts and functional allocations; (ii) scope and frequency of debt sustainability analysis (DSA); (iii) existence of multiyear costed sector strategies; and (iv) linkages between investment allocations and forward functional expenditure estimates.

(i) Preparation of multiyear forecasts

Multiyear fiscal forecasts are produced as part of the process leading to the preparation of the DB MTEF, including forward estimates of expenditure for each budget user (i.e., estimates for the forthcoming budget year and two following fiscal years). However, there is no evidence that the forward estimates are used to anchor the preparation of the following year's budget ceilings—that is, they do not roll forward; instead, the DoF effectively rebases the budget and forward estimates for each budget cycle.

The budget and forward estimates in the MTEF are prepared by administrative, functional, and economic classifications in accordance with the CoA. The annual budget proposal does not include forward year estimates.

Dimension rating: C

(ii) Scope and frequency of debt sustainability analysis

The stock of debt of Brčko District as of the date of December 31, 2013, inclusive of interest, amounts to BAM 46.5 million, of which BAM 33.9 million concerns internal debt, while BAM 12.6 million concerns external debt.

The DB DoF maintains an electronic database of external and internal debt and exchanges information with the MFT of BiH Institutions. External and internal debt is regularly reviewed, including as part of the regular review of the SBA. DB also submits data to the BiH MFT Debt Management Unit, which maintains an access database of all internal and external debt of all BiH governments.

While data on debt status are collected regularly and reports on debt stock and servicing projections are provided, DSAs are not performed, except for the regular DSAs prepared by the IMF.

The Law on Borrowing, Debt and Guarantees of BiH stipulates that Advisory Committee for Debt (comprising of two representatives from State Council of Ministers one of which is the Finance Minister, one representative from the Central Bank of BiH, two representatives from the Entity Governments including Finance Ministers, and Finance Directorate director from the Brčko District), which is supposed to be in charge of preparing debt management strategy. However, in practice, this has not been implemented.

Currently, the only debt sustainability analysis is the analysis IMF prepares within their Article IV Country Reports or periodically in some of the reports in reviews under the SBA (four such analyses were prepared by the IMF in 2009-2013). Since the IMF debt sustainability analyses have so far been performed without active participation of the authorities in the preparation process (other than data provision) and that the authorities do not use this analysis in their strategic planning process (the debt sustainability analysis is not linked to a specific government debt strategy in terms of future borrowing policies and needs at any government level (which are large, having in mind large infrastructure needs), the performance rating for this indicators is reduced.

However, it should be noted that the IMF has recently shared its methodology and instructions in terms of debt sustainability analysis with the Federal Ministry of Finance, based on the request of the Federal Ministry of Finance stemming from the conclusion of recent F BiH DeMPA prepared by the World Bank, which also found that no DSAs are undertaken, no sensitivity analyses are used, and no medium-term debt management strategy has been developed and it recommended that the technical assistance is provided to the Federal Ministry of Finance for the debt sustainability analysis. Thus, DSA preparation for the F BiH by the FMF can be expected in future, as it is prescribed by the new Law on Budgets in F BiH adopted in December 2013 that the debt sustainability analysis will have to be annexed to budget. The IMF DSA template has also been shared with the MFT in past years. Brčko District Directorate of

Finance is not familiar with the IMF methodology, and it does not prepare its own DSA – according to the Directorate of Finance, there has been no need for such analysis given small amount of debt and simple debt portfolio structure in DB, however, there are plans to increase capacities in this area. As with other Government levels in BiH, DB does not prepare debt strategies. Thus, given that the authorities have prepared and used own or IMF DSA in their own strategic planning process, the performance rating for this indicator is lowered as noted.

Dimension rating: D

(iii) Existence of costed sector strategies

A Draft Development Strategy for BiH (with specific action plans separately for BiH Institutions, FBiH, RS, and DB) was prepared by the Directorate of Economic Planning of the Council of Ministers of BiH and adopted by the FBiH and DB governments, but was never adopted by the Council of Ministers or RS government.

DB has a Development Strategy for 2008-2017,¹⁷⁵ but it is not costed. No costed sector strategies are formally developed for DB.

MTEFs do not represent truly costed sectoral strategies, as they basically just set up ceilings per budget user, rather than focusing on costed measures for strategy implementation. The DB MTEF includes an analysis of “medium-term budget priorities” (i.e., covering the forthcoming annual budget and two following fiscal years), but these priorities generally reflect budget users’ specific individual new spending initiatives rather than forming part of a broader sector strategy. Budget and forward estimates are, however, prepared for each budget user.

Dimension rating: D

(iv) Linkages between investment budgets and forward expenditure estimates.

Although there are no fully developed sector strategies, the DB administration recognizes the need to consider the future operating costs of any new investments and seeks to take account of them, although actual investment choices made during the final stages of budget discussions and in the District Assembly are determined mainly by political factors.

Dimension rating: C

Table 4.4.20.PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	D+	
Preparation of multiyear forecasts	C	Projections are made anew every year rather than rolled forward. GFF 2013-2015 contains all the elements prescribed by the Law on the Fiscal Council.
Scope and frequency of debt sustainability analysis	D	Full DSAs are not performed, except for the regular DSAs prepared by the IMF.
Existence of Costed Sector Strategies	D	DB has not attempted any development of sector strategies.
Linkages between investment budgets and forward expenditure estimates	C	Forward estimates in MTEFs take account of future current costs of investment projects.

¹⁷⁵ http://www.DBcentral.net/images/stories/Vazni_akti/Strateski_dokumenti/strategija_razvoja_brcko_distrikta_2008-2017-ba.pdf

PI-13: Transparency of Taxpayer Obligations and Liabilities

This indicator examines whether (i) tax legislation and regulations are clear and comprehensive and limit discretion by authorities, especially in decisions on tax assessments and exemptions; (ii) taxpayers have ready access to information on tax liabilities and administrative procedures; and (iii) there is a functioning tax appeals mechanism.

(i) Clarity and comprehensiveness of tax liabilities

The legislative framework for major taxes includes domestic tax laws, international treaties on avoidance of double taxation, and the laws governing administrative procedures. While the legislative framework for major taxes is generally clear and comprehensive, some important aspects of tax application are not very clearly and consistently reflected in the legislation and interpreted in practice. This mainly relates to implementation of important provisions of double taxation treaties (e.g. determination of tax residence, reduction of taxes upon deduction), and to transfer pricing. Consequently, tax inspectors tend to apply a fair amount of discretionary powers in determining tax liabilities in these areas.

Dimension rating: C

(ii) Taxpayer access to information on tax liabilities and administrative procedures

The DB Tax Administration (TA) runs a website containing only copies of relevant laws. Taxpayers usually obtain information upon request (through meetings, e-mails, or informal telephone calls). Education campaigns or workshops for taxpayers are rarely organized. DB RA issues individual tax certificates confirming tax liabilities, but the confirmed amounts are not always accurate.¹⁷⁶

Dimension rating: C

(iii) Existence and functioning of a tax appeals mechanism

The tax appeal system comprises the following levels: (a) objection on the report of inspection control; (b) appeal on the decision forwarded to Appeals Commission; and (c) initiation of administrative procedure with DB Basic Court; and (d) appeal to the Appellation Court of DB. The decision process usually lasts within timeframe defined in legislation while court decisions usually take longer. Decisions are not publicly available. Appeals are reviewed by bodies whose members rarely include experienced professionals from the private sector and civil society. Issued decisions are binding for all parties, with no discrimination in respect of rights to appeal. Consequently, the issues that need to be addressed are transparency (i.e., making decisions publicly available), improving time efficiency, and improving the technical understanding of the taxation principles (i.e., including in the review process professionals from the private and NGO sectors).

Dimension rating: C

Table 4.4.21.PI-13: Transparency of Taxpayer Obligations and Liabilities

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	C	
Clarity and comprehensiveness of tax liabilities	C	Legislation and procedures for all major taxes are comprehensive and clear, while there is a fair degree of discretionary powers of the tax inspectors in areas such as interpretation of international tax treaties and transfer pricing.

¹⁷⁶Findings of the 2012 Audit Report, issued by the Brčko Distrikt Supreme Auditor

	2013 Rating (Method M2)	Justification
Taxpayer access to information on tax liabilities and administrative procedures	C	Taxpayers have access to some information on tax liabilities, but the availability of the information is limited.
Existence and functioning of a tax appeals mechanism	C	The tax appeals system is set up and functional; however, decisions are often not issued within the prescribed timeframe. The areas for improvement include transparency, capacity in the appeal bodies and improvement of timeliness.

PI 14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator looks at how effective a tax administration is in identifying taxpayers and inducing them to pay the correct amounts on the due dates, using three dimensions: (i) whether all taxpayers are registered in a single database, with links to business licensing and other relevant government databases; (ii) whether the penalties provided under the law are enough to secure taxpayer compliance; and (iii) whether the choice of taxpayers for audit/inspection is based on an assessment of the risks of non-payment each represents.

(i) Controls in the taxpayer registration system

Taxpayers are registered in a single database, and the registration process is automated. Taxpayers are assigned a unique Tax Identification Number (TIN), which is used for all direct taxes. Tax authorities and taxpayers are obliged to use TINs in all official correspondence.

The central tax registration system is linked to the pension and social security fund system. Under the SBA, on June 12, 2013, the four tax agencies are assigned the Memorandum of Understanding on the exchange of taxpayer information, with a view to facilitating the permanent, unfettered, and automated sharing of taxpayer records.

Dimension rating: B

(ii) Effectiveness of penalties for noncompliance with registration and tax declaration

Companies (taxpayers of corporate income tax) are liable to a fixed penalty of 1,000 BAM to 5,000 BAM¹⁷⁷ for late registration, and a fixed penalty for late submission of tax returns in the amount of up to 150% of the late tax.¹⁷⁸ Penalties between 200 BAM and 2,000 BAM are also imposed on responsible persons (company directors).¹⁷⁹ Individual taxpayers (taxpayers of personal income tax) are liable to a fixed penalty of 200 BAM to 2,000 BAM for late registration, and to a fixed penalty of 200 BAM to 2,000 BAM for late submission of tax returns.¹⁸⁰ The penalties appear to be high enough, but they may not always be an effective deterrent.

Dimension rating: B

¹⁷⁷ The Law on FBiH Tax Administration Procedure, Article 74 (Zakon o poreznojupraviDB)

¹⁷⁸ The Law on FBiH Tax Administration Procedure, Article 78 (Zakon o poreznojupraviDB)

¹⁷⁹ The Law on FBiH Tax Administration Procedure, Articles 74 and 78 (Zakon o poreznojupraviDB)

¹⁸⁰ The Law on FBiH Tax Administration Procedure, Articles 74 and 78 (Zakon o poreznojupraviDB)

(iii) Planning and monitoring of tax audit programs

Tax audit plans are prepared annually and monthly¹⁸¹ by the chief inspectors of DB RA and submitted to the head of Sector for External Control and head of the Tax Administration for reconciliation purposes. The selection of taxpayers for audit is based on clearly defined risk assessment criteria, identified from tax declarations entered into the system. The system runs queries based on indications such as history of noncompliance and size of profits and revenues. However, the DBSAI's Report for 2011 found that the annual tax audit plans did not adhere to the prescribed risk assessment criteria: the plans were incomplete (missing the names of taxpayers and TINs); risk assessment criteria were not clearly documented; and the approval process did not follow the procedures.¹⁸²

Dimension rating: C

Table 4.4.22.PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B	
Controls in the taxpayer registration system	B	Taxpayers are registered in a complete database with some linkages to other relevant government registration systems.
Effectiveness of penalties for noncompliance with registration and tax declaration	B	There are penalties for noncompliance with registration and declaration obligations, but they may not always be effective in preventing offenses.
Planning and monitoring of tax audit programs	C	There is a continuous program of tax audits and fraud investigations, but in practice audit programs are not based on clear risk assessment criteria.

PI-15: Effectiveness in Collection of Tax Payments

This indicator assesses the performance of a tax administration in collecting the amounts assessed, maintaining control over the total of arrears, ensuring that revenues reach the Treasury quickly, and undertaking regular reconciliations between the detailed records of each taxpayer and the overall amounts paid into the Treasury.

(i) Collection ratio for gross tax arrears

The total amount of tax collections¹⁸³ in DB in 2011 was 16.8 million BAM. The average debt collection ratio in 2011 was above 90% for major taxes. However, because of omissions related to incorrect manual entry into the system by DB RA officials, the assessed amount personal income tax (from employment) was underrecorded by 7.5 million BAM (or 93% of the total), which compromised the reliability of data on tax in arrears.¹⁸⁴ The main reason for the difference in planning and realisation of the revenue (based on employment) in FY 2011 was due to a change in laws and regulations as well as due to disconnect between human and technical capacities in terms of the volume of work, meaning that it was impossible to enter all tax returns in due time. The problem was the most visible in FY 2011, however it was mitigated by various technical solutions in the subsequent years.

¹⁸¹ Tax audits are directed to taxpayers that are companies, and full audit generally includes corporate and personal income tax.

¹⁸² 2012 Audit Report, issued by the Brčko Distrikt Supreme Auditor does not provide a confirmation that the DB RA followed up on these findings.

¹⁸³ For major taxes: corporate income tax, personal income tax, property taxes.

¹⁸⁴ These findings were presented in the Report of the DB Supreme Auditor for 2011.

The total amount of tax collections for 2012 was 22.6 million BAM. The average debt collection ratio was above 80%. The personal income tax (from employment) assessment was also underrecorded in 2012, but it improved significantly in relation to 2011: tax assessments amounted to 5.8 million BAM, and tax collections amounted to 8.4 million BAM—an underassessment of 30%.¹⁸⁵

Noncompliance with payment obligations is subject to penalties. Tax-geared penalties (i.e., percentage of additionally assessed tax liability) are levied for matters such as tax returns that are carelessly or deliberately incorrect, which results in unreported tax liability. Interest is assessed on late payments. The 2012 DB SAI Report noted that DB RA does not issue reminders for late tax payments, which has slowed down the collection of tax in arrears.

Dimension rating: B

(ii) Effectiveness of transfer of tax collections to the Treasury

Taxpayers make payments into commercial bank accounts. Instructions for bank payments are clearly prescribed in the applicable legislation; direct cash payments in DB RA offices are prohibited. Transfers of revenue collections to the Treasury Account are made daily.

Dimension rating: A

(iii) Frequency of complete accounts reconciliations among tax assessments, collections, arrears records, and receipts by the Treasury

Information on revenue collection is electronically submitted to the accounting system of DB RA by the banks; reconciliation of collections is automated, and payments are assigned to taxpayers' TINs. However, receipts (tax collection) and tax assessment (recorded tax debt) in 2011 did not reconcile because of manual recording of tax declarations.¹⁸⁶ The incorrect processing of tax collections also resulted in incorrect reconciliation of payments to corresponding taxpayers' TINs. Tax assessments for FY12 related to corporate income tax were not recorded in the system in the prescribed timeframe. Also, the fact that the tax collections exceeded tax assessments implies that there is no efficient reconciliation between the two. Tax arrears cannot be allocated to the correct FYs, since they are recorded cumulatively and not reconciled to the corresponding periods.¹⁸⁷ Information on tax collections is compiled and sent monthly to the MAU.

Dimension rating: D

Table 4.4.23.PI-15: Effectiveness in Collection of Tax Payments

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Collection ratio for gross tax arrears	B	The average debt collection ratio in the two most recent fiscal years was above 80%
Effectiveness of transfer of tax collections to the Treasury	A	All tax revenue is collected into bank accounts controlled by DB RA and transferred daily to Treasury.
Frequency of complete accounts reconciliations between tax assessments,	D	There is an absence of complete reconciliation of tax assessments, collections, and arrears.

¹⁸⁵For major taxes: corporate income tax, personal income tax, property taxes, as per the Report of the DB Supreme Auditor for 2012.

¹⁸⁶These findings were presented in the Report of the DB Supreme Auditor for 2011: due to omissions related to incorrect manual entry into the system by DB RA officials, the amount of personal income tax (salary tax) collections was under-recorded by 7.5 million KM (or 93% of the total tax collections), which compromised reconciliation between tax in arrear and tax collections.

¹⁸⁷These findings were presented in the Report of the DB Supreme Auditor for 2012.

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
collections, arrears records, and receipts by the Treasury		

PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

This indicator assesses the extent to which the government provides reliable information on the availability of funds to budget users to enable effective resource management. It is intended to measure performance over the last completed fiscal year before assessment

(i) Extent to which cash flows are forecast and monitored

In DB, regular quarterly cash flow projections are developed, and they are also updated on the quarterly level. Usual significant discrepancies of actual data compared with the planned happen in the course of the fourth quarter.

Dimension rating: B

(ii) Reliability and horizon of periodic in-year information to budget users on ceilings for expenditure commitment

In DB budget users can be confident of the availability of cash to meet future commitments, provided that the commitments remain within annual budget allocations, and the payment requests remain within the cumulative monthly releases of funds by the DoF. They can enter the liabilities for the next quarter in line with quarterly operational plans, but they can plan and commit funds six months in advance in line with the adopted budget.

Dimension rating: A

(iii) Frequency and transparency of adjustments to budget allocations imposed on budget users

There has been no occasion in DB to impose in-year expenditure reductions. If there were, this action would need the approval of the Assembly under the Law on Budgets of DB, and would need to follow transparent procedures according to the legislation.

Dimension rating: A

Table 4.4.24.PI-16: Predictability in the Availability of Funds for Commitment of Expenditures

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	B+	
Extent to which cash flows are monitored and forecast	B	A cash flow forecast is prepared for each quarter of the fiscal year and updated quarterly.
Reliability and horizon of periodic in-year information on ceilings for expenditure commitment	A	DB budget users can commit up to their annual allocations, provided their payment requests remain within the cumulative releases of funds by the DoF.
Frequency and transparency of adjustments to budget allocations imposed on budget users	A	No in-year budget reductions have been imposed in DB.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

This criterion looks at debt management in terms of contracting, servicing and repayment, and the provision of government guarantees, including the following dimensions:

- maintenance of a debt data system and regular reporting on the main features of the debt portfolio;
- identification and consolidation of cash balances in all government bank accounts (including those for EBFs and government-controlled project accounts); and
- the proper recording and reporting of government-issued guarantees, and the approval of all guarantees by a single government entity (e.g., the ministry of finance or a debt management commission) against adequate and transparent criteria.

(i) Quality of debt data recording and reporting

As has been noted, the BiH Institutions are responsible for servicing almost all the country's public external debt. Since BiH is the ultimate guarantor for essentially the entire IFI foreign debt (regardless of whether the Entities are using it and repaying it), all loans must be approved by the Council of Ministers of BiH, BiH Presidency, and BiH Parliament. The same requirement applies to external guarantees of BiH (regardless of whether the Entities are final users).

CBBiH publishes quarterly figures for total external public debt.

Apart from the repayment of its share of the blocked foreign currency savings accounts, which should be complete by 2016, DB also has the following outstanding liabilities under credits as of the date of December 31, 2013, specifically: two credits that DB had inherited from former political arrangements that had existed within the territory of DB before its establishment (the Credit for the rehabilitation of the water supply system and the Credit for rehabilitation of the public housing fund of the Municipality of Brčko), in addition to the Credit for the renewal of the housing fund for refugees and displaced persons approved by CEB-Council of Europe Development Bank (five tranches), as well as two credits whose intention had been to finance the Water Supply Project for Brčko District of BiH – Water Factory (credit approved by Bank Austria Creditanstalt AG and the credit from Hypo Alpe-Adria- Bank a.d., Banja Luka). The debt data is complete and reconciled at the level of District Brčko.

Dimension rating: A

(ii) Extent of consolidation of government cash balances

All government cash balances are consolidated in the single treasury account (STA), with the exception of those of the Health and Employment Funds, whose operations account for about 15% of general government expenditure.

Dimension rating: B

(iii) Systems for contracting loans and issuing guarantees

As has already been noted, there is very little experience in DB of contracting loans, and none of issuing guarantees. All such transactions are firmly under the control of the DoF. There is so far no question of any need to manage borrowing within a prescribed policy framework. However, like other BiH governments, DB has a debt ceiling policy. This policy is regulated partly by its Budget Law and partly

by the Annual Budget Execution Law. Article 34 of the Budget Law¹⁸⁸ stipulates that short-term debt obligations cannot exceed 5% of the previous fiscal year's revenues.

Direct external debt borrowing and internal debt would require approval of the DB government and Parliament.

For the time being the objectives for debt are not linked to medium-term fiscal targets—that is, there is no formal debt management strategy that would steer debt management decisions.

Dimension rating: B

Table 4.4.25.PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

	<i>2013 Rating (Method M2)</i>	<i>Justification</i>
Overall rating	B+	
Quality of debt data recording and reporting	A	Full details are published about the small amounts of debt owed by DB. The debt data is complete and reconciled at the level of District Brčko.
Extent of consolidation of government cash balances	B	Apart from the Health and Employment Funds, cash balances are all consolidated in the STA.
Systems for contracting loans and issuing guarantees	B	Borrowing on any terms is tightly controlled by the DoF. However, there are no links between borrowing and fiscal targets

PI-18: Effectiveness of Payroll Controls

Payroll and related charges represent about 35% of current costs of general government in BiH. This indicator is intended to cover all significant government payrolls—that is, all civil servants and other government employees, as well as people employed in the health, education, and police services. Four dimensions are considered: (i) the degree of integration between personnel records and payroll data; (ii) the timeliness of changes to personnel records and the payroll; (iii) the internal controls over changes to personnel records and the payroll; and (iv) the existence of payroll audits to identify control weaknesses and/or ghost workers.

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

Personnel records are the responsibility of the Human Resources Management Authority (HRMA), which functions separately outside the DoF. Payroll is under the control of a special section in DoF. Health Fund employees are not covered by the DoF payroll. The DoF payroll section considers that HRMA records are deficient, that its performance evaluation procedures are ineffective, and that it has allowed wide variations in pay for equivalent work, despite the provisions of the 2005 Wage Law. Databases for payroll and for personnel records are not directly linked and are not mutually consistent in term of data nor updated and reconciled on a monthly basis.

Dimension rating: D

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

Personnel records and payroll data is not updated on a monthly basis, so delays up to three months may occur. Payroll data is updated when the data is submitted to Tax Administration. There are cases of retroactive adjustments.

¹⁸⁸ The Law is available at: <http://www.skupstinaDB.ba/zakoni/155/b/Zakon%20o%20budzetu%20B.pdf>

Dimension rating: B*(iii) Internal controls of changes to personnel records and the payroll*

The control section of the DoF Treasury tests the justification for individual salary payments, a procedure not followed in other parts of BiH (see PI-20). It thus partially compensates for the perceived weaknesses of HRMA and employing authorities. However, existing controls do not guarantee that mistakes are avoided, mostly due to possible mistakes in personnel records.

Dimension rating: C*(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers*

No audits specifically focused on the payroll have been undertaken in recent years.

Dimension rating: D**Table 4.4.26.PI-18: Effectiveness of Payroll Controls**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Degree of integration and reconciliation between personnel records and payroll data	D	Databases for payroll and for personnel records are not directly linked and are not mutually consistent in term of data nor updated and reconciled on a monthly basis
Timeliness of changes to personnel records and the payroll	B	Personnel records and payroll data is not updated on a monthly basis, so delays up to three months may occur
Internal controls over changes to personnel records and the payroll	C	Control section of Treasury tests the justification of individual salary payments, thereby partially compensating for weaknesses in controls by HRMA and employing authorities. However, existing controls do not guarantee that mistakes are avoided, mostly due to possible mistakes in personnel records.
Existence of payroll audits to identify control weaknesses and/or ghost workers	D	There have been no audits specifically focused on the payroll in recent years Regular financial audits are performed for all institutions of BD government and at least once in 3 years, and therefore payroll audits are also performed at the same pace.

PI-19: Competition, Value for Money, and Controls in Procurement

This indicator was assessed only on the level of the BiH Institutions. Accordingly, the PI for F BiH, RS, and DB has been rated as N/A (not applicable).

PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

This indicator examines the effectiveness of internal controls over non-salary expenditure, considering three dimensions: (i) the effectiveness of expenditure commitment controls; (ii) the comprehensiveness, relevance, and understanding of other internal control rules and procedures; and (iii) the degree of compliance with rules for processing and recording transactions. In the absence of BiH-wide legislation on Public Internal Financial Control (PIFC), DB has installed its own system of financial management and control, which is part of its overall public administration reform program.

The DoF recognized the need to take action to compensate for spending unit's weaknesses in financial management and control, and therefore established an ex ante control over commitments and identification of responsibilities, payment and in-coming accounting data which affect accuracy, completeness and reality of financial reports, which control functions since early 2008. Since then, in order to establish more efficient internal control system, a number of new internal control procedures have been introduced in DoF prescribing tighter controls over transaction processing and recording. These financial controls are enforced by DoF and they are implemented through control of core supporting documentation submitted by budget beneficiaries to the Directorate for payment and entering into accounting records. This control system is implemented through the Budget Control Unit of the Treasury.

(i) Effectiveness of expenditure commitment controls

For all contracts over BAM 15,000 DB regulations require contracting authorities to ask for official opinion of DB Attorney Office, in order to establish whether contract provisions comply with DB legislation. The contract cannot be signed without this approval.

All the approved contracts are recorded in their financial amounts at DoF for the purpose of expenditure control, budget planning and management. It would be possible to implement contract which amount exceed currently available resources, if budget beneficiary assesses and accepts the risk that gap would be covered by subsequent budget adjustments.

Payments against the contract would be made only if there is a certified delivery note, and confirmation that all aspects of the contract have been complied with.

Dimension Rating: A

(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures

DB considers that the current control arrangements effectively prevent payments from being made beyond the budgetary provision for them. However, they note that sharing of responsibilities/authorities for controls is not fully developed, with some processes missing detailed procedural rules and some process not being clearly defined. Internal control rules are increasing being implemented. The continuing need for vigilance on the part of DoF indicates that improvements in financial management and control are still needed at the level of the spending units. The DoF expects new legislation on financial management and control, including provision for the establishment of internal audit, to be enacted by mid-2013, providing the basis for a new effort to improve financial control in the spending units.

Dimension rating: D

(iii) Degree of compliance with rules for the processing and recording of transactions

In addition to defined regulated internal control rules, they are also internal documents which give further instructions in terms internal control rules for the major areas which are not defined or are not defined in detail in regulation. Internal control rule are increasingly used in practices and strengthened. External audit remarks note the areas which are not covered with control procedures or are not clearly regulated in terms of official rules.

Dimension rating: D

Table 4.4.27.PI-20: Effectiveness of Internal Controls over Non-salary Expenditure

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D+	
Effectiveness of expenditure commitments control	A	Commitments have to be registered when contracts are signed, and DB can suspend the process until it is satisfied that the rules have been observed. Payments are checked against commitments.
Comprehensiveness, relevance, and understanding of other control rules/procedures	D	Although DB control arrangements are effective in preventing errors, there is still need for improvement at the level of the spending units. Continuing work, but sharing of responsibilities/authorities for controls is not fully developed, with some processes missing detailed procedural rules and some process not being clearly defined.
Degree of compliance with rules for the processing and recording of transactions	D	External audit remarks note the areas which are not covered with control procedures or are not clearly regulated in terms of official rules.

PI-21: Effectiveness of Internal Audit

DB has not yet taken any action to provide for and implement internal audit, preferring to wait until the whole structure of PIFC required to meet the conditions for EU membership has been clarified. For the time being DB is relying on a more extensive ex ante control of commitments and payments than is in place in the other governments (see PI-20).

Thus, DB is not a part of the Coordination Board of Central Harmonization Units (CHUs) and does not have an established internal audit department. Guidelines for internal audit legislation in D are being developed. The legislation is expected to be adopted by end-2013 and one CHU for DB established.

Since nothing has yet been done to install internal audit, the score for each dimension, and the overall rating, is D.

PI-22: Timeliness and Regularity of Accounts Reconciliation

This indicator examines (i) whether there are frequent and regular reconciliations between accounting data in the Treasury's books and bank account data, and (ii) whether advances and suspense accounts are regularly reconciled and cleared.

(i) Regularity of bank reconciliations

There are daily reconciliations between Treasury and bank records of transactions of the STA. However, the EBF's accounts are not covered by the STA.

Dimension rating: B*(ii) Regularity of reconciliation and clearance of advances and suspense accounts*

The Treasury ensures that advances are cleared without delay, with only few suspense accounts existing.

Dimension rating: A

Table 4.4.28.PI-22: Timeliness and Regularity of Accounts Reconciliation

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	B+	
Regularity of bank reconciliations	B	There are daily reconciliations between Treasury and bank records of the STA, but EBFs are not covered by the STA.
Regularity of reconciliation and clearance of suspense accounts	A	Advances are cleared without delay, and only few suspense accounts used.

PI-23: Availability of Information on Resources Received by Service Delivery Units

This indicator asks whether normal administrative and accounting systems provide reliable information about resources received by primary schools and primary health clinics, whatever the level of government that is responsible for operating them.

In DB schools fall directly under the government, whose systems identify the resources allocated to each of them at both budget and out-turn stages. Schools may receive additional amounts through charges for the use of their facilities and through donations, which are accounted for in out-turn statements. Accounting system provides reliable information on both cash and in kind resources received by schools. Health services are provided through the Health Fund, which is financed mainly through contributions and operates at arm's length from the government. Some health facilities belong to the government, and their employees are treated as public servants, but their expenditure is not treated as part of the budget. (Transfers from the budget to such institutions are included in the budget, but they account separately for their revenue and expenditure.) Health Fund revenue and expenditure are reported to the Assembly alongside the budget, but not the expenditure of individual clinics, etc. Information is routinely available about resources received by individual schools, but not about resources for healthcare facilities.

Dimension rating: B

Table 4.4.29.PI-23: Availability of Information on Resources received by Service Delivery Units

	<i>2013 Rating</i>	<i>Justification</i>
Overall rating	B	Information is routinely available (via accounting system) about resources received by schools, but not healthcare institutions.

PI-24: Quality and Timeliness of In-year Budget Reports

This indicator reviews three aspects of in-year budget execution reporting: (i) the scope of reports and the extent to which comparisons are possible with budget estimates on an administrative, economic, and functional basis, with commitments covered separately from payments; (ii) the timeliness of reports; and (iii) the quality of the information.

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

Quarterly data on actual expenditures are prepared in the same format as the annual budget—that is, by economic and administrative classifications. The reports are submitted to the District Assembly. However, commitments are not covered.

Dimension rating: C

(ii) Timeliness of the issue of reports

According to Article 45 of the Law on Budget, the DoF is obliged to deliver quarterly reports to the DB government within 60 days after the end of the quarter. In practice these reports are completed and delivered within four weeks after the end of the quarter.

Dimension rating: A

(iii) Quality of information

The reports are produced on Excel spreadsheets rather than directly from the Treasury system. DB's intention is to develop a Budgetary Management Information System that is accessible to spending units as well as the Treasury, and will, among other things, greatly facilitate the production of such reports. A new draft law on accounting standards, prepared two years ago, was meant to introduce some aspects of International Public Sector Accounting Standards (IPSAS) but was not adopted by the DB Assembly. At the moment DB uses the same CoA as FBiH. The Auditor General does not report any major problems with the accuracy of the data presented in the reports.

Dimension rating: B

Table 4.4.30.PI-24: Quality and Timeliness of In-year Budget Reports

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Scope of reports as compared with budget, and availability of commitment as well as payment information	C	Reports are in the same format as the budget, with both economic and administrative classifications. Commitments are not shown separately.
Timeliness of issue of reports	A	Reports are issued quarterly, within a month after the end of each period.
Quality of information	B	Reports are issued quarterly, within a month of the end of each period. The quality of information is appropriate.

PI-25: Quality and Timeliness of Annual Financial Statements

This indicator examines (i) whether a government's annual financial statements include full information about revenue and expenditure, and financial assets and liabilities; (ii) whether the statements are submitted for audit within a short time after the end of each year; and (iii) whether IPSAS are applied.

(i) Completeness of the annual financial statements

The consolidated financial statements include full information on revenue and expenditure, and financial assets and liabilities, as verified by the DB SAI (accessible on the SAI website).

Dimension rating: A

(ii) Timeliness of submission of annual financial statements

The lengthy delays in the District Assembly's adoption of each year's budget have resulted in some delays in the DoF's submission of the financial statements for audit. There have also been some delays in the submission of some of the necessary information to the DoF.

Dimension rating: B

(iii) Accounting standards used

The accounting standards applied are defined by the 2008 Decision on Establishing Accounting Policies for Budget Users and Treasury of DB (available on the DoF website). DB aims to comply with IPSAS, and the SAI has not criticized its financial statements on this aspect. However, this does not necessarily mean that all IPSAS are being consistently applied, especially bearing in mind that accounting and reporting are mainly done on a modified accruals basis and that the CoA is based on FBiH's. In addition, the latest available translation of IPSAS is from 2011, so recent revisions of the standards are not being applied by any of the four governments.

Dimension rating: C

Table 4.4.31.PI-25: Quality and Timeliness of Annual Financial Statements

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	C+	
Completeness of the annual financial statements	A	Full information is given about revenue and expenditure, and financial assets and liabilities.
Timeliness of submission of annual financial statements	B	Submission for audit has on occasion taken place more than six months after the end of the year to which the financial statements relate.
Accounting standards used	C	Accounting standards are consistently applied each year, and for the most part meet the requirements of IPSAS.

PI-26: Scope, Nature, and Follow-up of External Audit

This indicator reviews the work done by the external audit institution. DB has its own dedicated audit institution, which is independent of the other public audit institutions in BiH. Like the other three BiH SAIs, DB's SAI is not anchored in the Constitution and does not have full independence from the DoF in setting its budget. Three dimensions are considered for this indicator: (i) the scope and nature of the audit performed, including its adherence to international standards; (ii) the timeliness of the submission of its reports to the District Assembly; and (iii) the evidence of follow-up of audit recommendations.

(i) Scope/nature of audit performed

DB has its own separate audit institution (Office for Audit of Financial Operations of Institutions of District Brčko of Bosnia and Herzegovina), which operates under legislation closely resembling that covering the BiH Institutions' and the Entities' SAIs. It seeks to comply with INTOSAI standards in carrying out its work. The DB SAI has been operating only since March 1, 2007. In addition to financial audit, and compliance auditing, the SAI has also already performed performance audits, specifically: a) of efficiency in the resolution of property and legal relations in the process of expropriation, b) of efficiency of the Brčko District of BiH Government in the resolution of citizens' appeals concerning the operations of public administration, c) of obstacles to more effective management of public property in Brčko District of BiH, and d) of company registration in DB. It has 13 staff, which should be sufficient to ensure full coverage of all government operations, including those of the Health Fund and local public utilities. Central government entities representing at least 75% of total expenditures are audited annually. In 2011 the DB Assembly commissioned a consultancy firm to review the SAI's operations.

Dimension rating: B

(ii) Timeliness of submission of audit reports to the legislature

The SAI submits its audit reports to the DB Assembly each year in June, within three months after receiving the budget execution statements from the DoF, in compliance with the law on SAI of DB. Audit reports are submitted to legislature within 3 months of end of period covered and in the case of financial statements from their receipt by the auditor.

Dimension rating: A*(iii) Evidence of follow-up on audit recommendations*

The SAI began its work on March 1, 2008, and the recommendations it has made so far have been relatively limited in scope. The review team was given to understand that the SAI reports do not contain much material about the follow-up of earlier recommendations. The office, in its reports on financial audit performed, includes a special chapter under the title of “Review of findings and implementation of recommendations from the preceding audit”, which lists the recommendations from the preceding year which the client had not implemented, i.e. which the client had implemented only partially. In addition to that, following the publication of the report on performance audit, the Office checks on the degree of implementation of the recommendations provided, on the annual level, by requesting information in writing from the client. Besides the aforementioned, the Office, in its reports on operations from 2012 and on, on which it informs the Assembly of Brčko District of BiH and the public, separately discusses the chapter on “Realization of recommendations provided”.

All budget users respond officially to draft audit reports and after final audit reports are submitted by the SAI, institutions prepare Action Plans for implementation of the audit recommendations, which are sent to SAI, Government, and Parliament. Before each audit, SAI received reports on implementation of the Action Plans from previous audits by each institution.

Dimension rating: C**Table 4.4.32.PI-26: Scope, Nature, and Follow-up of External Audit**

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	C+	
Scope/nature of audit performed	B	Audit work so far limited to financial and compliance examinations; however 4 performance audits have also been performed.
Timeliness of submissions to the legislature	A	The SAI send reports on annual budget execution statements to the Assembly in September each year, within three months after receiving the statements from the DoF.
Evidence of follow-up on audit recommendations	C	Recommendations so far have been limited in scope, and little evidence is available about auditees’ responses to them in SAI reports.

PI-27: Legislative Scrutiny of the Annual Budget Law

This indicator is concerned with whether the DB Legislative Assembly undertakes a comprehensive and timely review of the annual budget proposed by the executive government. It takes into account the review of the budgets for the 2011, 2012, and 2013 fiscal years. Four dimensions are considered: (i) the scope of the District Assembly’s scrutiny; (ii) the extent to which the Assembly’s procedures are established and respected; (iii) the adequacy of the time available to the Assembly; and (iv) the rules for in-year amendment of the budget without the DB Assembly’s prior approval.

(i) Scope of the scrutiny by Parliament

Both the DB MTEF (see PI-11 and 12), which includes the DB government’s macroeconomic and fiscal forecasts, and the Annual Budget proposal are formally submitted to the DB Assembly.

The DoF submits the draft budget to the DB government within the timescale set down in the law, in time for it to be submitted to the DB Assembly on October 1, in accordance with the law. The budget should be approved by the DB Assembly by December 1. However, once the initial proposals reach the government, the legally required timescale is disregarded. Political negotiation within the government may take several weeks, and the eventual draft proposals are then submitted for public consultation—which in recent years has taken place in January and February of the budget year. Only thereafter are the formal proposals submitted to the Assembly. Less than a month may then be left between the time of the formal submission of the government’s proposals to the Assembly and the end-March deadline beyond which temporary financing at the level of the previous year’s budget cannot be continued. Formal scrutiny of the proposals by the Assembly appears to be rather limited, although Assembly members may be fully engaged in both the preliminary political consultations and the public hearings on the administration’s draft proposals. These arrangements do not fit into any of the situations contemplated by the PEFA criteria, but according to information received the final budget proposals are not subject to much systematic scrutiny when they eventually reach the Assembly.

Dimension rating: C

(ii) Extent to which the legislature's procedures are well established and respected

Under the Law on Budgets of the DB, the government is required to submit a proposed budget to the Parliamentary Assembly by November 1 each year. The MTEF is submitted to the Parliament “for information” at the same time. The Law provides for the DB Assembly to discuss the proposed budget and adopt it by December 31 of the current year. However, as explained in dimension (i) above, actual practice does not conform to these requirements, and the Assembly has little formal impact on the final result.

Table 4.4.33. Extent to which the Legislature's Procedures are well Established and Respected

<i>Budget year</i>	<i>Date draft budget proposal submitted to the government</i>	<i>Date budget proposal submitted to the Assembly</i>	<i>Date budget law adopted</i>
2011	N/A	N/A	2.3.11
2012	N/A	N/A	1.4.12
2013	21.2.13	22.2.13	28.3.13

Source: DB DoF

Dimension rating: D

(iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).

DB has little concern about the macroeconomic background to the budget, since its guaranteed share of indirect tax revenue and practice of cautious budgeting mean that attention needs to be focused only on the actual expenditure proposals. Members of the Assembly have plenty of time to comment on the draft proposals before they are formally submitted by the administration, although collective consideration by the Assembly appears relatively limited.

Dimension rating: C

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

The law provides for significant amendment to budget allocations within the approved budget without prior approval by the Parliamentary Assembly. The law provides that, at a budget user's request, the DB DoF may decide to restructure the expenditures within the total amount approved for a particular budget user, if the change does not exceed 10% of the total approved expenditure for that budget user.

The government may reallocate funds between budget users within a given aggregate budget upon proposal by the DoF.

Dimension rating: B**Table 4.4.34.PI-27: Legislative Scrutiny of the Annual Budget Law**

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	D+	
Scope of the scrutiny by Parliament	C	Formal involvement of the Assembly is limited, although there is extensive public consultation.
Extent to which the legislature's procedures are well established and respected.	D	The established timetable for the Assembly's review of the administration's proposals is not followed.
Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	C	The Assembly is not much concerned with the macroeconomic background. Little time is available for its formal procedures.
Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	There are clear rules, but they permit extensive reallocations by the executive.

PI-28: Legislative Scrutiny of External Audit Reports

The report of the Audit Office covers the entire general government, PEs that are owned by the government or whose debts are guaranteed by it, and entities that receive government grants and foreign-financed projects. This indicator looks at the legislature's role in examining the Audit Office's reports on the management of public finance and in monitoring the implementation of recommendations made by the SAI. Three dimensions are considered: (i) the timeliness of the examination of audit reports by the Assembly; (ii) the extent of hearings on key findings undertaken by the Assembly; and (iii) the issuance of recommendations by the Assembly and their implementation by the executive.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

DB SAI is required to deliver two reports to the DB Assembly, DB government, and Office of the Public Prosecutor: the audit report on the government's annual financial statements (actually it also delivers an audit report for each budget user), and the public report on the audits conducted by DB SAI. It normally takes up to eight months for the Assembly to complete its work on the reports. The dates of submission of the reports and of the adoption of its reports by the Assembly are set out in Table 4.4.35.

Dimension rating: C

Table 4.4.35. Submission of Audit Reports to and Adoption by the Assembly

<i>Financial Year</i>	<i>Date of Submission of Audit Report</i>	<i>Date of Adoption of Audit Report</i>
2009	June 30, 2010	February 9, 2011 ^a
2010	June 30, 2011	December 14, 2011 ^b
2011	June 30, 2012	February 13, 2013 ^c

Source: Office for Audit of Financial Operations of Institutions of Brčko District of Bosnia and Herzegovina.

^a Decision by the DB Assembly on the Adoption of DB SAI Public Audit Report for 2009: <http://skupstinabd.ba/2-registar/ba/Odluke/2011/358.%2040%20.%20redovita%20sjednica%20-%20Odluka%20o%20usvajanju%20Javnog%20izvjes+taja%20Ureda%20za%20reviziju%20javne%20uprave%20i%20institucija%20za%202009.%20godinu%20%20-BOS.pdf>.

^b Decision by the DB Assembly on the Adoption of DB SAI Report on the Audit of Financial Statements for 2010: [http://skupstinabd.ba/2-registar/ba/Odluke/2011/999.%20od%20broja%20408/495.%2055.%20%20redovna%20sjednica%20-%20Odluka%20o%20usvajanju%20Izvjes+taja%20revizije%20finansijskih%20izvjes+taja%20za%20%202010.-BOS\(1\).pdf](http://skupstinabd.ba/2-registar/ba/Odluke/2011/999.%20od%20broja%20408/495.%2055.%20%20redovna%20sjednica%20-%20Odluka%20o%20usvajanju%20Izvjes+taja%20revizije%20finansijskih%20izvjes+taja%20za%20%202010.-BOS(1).pdf).

^c Decision by the DB Assembly on the Adoption of DB SAI Report on the Audit of Financial Statements for 2011: <http://skupstinabd.ba/2-registar/ba/Odluke/2013/45.%204.%20%20redovna%20sjednica%20-%20Odluka%20o%20usvajanju%20Izvjes+taja%20o%20reviziji%20finansijskih%20izvjes+taja%20za%20%202011%20BOS.pdf>.

(ii) Extent of hearings on key findings undertaken by the legislature

Table 4.4.36 sets out details on the number of reports submitted and the status of audit opinions.

Table 4.4.36. Parliamentary Scrutiny of Audit Reports

<i>Reporting year</i>	<i>Total number of audited institutions</i>	<i>Number of unqualified reports</i>	<i>Number of qualified reports</i>	<i>Number of negative reports</i>	<i>Number of audited institutions attending hearings</i>
2009 ^a	26	6	16	4	NA
2010 ^b	26	2	18	6	NA
2011 ^{cd}	26	3	22	1	NA

^aDB SAI Public Report for 2009, p. 19: http://revizori-bdbih.ba/cms/images/stories/Doc/Javni_izvjestaji-2009-H.pdf.

^bDB SAI Public Report for 2010, p. 31: http://revizori-bdbih.ba/cms/images/stories/Doc/Izvestaji_2011/h-javni%20izvjetaj%202010.pdf.

^cDB SAI Public Report for 2011, p. 30: http://revizori-bdbih.ba/cms/index.php?option=com_joomdoc&view=documents&path=izvjesca%2Fjavna-izvjesca&Itemid=16&lang=hr.

^dSource: <http://portal24h.ba/Brcko-bura-oko-revizorskih-izvjestaja>.

The DB Assembly has not conducted budget user hearings; this practice has yet to be introduced in DB.

Dimension rating: D

(iii) Issuance of recommended actions by the legislature and implementation by the executive

The audit reports present the SAI's recommendations on actions to be undertaken by the government. These recommendations are usually adopted by the DB Assembly without amendment.

The Law on Audit of Public Administration and Institutions of DB enables the Assembly to impose sanctions on budget users only if budget users either fail to provide requested information to the DB SAI or deliberately provide wrong information (see Article 49 and 50 of the law).¹⁸⁹ There are no regulations that would permit the imposition of sanctions for noncompliance with the recommendations of the Audit Office. The general

¹⁸⁹ The Law is available at: http://revizori-DBbih.ba/cms/images/stories/Doc/Zakon_%20o_%20reviziji_%20javne_%20uprave4008.pdf

assessment by the DoF is that budget users do not address the recommendations of the DB SAI or do so only in a superficial manner. The DB Assembly has not been of help in this regard. Unlike in other levels of government in BiH, there is no specialized parliamentary committee that is designated to deal with audit reports.

Dimension rating: C

Table 4.4.37.PI-28: Legislative Scrutiny of External Audit Reports

	<i>2013 Rating (Method MI)</i>	<i>Justification</i>
Overall rating	D+	
Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	C	Consideration of audit reports is usually complete within eight months after the Assembly receives them.
Extent of hearings on key findings undertaken by the legislature	D	Hearings do not take place.
Issuance of recommended actions by the legislature and implementation by the executive	C	The Assembly simply endorses the recommendations of the Audit Office. There is little evidence of any response by the executive.

IV. Assessment of PFM Systems, Processes, and Institutions

DONOR PRACTICES

In terms of the external debt (including budget support loans) and guarantees, they are contracted through the BiH Institutions for all government levels in BiH. However, each government level has external donations which do not necessarily have to be contracted/authorized through the BiH Institutions for all government levels (although Ministry of Finance and Treasury does keep some data on grants which go to lower government levels, but only for few donors such as the World Bank and KfW and mostly in the cases where country-wide coordination/project implementation units are established). Furthermore, only a small portion of all donations go through government budgets (in comparison to estimate of total external donations which is estimated roughly by the Central Bank within Balance of Payments based on the data on official development assistance to BiH published by the OECD-DAC and some collected directly from the donors present, as well as in comparison to estimate of foreign financing by the Sector for Coordination of International Economic Aid of the BiH Institutions Ministry of Finance and Treasury, external donations which go through the budgets represent a very small portion of total external donations). All donations are included in the Public Investment Programme (PIP), even those that do not pass through the budget. In addition, among the four central government levels, only BiH Institutions budget includes some small donations in budget plans (only for those donations which can be planned with certainty), while Entity Government budgets essentially do not include any donations. However, budget execution reports at all levels do include review of actually executed donations which go through budgets. Thus, only a very small portion of total external donations seems to go through government budgets, out of which in turn very small portion (or nothing at all at the Entity level) is planned in government budgets due in part to lack of predictability. Overall, external donations, as opposed to external budget support loans, are not an important source of revenue for central governments in BiH, with only small portions going through the budgets. Even in the cases of external donations which goes through the budgets, they are either not planned at all in budget plans (at the Entity level) or only a small portion is planned in budget plan (BiH Institutions), implying poor predictability of inflows of external donations. Given that most of the donor funding refers to external debt (budget support loans) and given that only small external donations are planned in the budgets (especially in the Entity budgets), the PEFA indicators measuring Donor Performance (D1-D3) in this Report is applied and measured only at the level of BiH Institutions. The flow of external debt information (among other dimensions of

financial/budgetary reporting) on debt financing is not fluid across the governments of BiH and is captured by reporting on BiH Institutions within the SBA with the IMF, and it is also planned that the entities shall improve their reporting on projects.

On its 94th session, held on May 9, 2014, the BiH Council of Ministers adopted the Information on the Public Investments Information Management System (PIMIS) and adopted the conclusion in connection with that all budgets users of the Institutions of BiH shall be under obligation to perform the planning and delegating of projects on line through the electronic form for identification, registration, and monitoring of projects / programme in the PIMIS system.

D-1: Predictability of Direct Budget Support

This indicator examines the functioning of the arrangements made by development partners to notify the recipient government of the amounts of direct budget support it could expect to receive each year, so that it can build them into its budget planning. It asks further whether payments are actually made in accordance with a previously notified quarterly path.

(i) Annual deviation of actual budget support from forecast provided at least six weeks prior to budget submission to the legislature

The direct budget support loans for general purposes to BiH in 2009-2013 were provided by the World Bank, European Commission, and the IMF. Although initial estimate of disbursement schedule exists in all cases and these funds have been included in government budget plans, actual disbursement timings of all of these budget support loans depend on fulfilment of policy conditions/criteria by the governments,

The direct budget support loans provided to BiH during 2009-2013 from the World Bank was in accordance with an agreement made in 2010. SDR 42.2million (about €51million) was paid in 2010, and a further €31.3million in 2012. There was no previous agreement about the timing of payments (just estimates), which depended on BiH's meeting the conditions for the disbursements. Given that the policy conditions were not met on time, disbursements were not made in line with initial estimates.

The EU agreed in 2012 to provide a macro-financial assistance loan of €100million (also a budget support loan), which is expected to be disbursed in tranches in 2013, subject to BiH meeting the conditions. There has been no previous notification of the timing of direct budget support payments -given that the policy conditions were not met on time, disbursements were not made in line with initial estimates.

Finally, BiH has had two SBA with the IMF (SBAs) since 2009, providing largest budget support loans in BiH¹⁹⁰. The first was approved on July 8, 2009, in the amount of SDR 1,014.6 million. That SBA closed on July 7, 2012, having disbursed a total of SDR 338.20 million. The current SBA was approved on September 26, 2012, in the amount of SDR 338.2 million (about US\$508.6 million). As of December 10, 2013, 211.38 million SDR¹⁹¹ had been disbursed. All of the receipts of the SBAs went to Entity governments. The SBAs also included estimate of disbursement timings, but given that in some instances the policy conditions were not met on time, there have been instances of delays of disbursements in comparison to initial estimates.

Given that budget support loans do not have official forecast of disbursements since they are tied to policy condition fulfilment by the governments, while budget donations are essentially not included in government budgets at all, ratings is D

¹⁹⁰ The first SBA with IMF was signed on 2 August 2002 in an amount of 67.60 million SDR and the total amount had been disbursed. The first SBA expired on 29 February 2004.

¹⁹¹ <http://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=75&date1key=2013-12-10>

Dimension rating: D*(ii) In-year timeliness of donor disbursements*

As explained above, essentially no official quarterly path was specified for direct budget support payments during 2009-2013, so there is no question of actual payments complying with a previously determined schedule.

Dimension rating: D**Table 4.5.1.D1: Predictability of Direct Budget Support**

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	D	
Annual deviation of actual budget support from pre-estimates forecast	D	No forecasts are provided of the amounts and timing of direct budget support payments.
In-year timeliness of donor disbursements	D	No quarterly path is specified of expected disbursements.

D-2: Financial Information Provided by Donors for Budgeting and Reporting on Project and Program Aid

This indicator examines whether development partners provide estimates of disbursements of project and program aid in time for them to be taken into account in the recipient government's budget preparation, and whether they subsequently make quarterly reports of actual disbursements.

(i) Completeness and timeliness of budget estimates by donors for project and program support

To the extent possible, the Sector for Coordination of International Economic Aid of the BiH Institutions Ministry of Finance and Treasury (MFT) keeps track of all external grant and loan financing provided to each of the four governments, and prepares a consolidated report. The latest Donor Mapping Report, produced in the second half of 2012, covers total allocations up to the end of July 2012. In 2011 grants totalled €171.3million and loans totalled €370.1 million. For 2012 grants totalled €176.3million and loans totalled €267.4million. The EU is the largest provider of grants, at about €50million a year in 2011-2012, followed by USAID, UNDP, Germany, and Sweden, each providing €20-25million. The largest lenders in 2011 were EIB (€215.5million), EBRD (€93.6million), and World Bank (€56.1million). The EU provided the following table showing its programmed and actual disbursements 2009-2012.

Table 4.5.2. Programmed and Actual EU disbursements, 2009-2012

(€ millions)

<i>Category</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Programmed	89.1	105.4	107.4	107.9
Paid	41.9	70.5	47.0	63.0

With the exception of EU projects (which are managed centrally by the European Union Delegation), the execution of externally financed projects and programs is under the control of the four BiH governments, to the extent that the donor funds go through the government budgets and that the donors or financiers communicate that information to the governments. World Bank assistance is programmed in accordance with a Country Partnership Strategy (the current strategy covers the period 2012-15, and envisages new commitments of about \$350million, while \$200m would be drawn under previous loan agreements), but actual drawings depend on the rate of project execution. The FBiH and RS governments generally include in budget estimates only the cofinancing element required for externally financed projects, while BiH

Institutions and DB also include already committed donor grants, to the extent the donors or financiers communicate that information to them.

The BiH Institutions MFT is working to integrate external funding into a Public Investment Program covering all four governments, which could then be brought fully within budget estimates.

Dimension rating: Not Applicable

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Since the relevant flow of information under the actual current arrangements for project execution (other than EU IPA projects, which are under EU direct control) is from the BiH authorities, who are managing project execution, to the donors from whom funding is drawn, this dimension is also considered to be Not Applicable.

Table 4.5.3.D-2: Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid

	<i>2013 Rating (Method M1)</i>	<i>Justification</i>
Overall rating	NA	
Completeness and timeliness of budget estimates by donors for project support	NA	Timing of drawings on external finance is controlled by BiH authorities, not by donors.
Frequency and coverage of reporting by donors on actual donor flows	NA	Information flow is from BiH authorities to donors, not the reverse.

D-3: Proportion of Aid Managed by the Use of National Procedures

This indicator looks at the extent to which aid is integrated into the country's normal arrangements for budget preparation and execution, in accordance with the Paris and Accra Declarations, which envisage that donors will progressively increase their reliance on national systems for the execution of the projects they finance. Amounts received as direct budget support by definition use national procedures for procurement, banking/payment, accounting, internal controls reporting, and audit.

Externally financed projects are thus using some elements of national procedures at present only for staffing, which on the PEFA conventions implies that the usage of national procedures is only 25%. Since direct budget support for the three years 2010-2012 at about €80million amounts to only about 5% of total external funding (€1.66 billion) during this period¹⁹², the overall average use of national procedures remains well below the 50% threshold required for a C rating.

Indicator rating: D

Table 4.5.4.D-3: Proportion of Aid Managed by the Use of National Procedures

	<i>2013 Rating</i>	<i>Justification</i>
Overall rating	D	The proportion managed through national procedures remains well below 50%.

¹⁹²Information World Bank Client Connection Web Application

V. REFORM PROCESS

A. Recent and Ongoing Reform Measures

Through a joint Public Administration Reform Coordination Office project, all four main levels of government (BiH Institutions, two Entities, and DB) are in the final phases of introducing a Budget Management Information System that should simplify the budget planning process (including the performance-budgeting/program format) and provide data sharing between the budget planning and treasury (separately at each of the four levels; no overall consolidation will be facilitated).

BiH Institutions. The Law on Financing of the Institutions of BiH was amended in April 2013 to ensure that external debt service obligations can continue to be made in the absence of an approved government budget¹⁹³ (an existing structural benchmark). However, issues may remain in regard to the temporary financing of the BiH Institutions, which the law implies could theoretically last forever.¹⁹⁴

Federation Bosnia and Herzegovina. A new Law on Budgets was adopted in December 2013, which strengthens the overall budget preparation process in FBiH, explains the budget calendar in greater detail, and increases the ability to enforce spending limits on lower levels of government, EBFs, and public companies.¹⁹⁵ The Law includes a fiscal rule stating that the planned current budget must be balanced, and if a current deficit is executed, the government must plan for a current surplus in the next three years.

In addition, new amendments to the Law on Distribution of Revenues in FBiH, which are also in parliamentary adoption procedures, envisage a decrease of the cantons' share and an increase in the local self-governance units' share in personal income tax, and also simplify the revenue sharing in Canton Sarajevo. It is also envisaged that, after the data on population census are processed (the BiH Census is scheduled for October 2013), all of the revenue distribution formulas in this law will be revisited.

Republika Srpska. In RS, a centralized payroll system for all employees in the public sector will be set up for improved recording, control, and planning. RS plans to start this process by the end of calendar year 2013 and fully implement it by July 2014.¹⁹⁶

All levels. Other improvements (envisaged within the SBA with the IMF) include (a) signing of a Memorandum of Understanding by the four tax administrations on the exchange of taxpayer information (with a view to facilitating the permanent, unfettered, and automated sharing of taxpayer records); (b) the planned submission of a new law on public procurement to the BiH Parliament to strengthen governance, enhance transparency, and bring procurement practices in BiH in line with those in the EU); (c) continued expansion of treasury systems in both Entities to cover all cantons, local self-governance units, and EBFs, and (d) establishment of a common definition of spending arrears by the BiH Institutions and Entity governments and a requirement that all due dates of invoices be entered into the treasury system and data on arrears according to legal definition start being produced.

An EC-financed project, *Capacity Building for the Compilation of Accounting Data within the Scope of General Government and Public Finance Statistics*, has been initiated to establish a methodology, responsibilities, and deadlines for fiscal data consolidation and reporting for the whole general government sector of BiH. Some initial training for lower government levels in FBiH is envisaged. Another EC-financed project in the area of public finance in BiH, *Strengthening Public Financial*

¹⁹³ This was one of the structural benchmarks for BiH within the SBA with the IMF.

¹⁹⁴ Ibid.

¹⁹⁵ This is one of the structural benchmarks for FBiH within the SBA with the IMF (IMF December 2012, Bosnia and Herzegovina: First Review Under the SBA and Request for Waiver of Nonobservance of a Performance Criterion—Staff Report; Press Release; and Statement by the Executive Director).

¹⁹⁶ Ibid.

Management in Bosnia and Herzegovina, aims to improve the quality of fiscal policy and the link between the policymaking and budget planning processes, and to strengthen the public internal financial control system.

B. Expected Changes in Tax Legislation in Bosnia and Herzegovina

1. Bosnia and Herzegovina: Indirect taxes

The penalty interest for late payment of indirect taxes will decrease from the current 0.06% per day to 0.04% per day.

The ITA is implementing the project *Further Harmonization of Indirect Taxes in BiH with the EU Legislation*, a twinning project executed in coordination with the Ministries of Finance of Austria and Slovenia. The changes in legislation are likely to be implemented in the next two years. Regarding VAT legislation, harmonization with OECD guidelines is expected in the areas of tax refunds, place of supply of services, electronic and Internet services, and others. Harmonization with the EU legislation will be implemented in the areas of excise duties, transfer of goods, intellectual property rights, internal procedures and audits, risk analyses, human resources, and development of the IT system.

2. Federation of Bosnia and Herzegovina

The draft version of the Amendment of the Corporate Income Tax Law of FBiH indicates that several changes will be made to the legislation in FY 2014.

- ***Corporation tax incentives.*** Currently, there are two main incentives: the *export-related incentive* (a full exemption for companies whose gross export sales exceed 30% of total sales), and the *investment in production incentive* (for companies that are investing a minimum of BAM 20 million over five consecutive years in production). With the legislation changes, the export-related tax exemption will become proportional to net export sales, and the investment in production incentive will be abolished.
- ***Transfer pricing documentation.*** The new legislation will introduce more comprehensive and detailed instructions regarding documentation of transactions with related parties. The instructions will be in line with OECD guidelines. FBiH branches of RS and DB companies will now be liable for corporate income tax attributed to their profits earned in the FBiH (currently, their profit is exempted from the FBiH taxation). Legislation will be introduced to shorten the period of carry forward of tax losses from the current five years to three years.

In addition, there are ongoing discussions changing the tax rate applicable to personal taxation. The current flat tax rate of 10% may be replaced with incremental progressive rates. Exemption from taxation of income from dividends and capital gains from the disposal of shareholdings is expected to be abolished.

ANNEX 1. BIBLIOGRAPHY AND SOURCE DOCUMENTS

Constitution of Bosnia and Herzegovina and Amendment no1.

Constitution of Federation Bosnia and Herzegovina

Constitution of Republika Srpska

Budget

Law on the Financing of the Bosnia and Herzegovina Institutions. BiH Official Gazette, 61/04, 49/09, and 42/12 (*BiH Organic Budget Law*)

Law on the Budget in FBiH Official Gazette 19/06, 76/08, 5/09, 32/09, 51/09, 9/10, 36/10, 45/10 and 25/12 (*FBiH Organic Budget Law*) and Law on Budget FBiH Official Gazette 102/13 which replaced the existing Law on Budget

The Law on the Budget System of the RS, RS Official Gazette, 121/12 – this law replaced the original law on the “Budget System” (RS Official Gazette, 96/03), and all subsequent amendments and additions to the law (RS Official Gazette 14/04, 67/05, 34/06, 128/06, and 117/07, 126/08 and 92/09) (*RS Organic Budget Law*)

Law on Budget of Brčko District, DB Official Gazette 150/08 (*DB Organic Budget Law*)

Law on the budget of the Bosnia and Herzegovina Institutions and foreign debt servicing of the Bosnia and Herzegovina for 2013, 2012, 2011, 2010 and 2009 (BiH Official Gazette 100/12, 42/12, 12/12, 103/09 and 07/09)

Budget of BiH for 2009, 2010, 2011, 2012 and 2013

Budget of FBiH for 2009, 2010, 2011, 2012 and 2013

Budget of RS for 2009, 2010, 2011, 2012 and 2013

Budget of DB for 2009, 2010, 2011, 2012 and 2013

Law on budget execution of FBiH for FY 2009 FBiH Official Gazette 87/08

Law on budget execution of FBiH for FY 2010 FBiH Official Gazette 81/09

Law on budget execution of FBiH for FY 2011 FBiH Official Gazette 42/11

Law on budget execution of FBiH for FY 2012 FBiH Official Gazette 4/12

Law on budget execution of FBiH for FY 2013 FBiH Official Gazette 109/12

Law on budget execution of RS for FY 2009 RS Official Gazette 126/08

Law on budget execution of RS for FY 2010 RS Official Gazette 115/09

Law on budget execution of RS for FY 2011 RS Official Gazette 1/11, 52/11, 116/11

Law on budget execution of RS for FY 2012 RS Official Gazette 84/12, 03/12

Law on budget execution of RS for FY 2013 RS Official Gazette 116/12

Law on budget execution of DB for FY 2009 DB Official Gazette 10/09, 1/10

Law on budget execution of DB for FY 2010 DB Official Gazette 01/10, 61/10

Law on budget execution of DB for FY 2011 DB Official Gazette 03/11

Law on budget execution of DB for FY 2012 DB Official Gazette 08/12

Law on budget execution of DB for FY 2013 DB Official Gazette 06/13

Annual Budget execution Reports of BiH institutions and international obligations of the BiH for FY 2009, 2010, 2011 and 2012

Annual Budget execution Reports of FBiH for FY 2009, 2010, and available only for January through September 2012 (not published for FY 2011)

Annual Budget execution Reports of RS for FY 2009, 2010, 2011 and for the period from January through September 2012

Annual Budget execution Reports of DB for FY 2011 and 2012

Medium-term Expenditure Frameworks

Medium-term Expenditure Framework of BiH Institutions for the period 2013 to 2015

Medium-term Expenditure Framework of BiH Institutions for the period 2009 to 2011

Medium-term Expenditure Framework of BiH Institutions for the period 2008 to 2010

Medium-term Expenditure Framework of BiH Institutions for the period 2007 to 2009

Medium-term Expenditure Framework of the FBiH for 2010 to 2012

Medium-term Expenditure Framework of the FBiH for 2013 to 2015

Medium-term Expenditure Framework of the RS 2011 to 2013

Medium-term Expenditure Framework of the RS 2012 to 2014

Medium-term Expenditure Framework of the RS 2013 to 2015

Medium-term Expenditure Framework of Brčko District for the period from 2012 to 2014

Medium-term Expenditure Framework of Brčko District for the period from 2011 to 2013

Supreme Audit

Law on Auditing Institutions of Bosnia and Herzegovina, January 31, 2006

Law on Auditing the Institutions of FBiH, May 8, 2006

Law on Audit of Public Sector of Republika Srpska, October 6, 2005

Law on audit of Public Administration and institutions of Brčko District of BiH, September 18, 2008

Internal audit

Mart, 2012 the Annual Internal Audit Report, prepared by the BiH CHU

Annual consolidated report on internal audit in public sector in the FBiH for FY 2011

Annual consolidated report on establishing and development of internal financial audit in public sector in the Republika Srpska for FY 2011

Law on internal audit in public sector in Republika Srpska 30 January 2008 RS Official Gazette 17/08

Other

Rulebook on the Procedures of Council of Ministers of BiH, BiH Official Gazette, 22/03

Law on the Council of Ministers of BiH, BiH Official Gazette, 30/03, 42/03, 81/06, 76/07, 81/07, 94/07, and 24/08

Law on the Ministries and Other Administrative Bodies of BiH. BiH Official Gazette, 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09, and 103/09

Law on the Fiscal Council of Bosnia and Herzegovina. BiH Official Gazette, 63/08

CBBiH.(2012). Government Finance Statistics, 2012. Sarajevo: Central Bank of Bosnia and Herzegovina (CBBiH)

Law on Payments into the Single Account and Allocation of Revenues BiH Official Gazette 55/04, 34/07, 49/09

Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina, the BiH Official Gazette 52/05 and 103/09)

Law on settlement of liabilities from foreign currency deposit savings of BiH (BiH Official Gazette 28/06, 76/06, 72/07, 97/11, 100/13

Law on Borrowing, Debt and Guarantees of Republika Srpska, RS Official Gazette 71/12

Law of indirect taxes in the BiH Official Gazette 44/03, 52/04, 34/07, 4/08 and 49/09

Law on Public Procurement for Bosnia and Herzegovina, BiH Official Gazette 49/04, 19/05, 52/05, 8/06, 24/06, 70/06, 12/09, 60/10

Government of FBiH.(2010, September).2010–2020 FBiH Development Strategy. Sarajevo: Government of the Federation of Bosnia and Herzegovina

Decree on the Process of Strategic Planning, Annual Planning and Reporting in Federal Ministries. FBiH Official Gazette, 22/11

Law on Distribution of Public Revenue in the FBiH, FBiH Official Gazette 22/06, 43/08 and 22/09

2010, May Draft 2010–2014 BiH Development Strategy. Sarajevo: BiH Directorate for Economic Planning (DEP)

2010, May. Draft 2010–2014 BiH Social Inclusion Strategy. Sarajevo: BiH Directorate for Economic Planning (DEP)

2012, March. 2012 Economic and Fiscal Programme of Bosnia and Herzegovina. Sarajevo: BiH Directorate for Economic Planning (DEP)

Law on customs policy of Bosnia and Herzegovina BiH Official Gazette 57/04, 51/06, 93/08, 54/10, 76/11

Law on excise Duties BiH, Official Gazette 49/09

Law on public enterprises in Brčko District, DB Official Gazette 15/06, 05/07, 19/07, 1/08 and 24/08

Law on public enterprises in Republika Srpska, RS Official Gazette 119/2012

Law on Indirect Tax Authority, BiH Official Gazette 89/05

Law on Indirect Tax Administration Procedure, BiH Official Gazette 89/05

Law on Tax Administration in FBiH, FBiH Official Gazette 33/02

Law on Corporate Income Tax in FBiH, FBiH Official Gazette 97/07), 14/08,39/09

Law on Personal Income Tax in FBiH, FBiH Official Gazette 10/08

Law on Republika Srpska Tax Administration, RS Official Gazette 51/01, 74/04, 2/05, 96/05, 75/06, 112/07 – clarified text 22/08 and 34/09) the Law ceased being effective on January 1, 2012

Law on Tax Procedure of RepublikaSrpska,RS Official Gazette 102/11

Law on Tax Administration of District Brčko Official Gazette 3/02, 42/04, 08/06, 3/07, 19/07, 2/08, 06/13

Law on Corporate Income Tax in DB, DB Official Gazette 60/10, 57/11 and 33/12

Law on Personal Income Tax in DB, DB Official Gazette 60/10

Law on Corporate Income Tax in RS, RS Official Gazette 91/06, 57/12

PIFC Strategy for BiH Institutions (adopted by CoM on 30 Dec 2009)

Strategy for establishing and building Public Internal Financial Control in Republic of Srpska, April 2010

Law on Personal Income Tax in RS Official Gazette 91/06

Law on Contributions of Republika Srpska, RS Official Gazette 116/12

Law on Real Estate Tax in the RS, RS Official Gazette 110/08, 118/09

Law on unique registration, control and collection of contributions FBiH Official Gazette 42/09), 109/12

Rulebook regarding the entry into a single indirect tax registration system BiH Official Gazette 51/12)

Law on Treasury of BiH Institutions, BiH Official Gazette 27/00

Law on Treasury of the FBiH, FBiH Official Gazette 19/03, 79/07

Law on Treasury of the DB, DB Official Gazette 03/07, 19/07, 02/08,

Law on Treasury of the RS, RS Official Gazette 16/05

BiH Rulebook on financial reporting 31 January 2007

FBiH Rulebook on Financial Reporting and annual budgeting 28 March 2012

RS Rulebook on financial reporting for budget users of the Republic, local self-governance units and funds 18 February 2011

Diagnostics, Studies, Report and other relevant material

The Department for International Development (DFID) Review of Budgetary Management in Bosnia and Herzegovina, February 2010 conducted by PKF (UK) LLP

IMF Bosnia and Herzegovina: Report on the Observance of Standards and Codes— Data Module, Response by the Authorities, and Detailed Assessment Using the Data Quality Assessment Framework (DQAF), February 2008

IMF Bosnia & Herzegovina: 2010 Article IV Consultation, Second and Third Reviews Under the Stand-By Arrangement, Request for Waiver of Nonobservance of a Performance Criterion, and Rephrasing of Purchases, September 2010

IMF, Bosnia and Herzegovina, September 2010 Selected Issues

IMF Bosnia and Herzegovina: First Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of a Performance Criterion — Staff Report; Press Release; and Statement by the Executive Director, December 2012

The World Bank, Bosnia and Herzegovina Challenges and Directions for Reform, A Public Expenditure and Institutional Review, February 2012

OECD SIGMA Assessment Bosnia and Herzegovina 2010 Public Procurement

OECD SIGMA Assessment Bosnia and Herzegovina 2010 Public Expenditure Management and Control

Donor Mapping Report 2009 – 2010 and Donor Mapping Report 2011 – 2012 prepared by Ministry of Finance and Treasury

IMF.2012, April. World Economic Outlook Database. Washington, D.C. International Monetary Fund (IMF)

2013, Fiscal Impact Assessment of Structural Reforms (FIASR) Case Studies on South East Europe, Center of Excellence in Finance, Ljubljana

ANNEX 2: GENERAL GOVERNMENT TOTAL REVENUE AND EXPENDITURE (2010-2012)

	in mil KM	FEDERATION OF BiH						REPUBLIKA SRPSKA				BRCKO DISTRICT	
		BiH	STATE	Consolidated FBiH	FBiH Government	Cantons	Muni- cipalities	Funds	Consolidated RS	RS Government	Muni- cipalities		Funds
2010	Total Revenue	10,863	1,010	6,474	1,399	1,855	665	2,957	3,235	1,423	545	1,629	236
	Direct Tax Revenue	809	-	509	95	299	115	-	284	226	58	-	15
	Indirect Tax Revenue	4,824	755	2,588	1,091	1,261	188	48	1,331	1,003	282	78	150
	Social Contributions	3,813	-	2,617	-	-	-	2,617	1,161	-	-	1,161	34
	Grants	48	37	12	-	60	121	226	2	1	6	325	-
	Other Revenue	1,368	218	747	212	234	241	66	460	193	199	65	36
	Total Expenditure	11,474	1,085	6,606	1,405	1,947	672	2,982	3,653	1,740	594	1,679	223
	Wages and Allowances	3,170	640	1,619	219	1,133	196	71	831	621	171	39	80
	Goods and Services	2,593	150	1,518	86	230	123	1,079	853	131	130	592	72
	Interest	123	89	65	61	5	3	2	57	36	12	8	-
	Subsidies	477	2	295	140	105	27	23	176	162	14	-	4
	Grants	-	1	2	300	70	24	3	-	330	-	-	-
Social Benefits	3,770	34	2,461	471	221	76	1,694	1,238	208	53	978	37	
Other Expenditure	708	81	365	49	131	142	43	255	187	58	40	7	
Capital Expenditure	634	89	281	80	53	81	67	242	64	155	22	23	
2011	Total Revenue	11,357	969	6,571	1,322	1,904	654	3,097	3,686	1,656	589	1,726	237
	Direct Tax Revenue	898	-	471	47	306	117	-	411	329	81	-	17
	Indirect Tax Revenue	5,101	722	2,726	1,091	1,314	196	126	1,501	1,141	307	53	153
	Social Contributions	4,036	-	2,651	-	-	-	2,651	1,351	-	-	1,351	35
	Grants	47	36	10	-	56	112	240	2	-	8	280	-
	Other Revenue	1,275	211	713	184	227	230	79	421	186	194	42	33
	Total Expenditure	11,680	1,024	6,788	1,333	1,946	585	3,236	3,745	1,678	587	1,765	228
	Wages and Allowances	3,337	643	1,663	237	1,154	198	73	951	694	213	43	80
	Goods and Services	2,088	179	1,548	67	226	128	1,126	286	102	105	78	76
	Interest	161	104	91	84	6	4	4	69	46	14	8	-
	Subsidies	403	-	251	115	86	26	24	142	127	15	-	9
	Grants	6	1	7	276	65	60	4	-	286	-	-	-
Social Benefits	4,330	43	2,513	471	223	38	1,782	1,739	257	50	1,433	35	
Other Expenditure	583	12	376	67	138	131	40	185	116	64	5	9	
Capital Expenditure	771	40	338	14	49	94	182	373	49	126	197	19	
2012	Total Revenue	11,460	1,046	6,643	1,417	1,831	627	3,171	3,653	1,666	548	1,711	246
	Direct Tax Revenue	911	-	477	47	314	117	-	411	334	78	-	23
	Indirect Tax Revenue	5,104	797	2,679	1,143	1,247	177	111	1,478	1,136	293	49	150
	Social Contributions	4,047	-	2,669	-	-	-	2,669	1,342	-	-	1,342	36
	Grants	60	37	25	-	48	111	260	19	3	16	272	-
	Other Revenue	1,337	212	792	226	223	221	130	402	193	161	48	38
	Total Expenditure	11,987	1,005	7,038	1,388	1,983	578	3,399	3,842	1,690	619	1,806	229
	Wages and Allowances	3,324	623	1,682	224	1,177	205	75	937	707	185	45	82
	Goods and Services	2,156	162	1,573	68	231	131	1,143	346	102	151	93	74
	Interest	201	108	99	92	7	5	4	100	69	16	15	-
	Subsidies	416	-	259	129	84	26	20	146	129	18	-	11
	Grants	1	21	-	288	61	41	4	-	273	-	-	-
Social Benefits	4,394	16	2,539	471	224	41	1,803	1,802	239	46	1,517	38	
Other Expenditure	678	22	443	108	151	129	56	203	129	64	10	10	
Capital Expenditure	816	52	442	10	47	49	294	308	42	139	127	13	

Source: Central Bank of BiH. Includes total expenses and transactions in nonfinancial assets. Excludes foreign-financed projects, which do not go through budgets. Foreign debt servicing is presented at the State level here (since foreign debt servicing for both Entities and DB goes through the BiH Institutions budget).

ANNEX 3. EXTRA DATA TABLES, CHARTS, AND GRAPHS

Bosnia and Herzegovina PEFA Assessment; BiH Institutions Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Read the results for each of the three years for each indicator in table 5.

Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1. Fiscal years for assessment

Year 1 = 2009
Year 2 = 2010
Year 3 = 2011

Table 2. Data for year = 2009

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Ministry of Defense of BiH	371,243,000.00	341,373,823	331,871,562.6	9,502,260.4	9,502,260.4	2.9
Indirect Taxation Authority of BiH	98,733,000.00	83,750,201	88,262,068.2	-4,511,867.2	4,511,867.2	5.1
Border Police of Bosnia and Herzegovina	75,431,000.00	72,061,889	67,431,315.4	4,630,573.6	4,630,573.6	6.9
State Investigation and Protection Agency of BiH	66,563,000.00	57,640,700	59,503,793.5	-1,863,093.5	1,863,093.5	3.1
Ministry of Foreign Affairs of BiH	56,888,000.00	59,814,120	50,854,856.4	8,959,263.6	8,959,263.6	17.6
The Return Fund of BiH	35,586,000.00	33,908,981	31,811,997.6	2,096,983.4	2,096,983.4	6.6
Intelligence Security Agency of BiH	33,450,000.00	32,050,676	29,902,526.8	2,148,149.2	2,148,149.2	7.2
Parliamentary Assembly of Bosnia and Herzegovina	17,628,000.00	17,349,085	15,758,497.5	1,590,587.5	1,590,587.5	10.1
Ministry of Civil Affairs of BiH	15,418,000.00	13,900,723	13,782,874.7	117,848.3	117,848.3	0.9
Service for Common Affairs of the Institutions of BiH	15,282,000.00	11,591,360	13,661,297.9	-2,069,937.9	2,069,937.9	15.2
Agency of Identification Documents, Registers and Data Exchange of BiH	14,748,000.00	12,510,035	13,183,930.2	-673,895.2	673,895.2	5.1
Ministry of Justice of BiH	13,907,000.00	10,052,988	12,432,120.8	-2,379,132.8	2,379,132.8	19.1
Ministry of Human Rights and Refugees of BiH	13,760,000.00	8,456,808	12,300,710.6	-3,843,902.6	3,843,902.6	31.2
Ministry of Security of BiH	10,901,000.00	7,380,218	9,744,916.1	-2,364,698.1	2,364,698.1	24.3
Court of Bosnia and Herzegovina	10,520,000.00	9,633,072	9,404,322.3	228,749.7	228,749.7	2.4
Presidency of BiH	9,390,000.00	7,817,128	8,394,162.2	-577,034.2	577,034.2	6.9
Demining Commission of BiH BHMACH	8,845,000.00	7,219,111	7,906,961.1	-687,850.1	687,850.1	8.7
Communications Regulatory Agency of BiH	8,736,000.00	7,343,671	7,809,520.9	-465,849.9	465,849.9	6.0
The Prosecutor's Office of BiH	8,015,000.00	6,316,336	7,164,985.1	-848,649.1	848,649.1	11.8
Office for Foreigners Affairs	7,835,000	7,403,707	7,004,074.7	399,632.3	399,632.3	5.7
(= sum of rest)	116,298,000.00	94,576,110.00	103,964,247.1	-9,388,137.1	9,388,137.1	8.1
Allocated expenditure	1,009,177,000.00	902,150,742.00	902,150,742.0	0.0	59,348,095.8	
Contingency	8,570,000.00	9,309,539.70				
Total expenditure	1,017,747,000.00	911,460,281.70				
Overall (PI-1) variance	10.4%					
Composition (PI-2) variance	6.6%					
Contingency share of budget	0.9%					

Table 3. Data for year = 2010

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Ministry of Defense of BiH	334,576,000.00	324,758,367	310,565,531.9	14,192,835.1	14,192,835.1	4.6
Indirect Taxation Authority of BiH	95,281,000.00	83,972,693	88,443,266.8	-4,470,573.8	4,470,573.8	4.7
Border Police of Bosnia and Herzegovina	75,328,000.00	74,030,716	69,922,171.3	4,108,544.7	4,108,544.7	5.9
Ministry of Foreign Affairs of BiH	60,368,000.00	53,740,059	56,035,758.8	-2,295,699.8	2,295,699.8	3.8
State Investigation and Protection Agency of BiH	60,008,000.00	51,254,626	55,701,593.8	-4,446,967.8	4,446,967.8	8.0
The Return Fund of BiH	35,591,000.00	39,762,601	33,036,852.2	6,725,748.8	6,725,748.8	20.4
Intelligence Security Agency of BiH	33,352,000.00	33,252,653	30,958,531.5	2,294,121.5	2,294,121.5	7.4
Ministry of Civil Affairs of BiH	17,818,000.00	16,181,371	16,539,311.4	-357,940.4	357,940.4	2.2
Parliamentary Assembly of Bosnia and Herzegovina	16,674,000.00	16,298,892	15,477,409.3	821,482.7	821,482.7	5.3
Service for Common Affairs of the Institutions of BiH	15,671,000.00	22,670,067	14,546,388.4	8,123,678.6	8,123,678.6	55.8
Agency of Identification Documents, Registers and Data Exchange of BiH	14,697,000.00	12,826,832	13,642,286.4	-815,454.4	815,454.4	5.5
Central Election Commission of BiH	13,299,000.00	11,982,641	12,344,612.3	-361,971.3	361,971.3	2.9
Ministry of Justice of BiH	13,200,000.00	11,314,837	12,252,716.9	-937,879.9	937,879.9	7.7
Ministry of Human Rights and Refugees of BiH	12,727,000.00	8,779,207	11,813,661.2	-3,034,454.2	3,034,454.2	25.7
Court of Bosnia and Herzegovina	12,220,000.00	11,254,389	11,343,045.5	-88,656.5	88,656.5	0.8
Ministry of Security of BiH	11,663,000.00	9,162,382	10,826,018.0	-1,663,636.0	1,663,636.0	15.4
Service for Foreigners Affairs	8,773,000	8,121,093	8,143,415.6	-22,322.6	22,322.6	0.3
Communications Regulatory Agency of BiH	8,478,000.00	7,611,302	7,869,585.9	-258,283.9	258,283.9	3.3
Ministry of Finance and Treasury of BiH	8,335,000.00	6,382,783	7,736,848.2	-1,354,065.2	1,354,065.2	17.5
Presidency of BiH	8,250,000.00	7,912,687	7,657,948.1	254,738.9	254,738.9	3.3
(= sum of rest)	137,735,000.00	111,437,359.00	127,850,603.6	-16,413,244.6	16,413,244.6	11.9
Allocated expenditure	994,044,000.00	922,707,557.00	922,707,557.0	0.0	73,042,300.9	
Contingency	16,280,000.00	2,487,966.00				
Total expenditure	1,010,324,000.00	925,195,523.00				
Overall (PI-1) variance	8.4%					
Composition (PI-2) variance	7.9%					
Contingency share of budget	0.2%					

Table 4. Data for year = 2011

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Ministry of Defense of BiH	298,093,345.00	298,093,345.00	298,093,345.0	0.0	0.0	0.0%
Indirect Taxation Authority of BiH	84,200,545.00	84,200,545.00	84,200,545.0	0.0	0.0	0.0%
Border Police of Bosnia and Herzegovina	71,791,323.00	71,791,323.00	71,791,323.0	0.0	0.0	0.0%
Ministry of Foreign Affairs of BiH	55,270,630.00	55,270,630.00	55,270,630.0	0.0	0.0	0.0%
The Return Fund of BiH	38,920,038.00	38,920,038.00	38,920,038.0	0.0	0	0.0%
Intelligence Security Agency of BiH	31,028,992.00	31,028,992.00	31,028,992.0	0.0	0.0	0.0%
State Investigation and Protection Agency of BiH	29,795,360.00	29,795,360.00	29,795,360.0	0.0	0.0	0.0%
Directorate for Coordination of Police Bodies in BiH	25,161,650.00	25,161,650.00	25,161,650.0	0.0	0.0	0.0%
Parliamentary Assembly of Bosnia and Herzegovina	15,209,193.00	15,209,193.00	15,209,193.0	0.0	0.0	0.0%
Agency of Identification Documents, Registers and Data Exchange of BiH	13,646,287.00	13,646,287.00	13,646,287.0	0.0	0.0	0.0%
Service for Common Affairs of the Institutions of BiH	12,605,391.00	12,605,391.00	12,605,391.0	0.0	0	0.0%
Court of Bosnia and Herzegovina	12,299,414.00	12,299,414.00	12,299,414.0	0.0	0.0	0.0%
Ministry of Justice of BiH	11,332,929.00	11,332,929.00	11,332,929.0	0.0	0.0	0.0%
Ministry of Civil Affairs of BiH	10,938,773.00	10,938,773.00	10,938,773.0	0.0	0.0	0.0%
High Judicial and Prosecutorial Council	10,823,559.00	10,823,559.00	10,823,559.0	0.0	0.0	0.0%
Ministry of Security of BiH	9,826,498.00	9,826,498.00	9,826,498.0	0.0	0.0	0.0%
Ministry of Communication and Transport of BiH	8,757,972.00	8,757,972.00	8,757,972.0	0.0	0	0.0%
Directorate of Civil Aviation of BiH	8,602,816.00	8,602,816.00	8,602,816.0	0.0	0	0.0%
The Prosecutor's Office of BiH	8,527,594.00	8,527,594.00	8,527,594.0	0.0	0.0	0.0%
Service for Foreigners Affairs	8,057,018	8,057,018	8,057,018.0	0.0	0.0	0.0%
(= sum of rest)	121,951,490.77	121,951,490.77	121,951,490.8	0.0	0.0	0.0%
Allocated expenditure	886,840,817.77	886,840,817.77	886,840,817.8	0.0	0.0	
Contingency	8,516,503.00	8,516,503.00				
Total expenditure	895,357,320.77	895,357,320.77				
Overall (PI-1) variance	0.0%					
Composition (PI-2) variance	0.0%					
Contingency share of budget	1.0%					

Table 5. Results matrix

<i>Year</i>	<i>for PI-1 total exp. deviation</i>	<i>for PI-2 (i) composition variance</i>	<i>for PI-2 (ii) contingency share</i>
2009	10.4%	6.6%	
2010	8.4%	7.9%	0.7%
2011	0.0%	0.0%	
Score for indicator PI-1:		B	
Score for indicator PI-2 (i)	B		
Score for indicator PI-2 (ii)	A		
Overall score for indicator PI-2		B+	

Bosnia and Herzegovina PEFA Assessment - Federation of BiH
Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Read the results for each of the three years for each indicator in table 5.

Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1. Fiscal years for assessment

Year 1 = 2009
Year 2 = 2010
Year 3 = 2011

Table 2. Data for year = 2009

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
EBFs (Pension Fund + Health Fund + Employment Fund)	2,964,413,908	2,822,537,627	2,866,853,852.4	-44,316,225.4	44,316,225.4	1.5%
Public Company "Roads of FBiH"	117,636,000	73,454,078	113,764,551.9	-40,310,473.9	40,310,473.9	34.3%
Ministry For War Veterans and Disabled	397,342,472	366,553,214	384,265,771.2	-17,712,557.1	17,712,557.1	4.6%
Ministry of Employment and Social Policy	267,118,310	255,155,869	258,327,338.8	-3,171,470.1	3,171,470.1	1.2%
Ministry of Agriculture, Water Management and Forestry	56,929,531	56,743,709	55,055,957.2	1,687,751.6	1,687,751.6	3.1%
FBiH Government	56,928,478	26,157,506	55,054,938.9	-28,897,432.4	28,897,432.4	52.5%
FBiH Ministry of Justice	45,092,103	53,610,165	43,608,103.7	10,002,061.0	10,002,061.0	22.9%
FBiH Ministry of Finance	42,739,889	160,540,402	41,333,302.0	119,207,100.2	119,207,100.2	288.4%
FBiH Ministry of Internal Affairs	42,328,506	41,891,530	40,935,457.8	956,071.9	956,071.9	2.3%
Ministry of Energy, Mining and Industry	41,565,897	40,115,247	40,197,946.6	-82,699.7	82,699.7	0.2%
Tax Administration	35,904,834	41,167,481	34,723,191.5	6,444,289.7	6,444,289.7	18.6%
Ministry for Displaced and Refugees	30,949,331	24,551,542	29,930,776.1	-5,379,234.5	5,379,234.5	18.0%
Ministry of Transport and Communication	30,464,991	28,548,849	29,462,375.9	-913,527.2	913,527.2	3.1%
Ministry of Health	28,363,361	26,418,882	27,429,911.4	-1,011,029.4	1,011,029.4	3.7%
Directorate for Construction, Management and Maintenance of Roads	26,840,720	30,697,651	25,957,381.1	4,740,270.2	4,740,270.2	18.3%
FBiH Parliament	16,544,257	15,170,678	15,999,778.8	-829,100.9	829,100.9	5.2%
Ministry of Environment and Tourism	14,841,610	12,216,180	14,353,166.6	-2,136,986.5	2,136,986.5	14.9%
Court Police	13,768,400	16,657,436	13,315,276.4	3,342,159.9	3,342,159.9	25.1%
Ministry of Culture and Sports	10,954,185	8,784,435	10,593,678.4	-1,809,243.0	1,809,243.0	16.5%
Ministry of Development, Entrepreneurship and Crafts	10,576,985	10,034,763	10,228,892.2	-194,129.0	194,129.0	1.8%
21 (= sum of rest)	91,677,643	89,044,900	88,660,494.8	384,404.7	384,404.7	0.4%
Allocated expenditure	4,342,981,411	4,200,052,144	4,200,052.1		293,528.2	7.00%
Contingency						
Total expenditure	4,342,981,411	4,200,052,144				
Overall (PI-1) variance		3.3%				
Composition (PI-2) variance		7.0%				
Contingency share of budget		0.0%				

Table 3. Data for year = 2010

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
EBFs (Pension Fund + Health Fund + Employment Fund)	3,017,567,033	2,888,737,593	2,918,257,686.6	-29,520,093.6	29,520,093.6	1.0%
Public Company "Roads of FBiH"	85,900,000	56,039,011	83,072,996.4	-27,033,985.4	27,033,985.4	31.5%
Ministry for War Veterans and Disabled	354,261,260	402,685,801	345,062,820.8	57,622,979.9	57,622,979.9	16.7%
Ministry of Employment and Social Policy	266,235,344	360,462,395	259,322,509.1	101,139,885.6	101,139,885.6	39.0%
FBiH Ministry of Finance	159,751,653	74,635,088	155,603,680.8	-80,968,592.9	80,968,592.9	52.0%
FBiH Government	71,726,170	29,114,563	69,863,790.8	-40,749,227.9	40,749,227.9	58.3%
FBiH Ministry of Justice	68,373,696	58,529,213	66,598,364.2	-8,069,151.6	8,069,151.6	12.1%
Ministry of Agriculture, Water Management and Forestry	62,416,461	62,467,030	60,795,809.6	1,671,220.5	1,671,220.5	2.7%
FBiH Ministry of Internal Affairs	45,727,536	41,515,009	44,540,214.6	-3,025,205.4	3,025,205.4	6.8%
Ministry of Energy, Mining and Industry	44,834,938	55,916,747	43,670,793.1	12,245,954.1	12,245,954.1	28.0%
Tax Administration	43,457,993	39,997,165	42,329,600.6	-2,332,435.4	2,332,435.4	5.5%
Ministry of Health	29,806,660	33,669,391	29,032,726.2	4,636,665.2	4,636,665.2	16.0%
Ministry of Transport and Communication	28,891,829	33,089,487	28,141,648.9	4,947,838.1	4,947,838.1	17.6%
Ministry for Displaced and Refugees	28,701,867	28,783,354	27,956,619.3	826,734.6	826,734.6	3.0%
Ministry of Environment and Tourism	18,258,764	19,182,573	17,784,672.8	1,397,899.7	1,397,899.7	7.9%
Court Police	17,149,193	16,597,403	16,703,912.0	-106,509.2	106,509.2	0.6%
FBiH Parliament	14,616,278	14,536,805	14,236,764.5	300,040.1	300,040.1	2.1%
Ministry of Development, Entrepreneurship and Crafts	13,901,339	12,816,101	13,540,388.9	-724,288.0	724,288.0	5.2%
Directorate for Construction, Management and Maintenance of Roads	12,314,103	46,975,148	11,994,365.7	34,980,782.4	34,980,782.4	291.6%
Ministry of Culture and Sports	11,127,147	11,333,985	10,838,229.2	495,755.8	495,755.8	4.6%
21 (= sum of rest)	108,742,628	99,737,275	105,919,111.7	-6,181,836.8	6,181,836.8	5.7%
Allocated expenditure	4,503,761,892	4,386,821,135	4,386,821,135.0		418,976.0	9.55%
Contingency						
Total expenditure	4,503,761,892	4,386,821,135				
Overall (PI-1) variance		2.6%				
Composition (PI-2) variance		9.6%				
Contingency share of budget		0.0%				

Table 4. Data for year = 2011

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
EBFs (Pension Fund + Health Fund + Employment Fund)	2,987,519,035	3,088,401,524	2,889,198,580.4	199,202,943.6	199,202,943.6	6.9%
Public Company "Roads of FBiH"	73,650,000	62,684,064	71,226,148.8	-8,542,084.8	8,542,084.8	11.6%
Ministry of Employment and Social Policy	343,216,995	356,148,813	349,170,734.7	6,978,077.8	6978077.832	2.0%
Ministry for War Veterans and Disabled	333,608,018	363,749,114	339,395,072.1	24,354,042.3	24,354,042.3	7.2%
FBiH Ministry of Finance	106,332,998	66,131,750	108,177,542.4	-42,045,792.2	42,045,792.2	38.9%
Ministry of Agriculture, Water Management and Forestry	61,922,656	58,624,012	62,996,820.1	-4,372,808.1	4372808.134	7.1%
FBiH Ministry of Justice	60,189,761	49,835,027	61,233,864.8	-11,398,838.1	11,398,838.1	18.6%
Tax Administration	44,866,516	45,071,953	45,644,809.5	-572,856.0	572,856.0	1.3%
FBiH Ministry of Internal Affairs	42,183,286	38,580,781	42,915,033.9	-4,334,252.6	4,334,252.6	10.1%
Ministry of Energy, Mining and Industry	36,264,029	35,836,137	36,893,096.3	-1,056,959.2	1,056,959.2	2.9%
FBiH Government	35,505,711	26,578,881	36,121,623.9	-9,542,742.6	9,542,742.6	26.4%
Ministry of Health	30,031,698	43,535,114	30,552,653.9	12,982,460.4	12,982,460.4	42.5%
Ministry of Transport and Communication	27,755,115	38,319,539	28,236,579.3	10,082,959.8	10,082,959.8	35.7%
Ministry for Displaced and Refugees	26,056,485	29,157,960	26,508,483.4	2,649,476.7	2,649,476.7	10.0%
FBiH Parliament	19,523,481	17,632,886	19,862,152.2	-2,229,265.8	2,229,265.8	11.2%
Ministry of Environment and Tourism	17,109,948	13,184,087	17,406,752.0	-4,222,664.9	4,222,664.9	24.3%
Court Police	16,830,838	18,359,626	17,122,800.3	1,236,825.3	1,236,825.3	7.2%
Ministry of Culture and Sports	14,186,930	14,323,968	14,433,028.8	-109,060.5	109060.5338	0.8%
Ministry of Development, Entrepreneurship and Crafts	12,369,680	10,527,353	12,584,255.2	-2,056,901.9	2056901.889	16.6%
Civil protection administration	10,327,869	9,318,509	10,507,025.2	-1,188,515.9	1,188,515.9	11.3%
21 (= sum of rest)	94,532,428	84,204,225	96,172,269.5	-11,968,044.0	11,968,044.0	12.7%
Allocated expenditure	4,393,983,477	4,470,205,326	4,470,205,326		361,127.5	8.1%
Contingency	4,393,983,477	4,470,205,326				
Total expenditure						
Overall (PI-1) variance	1.7%					
Composition (PI-2) variance	8.1%					
Contingency share of budget	0.0%					

Table 5. Results Matrix

Year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2009	3.3%	7.0%	
2010	2.6%	9.6%	0.0%
2011	1.7%	8.1%	
Score for indicator PI-1:		A	
Score for indicator PI-2 (i)	D		
Score for indicator PI-2 (ii)	NA		
Overall score for indicator PI-2		D	

Bosnia and Herzegovina PEFA Assessment –Republika Srpska

Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Read the results for each of the three years for each indicator in table 5.

Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1. Fiscal years for assessment

Year 1 = 2009
Year 2 = 2010
Year 3 = 2011

Table 2. Data for year = 2009

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Pension Fund	904,596,659	917,397,128	906,939,496.5	10,457,631.5	10,457,631.5	1.2%
Health Fund	516,000,000	531,123,243	517,336,401.3	13,786,841.7	13,786,841.7	2.7%
Child Protection Fund	51,812,230	66,753,006	51,946,419.8	14,806,586.2	14,806,586.2	28.5%
Employment Bureau	28,067,008	37,108,617	28,139,699.4	8,968,917.6	8,968,917.6	31.9%
Ministry of Employment and Veteran-Disabled Protection	380,224,620	368,815,321	381,209,373.3	-12,394,052.3	12,394,052.3	3.3%
Primary Education	190,117,300	190,572,892	190,609,689.6	-36,797.6	36,797.6	0.0%
Ministry of Interior	151,113,175	151,881,298	151,504,547.0	376,751.0	376,751.0	0.2%
Ministry of Agriculture, Forestry and Water Management	87,859,746	86,985,477	88,087,296.0	-1,101,819.0	1,101,819.0	1.3%
Ministry of Health and Social Protection	74,804,594	53,838,333	74,998,332.3	-21,159,999.3	21,159,999.3	28.2%
Secondary Education	70,390,000	70,923,740	70,572,304.8	351,435.2	351,435.2	0.5%
Ministry of Transport and Communications	50,238,248	51,009,831	50,368,361.3	641,469.7	641,469.7	1.3%
University of Banja Luka	32,412,142	34,889,222	32,496,087.0	2,393,135.0	2,393,135.0	7.4%
Ministry of Refugees and Displaced Persons	27,971,892	12,828,642	28,044,336.6	-15,215,694.6	15,215,694.6	54.3%
Republika Srpska Government	27,323,632	24,473,935	27,394,398.2	-2,920,463.2	2,920,463.2	10.7%
University of East Sarajevo	24,378,955	25,316,335	24,442,094.7	874,240.3	874,240.3	3.6%
Republika Srpska Tax Administration	22,608,000	22,206,304	22,666,553.0	-460,249.0	460,249.0	2.0%
Ministry of Industry, Energy and Mining	21,656,336	28,430,720	21,712,424.3	6,718,295.7	6,718,295.7	30.9%
Ministry of Family, Youth and Sport	18,532,090	16,313,990	18,580,086.7	-2,266,096.7	2,266,096.7	12.2%
National Assembly of Republika Srpska	12,280,800	10,932,536	12,312,606.4	-1,380,070.4	1,380,070.4	11.2%
Administration for Geodetic, Property and Legal Affairs	12,195,982	13,500,221	12,227,568.7	1,272,652.3	1,272,652.3	10.4%
21 (= sum of rest)	240,301,203	237,210,851	240,923,565.1	-3,712,714.1	3,712,714.1	1.5%
Allocated expenditure	2,944,884,612	2,952,511,642	2,952,511,642.0	0.0	121,295,912.2	
Contingency						
Total expenditure	2,944,884,612	2,952,511,642				
Overall (PI-1) variance	0.3%					
Composition (PI-2) variance	4.1%					
Contingency share of budget	0.0%					

Table 3. Data for year = 2010

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Pension Fund	955,559,621	916,971,129	964,985,436.1	-48,014,307.1	48,014,307.1	5.0%
Health Fund	516,000,000	552,648,660	521,089,918.5	31,558,741.5	31,558,741.5	6.1%
Child Protection Fund	50,212,000	68,445,392	50,707,300.4	17,738,091.6	17,738,091.6	35.0%
Employment Bureau	26,895,000	29,712,091	27,160,297.2	2,551,793.8	2,551,793.8	9.4%
Ministry of Employment and Veteran-Disabled Protection	390,497,000	402,914,023	394,348,933.9	8,565,089.1	8,565,089.1	2.2%
Primary Education	189,051,000	190,034,944	190,915,833.7	-880,889.7	880,889.7	0.5%
Ministry of Interior	149,587,000	148,814,177	151,062,553.6	-2,248,376.6	2,248,376.6	1.5%
Ministry of Agriculture, Forestry and Water Management	6,268,000	3,282,655	6,329,828.7	-3,047,173.7	3,047,173.7	48.1%
Ministry of Health and Social Protection	54,368,000	54,722,879	54,904,295.9	-181,416.9	181,416.9	0.3%
Secondary Education	71,601,000	72,414,170	72,307,285.4	106,884.6	106,884.6	0.1%
Ministry of Transport and Communications	39,269,000	39,600,638	39,656,356.6	-55,718.6	55,718.6	0.1%
University of Banja Luka	33,400,000	33,400,881	33,729,463.7	-328,582.7	328,582.7	1.0%
Ministry of Refugees and Displaced Persons	20,207,000	19,871,863	20,406,325.5	-534,462.5	534,462.5	2.6%
Republika Srpska Government	28,389,000	24,420,176	28,669,034.3	-4,248,858.3	4,248,858.3	14.8%
University of East Sarajevo	25,078,000	25,277,163	25,325,374.0	-48,211.0	48,211.0	0.2%
Republika Srpska Tax Administration	20,490,000	20,467,684	20,692,117.1	-224,433.1	224,433.1	1.1%
Ministry of Industry, Energy and Mining	30,483,000	30,134,144	30,783,689.9	-649,545.4	649,545.4	2.1%
Ministry of Family, Youth and Sport	7,889,000	8,910,507	7,966,818.5	943,688.9	943,688.9	11.8%
National Assembly of Republika Srpska	10,131,000	9,480,599	10,230,934.0	-750,335.0	750,335.0	7.3%
Administration for Geodetic, Property and Legal Affairs	12,320,000	13,406,399	12,441,526.7	964,872.3	964,872.3	7.8%
21 (= sum of rest)	323,560,000	325,534,804	326,751,655.1	-1,216,851.1	1,216,851.1	0.4%
Allocated expenditure	2,961,254,621	2,990,464,979	2,990,464,979.0	0.0	124,858,323.6	
Contingency						
Total expenditure	2,961,254,621	2,990,464,979				
Overall (PI-1) variance		1.0%				
Composition (PI-2) variance		4.2%				
Contingency share of budget		0.0%				

Table 4. Data for year = 2011

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted Budget</i>	<i>Deviation</i>	<i>Absolute Deviation</i>	<i>Percent</i>
Pension Fund	952,346,609	948,254,935	1,014,966,861.0	-66,711,926.0	66,711,926.0	6.6%
Health Fund	547,000,000	621,379,497	582,967,238.7	38,412,258.3	38,412,258.3	6.6%
Child Protection Fund	53,600,000	66,241,795	57,124,394.9	9,117,400.1	9,117,400.1	16.0%
Employment Bureau	27,457,000	29,915,809	29,262,397.6	653,411.4	653,411.4	2.2%
Ministry of Employment and Veteran-Disabled Protection	389,855,380	402,607,299	415,489,788.6	-12,882,489.6	12,882,489.6	3.1%
Primary Education	188,802,104	211,747,074	201,216,528.8	10,530,545.2	10,530,545.2	5.2%
Ministry of Interior	150,550,649	164,702,512	160,449,901.5	4,252,610.5	4,252,610.5	2.7%
Ministry of Agriculture, Forestry and Water Management	4,240,220	3,958,169	4,519,029.9	-560,860.9	560,860.9	12.4%
Ministry of Health and Social Protection	53,533,730	54,929,182	57,053,767.4	-2,124,585.4	2,124,585.4	3.7%
Secondary Education	71,791,130	83,704,274	76,511,657.8	7,192,616.2	7,192,616.2	9.4%
Ministry of Transport and Communications	29,079,800	38,211,200	30,991,902.6	7,219,297.4	7,219,297.4	23.3%
University of Banja Luka	30,227,810	34,992,363	32,215,398.4	2,776,964.6	2,776,964.6	8.6%
Ministry of Refugees and Displaced Persons	10,048,850	10,223,928	10,709,598.4	-485,669.9	485,669.9	4.5%
Republika Srpska Government	17,941,360	12,497,075	19,121,069.6	-6,623,994.6	6,623,994.6	34.6%
University of East Sarajevo	22,549,000	26,826,997	24,031,678.7	2,795,318.3	2,795,318.3	12.4%
Republika Srpska Tax Administration	21,859,590	23,499,023	23,296,937.5	202,085.5	202,085.5	0.9%
Ministry of Industry, Energy and Mining	23,492,830	23,344,633	25,037,569.0	-1,692,936.0	1,692,936.0	7.2%
Ministry of Family, Youth and Sport	8,117,510	8,842,559	8,651,265.8	191,293.2	191,293.2	2.4%
National Assembly of Republika Srpska	10,264,772	10,606,589	10,939,718.1	-333,129.1	333,129.1	3.2%
Administration for Geodetic, Property and Legal Affairs	12,301,590	14,500,546	13,110,464.3	1,390,081.7	1,390,081.7	10.6%
21 (= sum of rest)	310,116,675	337,189,683	330,507,973.9	6,681,709.1	6,681,709.1	2.2%
allocated expenditure	2,935,176,609	3,128,175,142	3,128,175,142.5	0.0	182,831,183.1	
Contingency						
Total expenditure	2,935,176,609	3,128,175,142				
Overall (PI-1) variance		6.6%				
Composition (PI-2) variance		5.8%				
Contingency share of budget		0.0%				

Table 5. Results matrix

Year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2009	0.3%	4.1%	
2010	1.0%	4.2%	0.0%
2011	6.6%	5.8%	
Score for indicator PI-1:		A	
Score for indicator PI-2 (i)	A		
Score for indicator PI-2 (ii)	NA		
Overall score for indicator PI-2		A	

Bosnia and Herzegovina PEFA Assessment - District Brčko
Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Read the results for each of the three years for each indicator in table 5.

Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1. Fiscal years for assessment

Year 1 = 2009
Year 2 = 2010
Year 3 = 2011

Table 2. Data for year = 2009

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Health Fund	34,344,841	33,052,356	30,258,101.5	2,794,254.5	2,794,254.5	9.2%
Employment Fund	3,580,000	4,575,480	3,154,010.9	1,421,469.1	1,421,469.1	45.1%
Health Department	56,265,627	50,425,207	49,570,503.3	854,703.4	854,703.4	1.7%
Education Department	34,405,233	31,077,112	30,311,307.4	765,804.4	765,804.4	2.5%
Department of Public Services	18,964,407	11,797,194	16,707,806.4	-4,910,612.4	4,910,612.4	29.4%
Department of Agriculture, Water and Forestry	9,992,623	9,128,113	8,803,587.2	324,526.2	324,526.2	3.7%
Brčko District Police	9,832,700	9,072,810	8,662,693.6	410,116.3	410,116.3	4.7%
Brčko District Court and Judiciary Office	9,676,554	8,191,704	8,525,127.6	-333,423.9	333,423.9	3.9%
Public Property Management Office	8,091,414	4,468,355	7,128,605.6	-2,660,250.9	2,660,250.9	32.9%
Office of the Mayor	7,945,173	7,717,461	6,999,766.0	717,694.6	717,694.6	9.0%
Department of Public Utilities	7,122,257	2,350,202	6,274,769.9	-3,924,567.4	3,924,567.4	62.5%
Department for Economic Development, Sports and Culture	6,965,888	7,034,089	6,137,007.5	897,081.8	897,081.8	14.6%
Public Security Department	5,535,989	4,874,138	4,877,254.1	-3,116.1	3,116.1	0.1%
Department of Public Register	5,169,567	3,957,991	4,554,433.2	-596,442.1	596,442.1	13.1%
Department for Displaced Persons, Refugees and Housing	4,864,102	4,725,346	4,285,315.9	440,030.3	440,030.3	10.3%
Directorate of Finance	4,058,978	10,100,526	3,575,994.7	6,524,531.0	6,524,531.0	160.7%
Department of Spatial Planning and Property Issues	4,006,760	1,785,908	3,529,990.2	-1,744,082.6	1,744,082.6	49.4%
Brčko District Assembly	3,762,974	3,047,767	3,315,212.6	-267,445.4	267,445.4	8.1%
Department of Professional and Administrative support	3,729,512	2,736,033	3,285,732.3	-549,699.3	549,699.3	16.7%
Office for Audit of Financial Operations of Institutions of Brčko District of BiH	988,796	687,561	871,137.8	-183,576.5	183,576.5	18.6%
21 (= sum of rest)	593,246	545,660	522,654.8	23,004.9	23,004.9	3.9%
Allocated expenditure	239,896,641	211,351,013	211,351,013.0		30,346.5	
Contingency	1,127,312	30,538				
Total expenditure	241,023,953	211,381,550				
Overall (PI-1) variance	12.3%					
Composition (PI-2) variance	0.0%					
Contingency share of budget	0.0%					

Table 3. Data for year = 2010

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Health Fund	31,434,562	24,787,106	27,694,120.6	-2,907,014.6	2,907,014.6	10.5%
Employment Fund	5,160,000	2,584,121	4,546,004.6	-1,961,883.6	1,961,883.6	43.2%
Health Department	55,723,984	52,098,052	47,907,803.6	4,190,248.4	4,190,248.4	8.7%
Education Department	35,844,891	33,443,138	30,817,070.9	2,626,067.4	2,626,067.4	8.5%
Department of Public Services	11,093,019	6,662,051	9,537,045.1	-2,874,994.5	2,874,994.5	30.1%
Brčko District Police	10,507,558	9,488,551	9,033,704.7	454,846.0	454,846.0	5.0%
Brčko District Court and Judiciary Office	10,153,159	8,815,773	8,729,015.9	86,756.8	86,756.8	1.0%
Office of the Mayor	9,969,517	9,529,071	8,571,132.8	957,938.6	957,938.6	9.6%
Department for Economic Development, Sports and Culture	9,705,611	11,275,323	8,344,243.9	2,931,078.9	2,931,078.9	35.1%
Department of Agriculture, Water and Forestry	8,187,817	7,924,535	7,039,344.7	885,190.1	885,190.1	12.6%
Department of Public Utilities	7,175,846	4,873,755	6,169,318.5	-1,295,563.9	1,295,563.9	21.0%
Public Property Management Office	6,216,298	2,890,608	5,344,363.1	-2,453,754.8	2,453,754.8	39.5%
Public Security Department	5,166,089	3,778,202	4,441,462.7	-663,260.6	663,260.6	14.9%
Department of Spatial Planning and Property Issues	4,243,738	1,466,672	3,648,485.7	-2,181,813.7	2,181,813.7	59.8%
Directorate of Finance	4,237,098	3,984,420	3,642,777.1	341,642.9	341,642.9	8.1%
Department of Public Register	4,118,854	3,253,697	3,541,118.7	-287,421.9	287,421.9	8.1%
Department for Displaced Persons, Refugees and Housing	4,048,470	4,588,304	3,480,607.6	1,107,696.3	1,107,696.3	31.8%
Brčko District Assembly	3,564,778	3,271,160	3,064,761.0	206,399.4	206,399.4	6.7%
Department of Professional and Administrative support	2,524,003	2,101,941	2,169,971.3	-68,030.0	68,030.0	3.1%
Office for Audit of Financial Operations of Institutions of Brčko District of BiH	795,930	759,601	684,287.8	75,313.6	75,313.6	9.5%
21 (= sum of rest)	596,124	564,531	512,508.2	52,023.0	52,023.0	8.7%
Allocated expenditure	230,467,347	198,140,612	198,851,093.0		28,608.9	
Contingency	517,557	710,481				
Total expenditure	230,984,904	198,851,093				
Overall (PI-1) variance	13.9%					
Composition (PI-2) variance	0.0%					
Contingency share of budget	0.3%					

Table 4. Data for year = 2011

<i>Administrative or functional head</i>	<i>Budget</i>	<i>Actual</i>	<i>Adjusted budget</i>	<i>Deviation</i>	<i>Absolute deviation</i>	<i>Percent</i>
Health Fund	21,200,900	33,148,314	18,678,176.0	14,470,138.0	14,470,138.0	77.5%
Employment Fund	3,430,000	3,683,391	3,021,859.6	661,531.4	661,531.4	21.9%
Health Department	43,901,186	54,275,856	40,782,410.8	13,493,445.2	13,493,445.2	33.1%
Education Department	36,743,244	33,371,819	34,132,975.0	-761,156.1	761,156.1	2.2%
Department of Public Services	13,260,398	2,682,316	12,318,369.1	-9,636,053.0	9,636,053.0	78.2%
Department for Economic Development, Sports and Culture	11,520,497	9,163,437	10,702,071.9	-1,538,635.0	1,538,635.0	14.4%
Office of the Mayor	10,708,094	9,403,294	9,947,382.9	-544,088.4	544,088.4248	5.1%
Brčko District Police	10,661,302	9,488,954	9,903,914.6	-414,960.5	414,960.5	4.2%
Department of Public Utilities	9,983,288	2,065,174	9,274,067.5	-7,208,893.5	7,208,893.5	77.7%
Brčko District Court and Judiciary Office	9,799,371	9,458,024	9,103,215.9	354,807.9	354,807.9	3.9%
Department of Agriculture, Water and Forestry	9,718,000	9,823,602	9,027,625.5	795,976.8	795,976.8	8.8%
Public Property Management Office	5,449,298	2,072,292	5,062,175.5	-2,989,883.3	2,989,883.33	54.9%
Department of Spatial Planning and Property Issues	5,027,132	1,404,881	4,670,000.6	-3,265,119.6	3,265,119.6	69.9%
Public Security Department	4,675,226	4,284,600	4,343,094.2	-58,494.2	58,494.2	1.3%
Department for Displaced Persons, Refugees and Housing	4,612,267	3,599,329	4,284,608.2	-685,279.3	685,279.3	16.0%
Department of Public Register	4,203,604	3,202,163	3,904,977.0	-702,813.6	702,813.6	18.0%
Directorate of Finance	4,027,655	3,608,342	3,741,527.2	-133,185.7	133,185.7	3.3%
Brčko District Assembly	3,191,832	2,940,085	2,965,081.7	-24,996.3	24,996.3	0.8%
Department of Professional and Administrative support	2,923,364	2,055,457	2,715,685.6	-660,228.4	660,228.4	24.3%
Office for Audit of Financial Operations of Institutions of Brčko District of BiH	273,980	265,791	254,516.2	11,274.4	11,274.38471	4.1%
21 (= sum of rest)	551,222	529,742	512,062.7	17,678.9	17,678.9	3.2%
Allocated expenditure	215,861,862	200,526,863	200,526,863.0		58,428.6	
Contingency	548,927	1,659,488				
Total expenditure	216,410,789	202,186,351				
Overall (PI-1) variance	6.6%					
Composition (PI-2) variance	0.0%					
Contingency share of budget	0.8%					

Table 5. Results Matrix

Year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2009	12.3%	0.0%	
2010	13.9%	0.0%	0.4%
2011	6.6%	0.0%	
Score for indicator PI-1:		C	
Score for indicator PI-2 (i)	C		
Score for indicator PI-2 (ii)	A		
Overall score for indicator PI-2		C+	

ANNEX 4. COUNTERPARTS/PEOPLE INTERVIEWED

<i>No.</i>	<i>Name of official</i>	<i>Institution</i>	<i>Position</i>
1.	DevadNekić	Audit Office of the BiH Institutions	Deputy
2.	Samir Bakić	FBiH Ministry of Finance	Assistant Minister for Debt
3.	VedadNezirić	FBiH Ministry of Finance	Head, Department for Borrowing
4.	JasnaVukasović	FBiH Ministry of Finance	Head, Department for Analysis and Reporting
5.	NevenAkšamija	Civil Service Agency BiH	Director
6.	AlijaAljović	FBiH Ministry of Finance	Assistant Minister for Budget
7.	Irena Šotra	EU Delegation to BiH	Task Manager
8.	Omer Vatrić	FBiH Parliament, House of Representatives	Chairman, Economic and Financial Policy Board
9.	Kemal Kozarić	BiH Central Bank	Governor
10.	SehijaMujkanović	BiH Ministry of Finance and Treasury	Assistant Minister, Department of Treasury
11.	MiroslavTomić	BiH Ministry of Finance and Treasury	Adviser to the Minister
12.	Bozo Zovko	Indirect taxation Authority of Bosnia and Herzegovina	Chief of Staff Director
13.	Sabina Kursumovic	Indirect taxation Authority of Bosnia and Herzegovina	Associate in text department
14.	MilicaVidovic	Indirect taxation Authority of Bosnia and Herzegovina	Associate in text department
15.	Filip Vujeva	Public Company Roads of the Federation of Bosnia and Herzegovina	Director
16.	DraganTrebojic	Public Company Roads of the Federation of Bosnia and Herzegovina	Director of Finance
17.	AmraSmailagić	Public Company Roads of the Federation of Bosnia and Herzegovina	Adviser for International Cooperation
18.	Amir Hadžiomeragić	BiH Central Bank	Head, Research Department
19.	Ruben Atoyán	IMF Resident Representative Office	Resident Representative
20.	OgnjenĐukić	IMF Resident Representative Office	Adviser to the Resident Representative
21.	NovkaAgić	FBiH Health Fund	Director
22.	AvdoVajzovic	FBiH Ministry of Health	Assistant Minister, Economic Affairs Department
23.	VildanaDoder	FBiH Ministry of Health	Assistant Minister, Department for Project Implementation
24.	AldinMedjedovic	FBiH Ministry of Education	Adviser to the Minister
25.	Ervin Zolic	CBBiH	Head of Section, Public Finance Statistics
26.	SlavicaBuntic	FBiH Ministry of Finance	Budget Department – Adviser
27.	Halida Pasic	Ministry of Finance and Treasury	Budget Department – Adviser
28.	AlmedinaMadzak	FBiH Ministry of Finance	Reporting Officer
29.	AzraHadziahmetovic	FBiH Ministry of Finance	Treasury Department official
30.	AmelaHadziaDBic	FBiH Ministry of Finance	Budget Officer
31.	MirsadBašić	ADS FBiH – Civil Service Agency of FBiH	Finance Officer
32.	Ibrahim Okanovic	FBiH SAI	Auditor General
33.	MithatArifovic	Tax Administration of the Federation of BiH	Director

<i>No.</i>	<i>Name of official</i>	<i>Institution</i>	<i>Position</i>
34.	Vinko Krizan	Tax Administration of the Federation of BiH	Deputy Director
35.	Dzavida Hadzic	Tax Administration of the Federation of BiH	Head of Section for Assistance, Education and Tax Advice
36.	Ranko Sakota	BiH MFT, Central Harmonization Unit	Director
37.	Admir Ćebić,	Public Procurement Agency BiH	Deputy Director
38.	Mirsad Sirbubalo	Public Procurement Agency BiH	Head, Training and Analysis Group
39.	Belma Deović	Public Procurement Agency BiH	Head, Legal Department
40.	Vlatko Dugandzic	BiH MFT, Budget Department	Assistant Minister
41.	Dusanka Basta	BiH MFT, Department for Coordination of International Economic Aid (Public Investment Planning)	Assistant Minister
42.	Amir Pilav	Appeals Review Office	Director
43.	Zeljka Stojicic	RS Ministry of Finance, Budget Department	Assistant Minister
44.	Svjetlana Radovanovic	RS Ministry of Finance, Budget Department	Section Chief
45.	Zeljko Culum	RS Ministry of Finance, Treasury Department	Assistant Minister
46.	Nena Crnic	RS Ministry of Finance, Treasury Department	Section Chief
47.	Radmila Milicevic	RS Ministry of Finance, Treasury Department	Officer
48.	Radmila Misic	RS Ministry of Finance, Department for Public Investments	Assistant Minister
49.	Dragana Aleksic	RS Ministry of Finance	Assistant Minister, Debt Management
50.	Darko Tomas	RS Health Fund	Director
51.	Tatjana Todorovic Dorcic	RS Health Fund	Chief of Finance
52.	Gordana Kozomara	RS Health Fund	
53.	Radmila Trkulja	RS Ministry of Finance, Internal Audit	Director, CHU
54.	Aleksandar Radeta,	Civil Service Agency of Republika Srpska	Acting Director
55.	Zora Vidovic	RS Tax Administration	General Director
56.	Velimir Kukobat	RS Tax Administration	Head, Enforcement Department
57.	Sladjana Rajkovic	RS Tax Administration	Officer
58.	Dusko Snjegota	RS Supreme Audit Institution	Auditor General
59.	Gordana Mihajlovic	RS Ministry of Education and Culture	Chief Finance Officer
60.	Ljubo Lepir	RS Ministry of Social Protection	Assistant Minister for Social Protection
61.	Zlata Prguda	Canton Sarajevo, Ministry of Finance	Assistant Minister, Department for Budget and Fiscal System
62.	Sadeta Selimovic	Canton Sarajevo, Ministry of Education	Assistant Minister, Department of Planning and Statistics
63.	Edina Jakupovic	Canton Sarajevo, Ministry of Employment, Social Policy, Refugees and Displaced Persons	Finance Department
64.	Mato Lucic	District Brčko, Finance Directorate	Director
65.	Osman Osmanovic	District Brčko, Finance Directorate	Director of Treasury
66.	Slavica Vujic	District Brčko, Finance Directorate	Director of Tax Administration

<i>No.</i>	<i>Name of official</i>	<i>Institution</i>	<i>Position</i>
67.	Esref	District Brčko, Finance Directorate	Head of Payroll Department
68.	NedjadKurtovic	District Brčko, Finance Directorate	Head of Payment Control Department
69.	AnelaIlic	District Brčko, Finance Directorate	Head of Budget Execution
70.	VelidaMrkaljevic	District Brčko, Finance Directorate	Head of Budget Planning Department
71.	TatjanaMilisic	Deloitte	Manager, Tax Practice
72.	HarisJasarevic	Deloitte	Consultant, Tax and Legal Practice
73.	Lilia Razlog	WB DEMPA Research	Head of DEMPA Research Mission
74.	Dinka Antic	Macroeconomic Analysis Unit	Director
75.	Samir Musovic	USAID BiH Parliament Support Project	Consultant
76.	DževidaHodžić	Brčko District –Office for Audit of Financial Operations of Institutions of Brčko District of Bosnia and Herzegovina	Auditor General

ANNEX5: DISCLOSURE OF QUALITY ASSURANCE MECHANISM

The below disclosed arrangements provide sufficient and consistent information on the quality assurance aspects of the PEFA assessment reports. It covers the upstream and downstream issues which the PEFA program believes provides a framework for the successful implementation of an assessment.

PEFA Assessment Management Organization

- Oversight Team – Chair and Members: Nichola Dyer, World Bank Country Program Coordinator, ECCU4
- Assessment Manager: Soukeyna Kane, World Bank Financial Management Sector Manager

Assessment Team Leader and Team Members: Lamija Marijanovic (team leader, Financial Management Specialist, Bosnia and Herzegovina), Rajeev Swami (Adviser to the team, Lead Financial Management Specialist, Europe and Central Asia Region/East Asia and Pacific), Andrew James Mackie (Financial Management Specialist, Europe and Central Asia Region), , Sandra Hlivnjak (Country Economist, Bosnia and Herzegovina), Abebe Adugna (Lead Economist, Western Balkans), Simon Davies, (Economist, ECSP2), Nikola Kerleta (Procurement Specialist), Lilia Razlog (Debt Management Specialist, Public Sector Anchor), Naida Carsimamovic Vukotic (Public Financial Management consultant, Bosnia and Herzegovina), Tatjana Milisic (Tax Specialist, Bosnia and Herzegovina), and consultants from the firm PFK (U.K.).

- **Date of reviewed draft concept note and/or terms of reference:** 11 November 2012
- **Invited reviewers:** PEFA Secretariat, (Head PEFA Secretariat), Damir Cosic (Economist DECPG), Brian Olden (IMF Regional Public Financial Management Adviser, South East Europe), Irena Sotra (Program Manager Delegation of the European Union to Bosnia and Herzegovina), and government representatives from the BiH Institutions, FBiH and RS government, and DB government.
- **Reviewers who provided comments:** PEFA Secretariat, (Head PEFA Secretariat), Damir Cosic (Economist DECPG), Brian Olden (IMF Regional Public Financial Management Adviser, South East Europe), and Irena Sotra (Program Manager Delegation of the European Union to Bosnia and Herzegovina).
- **Date(s) of final concept note and/or terms of reference:** 20 November 2012

Review of the Assessment Report

- **Date(s) of reviewed draft report(s):** 27 November 2013 reviewed by PEFA Secretariat (Head PEFA Secretariat), 4 December 2013 reviewed by Damir Cosic (Economist DECPG), 5 December 2013 reviewed by Brian Olden (IMF Regional Public Financial Management Adviser, South East Europe), and 4 December 2013 reviewed by Irena Sotra (Program Manager Delegation of the European Union to Bosnia and Herzegovina), 9 May 2014 reviewed by the BiH Institutions, between 16 and 18 April 2014 reviewed by Federation Bosnia and Herzegovina, 23 April 2014 reviewed by Republika Srpska, between 11 April 2014 and 5 May 2014 reviewed by District Brčko.

- **Invited reviewers:** PEFA Secretariat, (Head PEFA Secretariat), Damir Cosic (Economist DECPG), Brian Olden (IMF Regional Public Financial Management Adviser, South East Europe), and Irena Sotra (Program Manager Delegation of the European Union to Bosnia and Herzegovina) and government representatives from the BiH Institutions, FBiH, RS and DB government.
- **Reviewers who provided comments:** All invited peer reviewers have submitted their comments timely.

Review of final draft report

A revised final assessment was forwarded to reviewers by May 31, 2014 and included in a table showing the response to all comments raised by all reviewers.

This form, describing the quality assurance arrangements is included in the final report.



PEFA assessment report, Bosnia and Herzegovina, May 2014

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, May 23, 2014

ANNEX6: BOSNIA AND HERZEGOVINA POLITICAL STRUCTURE

