

BUDGET SYSTEM LAW

I. GENERAL PROVISIONS

Content and Scope of the Law

Article 1

This Law shall regulate the planning, preparation and enacting of the budget the Republic of Serbia (hereinafter: the Republic), and the budgets of the territorial autonomies and local self-government (hereafter: local authorities).

This Law, through establishment of the Treasury of the Republic, i.e., local authority, shall also regulate budget execution, borrowing, issuing of guarantees, debt management, budget accounting and reporting.

This Law establishes the Public Payment Administration as an administrative body within the Ministry of Finance and Economy (hereinafter "the Ministry") and governs its competencies and organisation.

This Law shall also regulate control and audit of the Republic and local authorities' budget, and control and audit of public institutions and other indirect budget spending units, public institutions and legal entities founded by public enterprises, i.e., legal entities in which the Republic or local authority exercises direct or indirect control in excess of 50% of the capital or more than 50% of votes in the management board.

This Law shall also regulate preparation and adoption of financial plans, borrowing, accounting, reporting, control and audit of financial plans of the Republic Health Insurance Institute, Republic Pension and Disability Insurance Funds and Republic Labour Market Office (hereinafter: mandatory social security organisations).

The Minister responsible for finance and economy (hereinafter: the Minister) shall pass acts to enforce this Law, in accordance with law.

Definitions

Article 2

For the purposes of this Law, the terms used shall have the following meanings:

1) **The Budget Law** is the law whereby the National Assembly of Republic of Serbia (hereinafter: National Assembly) approves for each year expenditure and other outflows, revenues and receipts, borrowing and other financial transactions of the Republic.

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- 2) **Budget decision** is the act whereby the autonomous province assembly and/or municipal assembly, assemblies of cities or the city of Belgrade (hereinafter: local assembly), approve for each year the expenditure and other outflows, revenues and other receipts, borrowing and other financial transactions of local authorities.
- 3) **The supplemental budget** is a Republic law and/or a decision of a local assembly whereby the budget is amended (rescheduled).
- 4) **A financial plan** is an act of a direct and indirect budget beneficiary, as well as an act of mandatory social security organisations, containing an estimate of the volume of current revenues and other receipts and the volume of current expenditures and other outflows for a one year period.
- 5) **A medium term financial plan** is a financial plan specified in point 4 of this Article for the budget year and two subsequent fiscal years.
- 6) **The direct budget beneficiaries** shall be the bodies and organisations of the Republic and/or local authority.
- 7) **The indirect budget beneficiaries** are judicial bodies, institutions founded by the Republic and/or local authority over which the founder, through direct budget beneficiaries, exercises statutory powers in respect of management and financing, and budgetary funds;
- 8) **An appropriation** is the authority granted by the National Assembly, and/or local assembly, under annual law or budget decision to the Government of the republic of Serbia (hereinafter: the Government), and/or the appropriate executive body of the local authority to spend public funds up to a set limit and for a specified purpose over a period of one year;
- 9) **Borrowing** is the contracting of loans or issuing bonds or similar securities;
- 10) **Liquidity borrowing** is the contracting of short-term loans and/or issuing short-term bonds or similar securities to finance temporary shortfalls in budget liquidity resulting from unbalanced movements in revenues and expenditures during the execution of the budget;
- 11) **A commitment** is engagement of funds by direct budget beneficiary, on the basis of contracts or other binding legal acts, that at the moment of engagement, is reasonably expected to result in the cash outlay, immediately or in the future;
- 12) **Payments** are all financial transactions that result in the reduction of bank account balances;
- 13) **Public funds** are the funds under the control of and at the disposal of the Republic, local authorities or mandatory social security organisations;
- 14) **The Consolidated Treasury Account** represents one or more accounts, opened with the organisation authorised to perform payment operations, into which budget receipts are deposited and held, and from which all payments of budget outflows are made.;
- 15) **The General Treasury Ledger** is the main double entry bookkeeping ledger where all changes on the accounts are recorded;

16) **Tax expenditures** are benefits or exemptions from a usual tax structure that reduce revenue collection.

Budget System **Article 3**

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The budget system shall comprise the budget of the Republic, the budgets of the local authorities and the financial plans of the mandatory social security organisations.

The integrity of the budget system shall be ensured by a uniform legal basis, single budget classification, use of single budget documentation for drafting budgets and financial plans, single system of budget accounting, the transfer of statistical reporting and information from one budget level to another, and the principles set for the budget process, in accordance with this Law.

Budgetary Objectives

Article 4

The budgetary objective in preparing and executing the budget shall be macro-economic stability, sustainable and stable economic development and the minimisation of financial risk of the Republic.

The budget appropriations shall be used also to finance the functioning of Republic and local authorities, discharging of their duties and for other purposes under the Constitution, laws or local authority regulations.

In preparing and executing the budget, the principles of efficiency and economy, completeness, accuracy and single budgetary classification must be adhered to.

Scope of Budget **Article 5**

Budget receipts belonging to the Republic or local authority shall be allocated and stated by source in the budget.

Budget expenditures of the Republic or local authorities shall be determined by individual purpose in the budget.

Receipts shall be stated in total (gross) collected amounts, and all outflows in total (gross) executed amount.

The budget must be balanced in respect of receipts and outflows.

During a current year, the Republic and/or appropriate executive body of local authority may have at their disposal those receipts that have been contributed to their budgets by the end of the current year.

The direct budget beneficiaries may enter into commitments and use budget appropriations up to the levels determined by individual purpose in the budget.

The collection of revenues shall not be limited by revenue estimates stated in the budget.

Responsibility for Passing of the Budget and Financial Plan of Mandatory social security organisations

Article 6

The National Assembly shall pass the Law on Republic Budget.

The Local Assembly shall take the decision on local authority budget.

The financial plans of the mandatory social security organisations shall be passed by the competent body of the organisation, in accordance with law and other regulations.

Unless otherwise stipulated by law, bodies responsible for preparing budgets and financial plans referred to in paragraphs 13 of this Article, shall autonomously allocate total receipts and outflows, in accordance with law.

Responsibility for Execution of the Budget and Financial Plan of Mandatory Social Security Organisations

Article 7

The Minister shall be responsible for execution of the budget. The Government shall be accountable to the National Assembly for execution of the budget.

The relevant executive body of local authority shall be accountable to the local assembly in respect of execution of the budget of the local authority.

The relevant body of a mandatory social security organisation shall be accountable to the Government for execution of the organisation's financial plan.

Reports on the execution of the budget to the National Assembly and/or local assembly shall be submitted in the manner stipulated by this Law.

The Minister, and/or the local administrative authority responsible for finance shall monitor regularly the execution of the budget and shall inform the Government and/or the relevant local authority body at least twice a year.

The ministers responsible shall monitor regularly the execution of financial plans of mandatory social security organisations and shall semi-annually inform the Government and the Minister.

Consolidated Treasury Account
Article 8

The Minister and/or administrative body of local authority responsible for finance shall establish a Consolidated Treasury Account.

The Republic Consolidated Treasury Account and Consolidated Treasury Accounts of local authorities shall comprise a system of the Consolidated Treasury Account maintained with the National Bank of Yugoslavia.

The Minister and/or administrative body of local authority responsible for finance shall, and/or person authorised by him, shall open sub-accounts for direct and indirect spending units of the Republic budget and/or local authorities and mandatory social security organisations.

A separate accounting shall be made in sub-accounts specified in paragraph 3 of this Article:

1) of funds allocated from the budget and/or financial plan of the budget spending unit, and/or mandatory social security organisation, from which payment may be effected only if approved in the budget and/or financial plan;

2) of own revenue which is realised by budget spending units and/or mandatory social security organisations, in accordance with law.

The Public Payment Administration shall maintain sub-accounts of direct and indirect spending units of the Republic budget, and/or local authorities and mandatory social security organisations.

Cash assets of the Republic budget, direct and indirect spending units of that budget and mandatory social security organisations, shall be recorded and deposited on the Consolidated Treasury Account of the Republic.

Cash assets of local authorities and direct and indirect spending units of such budget shall be recorded and deposited on the Consolidated Treasury Account of the local authorities.

The Minister, and/or person authorised by him, may invest the funds on the Consolidated treasury Account of the Republic, except own revenues specified in paragraph 4, point 2) of this Article and such funds whose purpose is specified in a separate law and/or international agreement limiting their use, on the local or foreign financial money and capital market, in the manner specified in Article 53 paragraph 7 hereof.

The local administrative body responsible for finance, and/or person authorised by such body, may invest the funds on the Consolidated treasury Account of the local authority, except own revenues specified in paragraph 4, point 2) of this Article and such funds whose purpose is specified in a separate law and/or international agreement limiting their use, on the local financial money market, in the manner specified in Article 53 paragraph 7 hereof.

A budget spending unit and/or mandatory social security organisation may conclude an agreement with the Minister on investment of own revenue specified in paragraph 4, point 2) of this Article.

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Direct and indirect spending units of the local authority budget may conclude an agreement with the local authority on investment of own revenue specified in paragraph 4, point 2) of this Article.

Local administrative body responsible for finance may conclude an agreement with the Minister on investing the funds from the Consolidated Treasury Account of the local authority.

Revenues from investment specified in paragraphs 8 – 12 of this Article are paid into the pertaining Consolidated Treasury Account and/or sub-account for own revenue specified in paragraph 4, point 2) of this Article.

The Minister and/or the body of local authority responsible for finance shall specify the manner of use of funds on sub-accounts and/or other accounts specified in this Article.

General Treasury Ledger Article 8a

The Ministry and/or the body of local authority responsible for finance shall keep the General Treasury Ledger.

Transaction and business events, including revenues and receipts, expenditures and outlays, as well as the state and changes in equity, liabilities and sources of financing shall be recorded in the General Treasury Ledger in accordance with the chart of accounts and on the levels of the budget classification stipulated in Article 11 of this Law.

Separate records shall be kept in the General Treasury Ledger of the Republic and/or local authority for each direct and indirect budget spending unit.

Separate records shall be kept in the General Treasury Ledger of the Republic for the mandatory social security organisations.

Transactions and events recorded in the general ledger of direct and indirect budget spending unit must be current and in accordance with transactions recorded in the General Treasury Ledger.

Transactions and events recorded in sub-ledgers of direct and indirect budget spending units must be in accordance with transactions and events recorded in the General Treasury Ledger.

Transactions and events recorded in sub-ledgers of mandatory social security organisations must be in accordance with transactions and events recorded in the General Treasury Ledger.

The General Treasury Ledger shall record special-purpose revenues utilised by direct and indirect budget spending units and which may not be used for other purposes.

The Minister shall specify the manner of recording and content of the General and Sub-Treasury Ledger of the Republic and/or local authority.

Financial Service of a Direct Budget Beneficiary
Article 9

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Direct budget beneficiaries shall set up services to prepare and execute the budget and perform other tasks related to the management of state assets under responsibility of direct budget beneficiaries (hereinafter: **financial services**).

As an exception to the provision specified in para. 1 of this Article, the financial service of a direct budget beneficiary may also perform tasks for other direct budget beneficiaries.

The Minister shall prescribe common principles, criteria and tasks for operation of financial services, which may be specified by direct budget beneficiaries.

Direct budget beneficiaries of local authority budgets shall set up financial services to prepare and execute the budget, and perform other tasks related to management of local authority assets under responsibility of direct budget beneficiaries, in accordance with provisions of paragraphs 2 and 4 of this Article.

**II. PREPARATION AND PASSING OF THE BUDGET
AND FINANCIAL PLANS**

**Preparation of the Budget and Financial Plans of Direct Budget Beneficiaries and for
Mandatory Social Security Organisations**
Article 10

The budget shall comprise a general part and a special part.

The general part of the budget shall comprise:

- 1) A summary of current revenues and current expenses;
- 2) A summary of anticipated receipts from foreign and domestic borrowing and repayment of principal and interest in Republic debt and activated guarantees;
- 3) A proposal for the use of the surplus and, in the event of a deficit, sources for its financing;
- 4) An estimate of total amount of new borrowing of the Republic and/or repayment of its debt during the budget year;
- 5) An estimate of the total amount of new guarantees proposed to be issued by the Government during the budget year;
- 6) A summary and structure of total outstanding debt and guarantees, with an assessment of the risk of expenditures that may arise from the outstanding guarantees, as well as the Government plan for financing activated guarantees;
- 7) An assessment of other contingent liabilities and their potential impact on the budget;
- 8) Description and estimate of tax expenditures;
- 9) Current and permanent budgetary reserve.

The special part of the budget shall comprise financial plans of the direct budget beneficiaries, pursuant to principle of separation of power between the legislative, executive and judicial.

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The financial plans shall include outflows of each direct budget beneficiary presented in accordance with economic and functional classification and accounting fund classifications stipulated in Article 11 of this Law.

The general and special part of the budget shall disclose:

- 1) Estimated revenues and receipts and expenditures and outflows for the current fiscal year;
- 2) Planned revenues and receipts and expenses and outflows for the budget year;
- 3) Estimated revenues and receipts and expenses and outflows for the subsequent two fiscal years;

The financial plan of the mandatory social security organisation shall comprise a general part and a special part, determined in the manner prescribed by the Minister.

Budget Classification **Article 11**

The Budget shall be prepared and executed on the basis of the single budget classification system.

The budget classification shall include the economic classification of revenues and receipts, economic classification of expenditures and outflows, organisational classification, functional classification, and accounting fund classification as follows:

- 1) The economic classification of revenues and receipts identifies revenues and receipts on basis of legislation or agreement that determine the sources of the revenue and/or receipts,
- 2) The economic classification of expenditures and outflows identifies the specific goods and services and transfer payment made,
- 3) Organisational classification identifies outflows by direct budget beneficiaries, with the distribution of appropriations between beneficiaries;
- 4) Functional classification identifies outflows according to the functional purposes for a particular field and shall be independent of the organisation implementing such function;
- 5) Accounting fund classification identifies receipts and outflows pursuant to requirements for carrying out specific activities or for attaining certain objectives, in accordance with special regulations (separate identification of funds obtained from international agreements, funds from additional postal stamps for particular humanitarian purposes, etc).

Foreign and domestic sources of financing as well as the repayment of foreign and domestic debt shall comprise elements of the classification referred to in para. 2 of this Article.

The Minister shall specify the budget classification that shall be applied by the Republic and local authority, direct and indirect budget beneficiaries, and mandatory social security organisations in preparing their financial plans.

Receipts and Outflows **Article 12**

The following shall comprise budget receipts:

- 1) Current revenues, such as:
 - (1) Tax;
 - (2) Contributions for mandatory social insurance;
 - (3) Donations and transfers;
 - (4) Other revenues (fees, compensations for use of goods of common interest, fines, penalties and confiscated material gain, receipts from sale of goods and services, etc.);
- 2) Proceeds from domestic and foreign borrowing,
- 3) Proceeds from the sale of fixed assets, and
- 4) Proceeds from the sale of financial assets and repayment of given loans.

Outflows shall comprise:

- 1) Current expenditures for employees, goods and services, interest payments, subsidies, budgetary transfers to other levels of government, social transfers, and other expenditure;
- 2) Outflows for purchase of fixed assets,
- 3) Outflows for obtaining of financial assets, for extended loans or purchased securities;
- 4) Repayment of principal on borrowing.

Budget Surplus and Deficit **Article 13**

If current revenues exceed current expenses there is a surplus.

If current expenses exceed current revenues there is a deficit.

The annual budget and/or supplemental budget shall determine the use of the budget surplus and/or the financing of the deficit.

If during the course of executing the budget the deficit limit established in the annual budget law is exceeded, budget execution shall be temporarily suspended pursuant to provision of Article 42 of this Law.

Financing of the deficit by foreign or domestic borrowing shall be regulated in the manner specified in Articles 52 through 60 of this Law.

Budget Calendar **Article 14**

The process of preparation and adoption of the budget is done according to the budget calendar, as follows:

- 1) The calendar of the Republic budget:

April 30 - the Minister, in co-operation with the bodies responsible for economic development, shall prepare the Budget Memorandum, detailing the economic and fiscal policies and outlook for the budget year and two subsequent years.

May 15 - the Government shall adopt the Budget Memorandum;

June 1 - the Minister shall issue instructions for preparing the draft Republic Budget;

June 1 - the Minister shall provide the adopted Budget Memorandum to local authorities and the mandatory social security organisations, as well as the proposal of the framework of participation of local governments in Republic tax revenues;

August 1 - Direct budget beneficiaries and mandatory social security organisations shall submit their proposed financial plans to the Ministry;

October 1 - the Minister of Finance and Economy shall revise the Budget Memorandum to take into account any updating of macro-economic framework that occurred since April 30;

October 15 - the Minister shall submit the draft Republic Budget and financial plans of mandatory social security organisations to the Government;

November 1 - the Government shall adopt the proposed Republic Budget and submit it with the Budget Memorandum and financial plans of mandatory social security organisations to the National Assembly;

December 15 - the National Assembly shall pass the Republic Budget.

2) The calendar of local authority budget:

June 15 - the body of local authority responsible for finance shall issue instructions for preparing the local authority draft budget;

July 15 - direct beneficiaries of local budget funds shall submit financial plans to the body of local authority responsible for finance;

September 15 - local authority body responsible for finance shall submit the draft budget to the relevant executive body of the local authority;

October 5 - the relevant executive body of the local authority shall submit the budget proposal to the local assembly and to the Ministry;

December 15 - the local assembly shall pass the local budget;

December 25 – the relevant executive body of the local authority responsible for finance shall submit the local authority budget to Minister.

The dates in the paragraphs 2 and 3 of this Article represent the due dates in the budget calendar.

Proposed Republic and Local Authority Budgets
Article 15

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The Government shall submit to the National Assembly:

- 1) Budget Memorandum;
- 2) Proposed Republic Budget;
- 3) Planned sales of the Republic's non financial assets and fixed assets during the budget year;
- 4) Proposed financial plans for the budget year with regard to mandatory social security organisations, together with explanations; and
- 5) Proposed law for executing of the Republic budget.

The relevant executive body of local authority shall submit to local assemblies:

- 1) Proposed local authority budgets;
- 2) Planned sales of the local authority's non financial and fixed assets during the budget year;
- 3) Proposed decisions required for executing of local budgets.

Budget Memorandum
Article 16

The Minister shall prepare a Budget Memorandum on the economic and fiscal policies for the budget year and the subsequent two fiscal years and submit it to Government for review and adoption.

The budget memorandum shall contain:

- 1) A medium macroeconomic and fiscal framework setting out the assumptions and forecasts against which the budget is being prepared;
- 2) A review of government economic and fiscal policies and their budgetary implications;
- 3) Recommendations regarding budget strategies and choices;
- 4) Proposed resource allocations according to functional classification referred to in Article 11, paragraph 2, point 4 of this Law for the budget year and subsequent two fiscal years and in accordance with the medium term fiscal framework.

Instructions for Preparing the Republic Budget
Article 17

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After the Budget Memorandum has been adopted, the Minister shall deliver to the direct budget beneficiaries the instruction for preparing the proposed Republic Budget.

The instructions specified in para. 1 of this Article shall include:

- 1) Principal economic assumptions and guidelines for preparing the Republic Budget;
- 2) Estimate of receipts and outflows of the Republic Budget for the budget year and the subsequent two fiscal years;
- 3) Proposed scope of funds in financial plans of the direct budget beneficiary for the budget year and the subsequent two fiscal years;
- 4) Procedures and time schedules for the preparation of the Republic Budget and financial plans of direct budget beneficiaries.

**Recommendation to Local Authority, Mandatory Social Security Organisations and
Indirect Budget Beneficiaries**
Article 18

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The Ministry shall deliver the Budget Memorandum to local authorities and mandatory social security organisations.

The relevant ministries shall inform indirect budget beneficiaries of the Republic Budget on essential economic assumptions and guidelines for preparation of the Republic Budget.

The body of local authority responsible for finance shall advise local direct budget beneficiaries, on the essential economic assumptions and guidelines for preparing the local authority budget, whilst the relevant local authority body shall advise local indirect budget beneficiaries.

Proposed Financial Plan of a Direct Budget Beneficiary
Article 19

On the basis of the instruction for preparing the proposed Republic budget, the direct budget beneficiaries shall draw up their proposed financial plan.

The proposed financial plan referred to in paragraph 1 of this Article shall comprise of three parts:

- 1) The request for current outflows, providing details on existing activities and services of a direct budget beneficiary;
- 2) The request for additional funds, for current activities which cannot be facilitated through the limitations of funds for current outflows, with proposal of priorities to be considered in the budget approval process;
- 3) The fixed assets request enabling the direct budget beneficiary to request the funds for purchase of the equipment, additional funds for capital projects initiated in previous budget years, as well as funds for new capital projects, as priorities that should be considered in the process of approving the budget.

Parts referred to in para. 2 of this Article shall comprise a written elaboration and financial request.

The written explanation of the request specified in para. 2, point 1 of this Article shall provide information on the existing organisational structure of a direct budget beneficiary, activities and services, an overview of funds and employees necessary to facilitate the beneficiary's activities and services within their current outflow.

The written explanation of the request specified in para. 2 point 2 of this Article shall contain a description and justification of activity for which the additional funds and job position are requested.

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The written explanation of the request specified in para. 2 point 3 of this Article shall provide for each individual request, a justification, description, completion plan and estimate of future costs as associated with use and maintenance of a fixed asset, once it is completed.

Drafting and Submitting the Financial Plans of Mandatory Social Security Organisations and Indirect Budget Beneficiaries

Article 20

The mandatory social security organisations and indirect budget beneficiaries shall draft the proposed financial plans on the basis of the guidelines for the Republic budget.

The ministries responsible shall, in accordance with the directives and within the deadlines prescribed by the Minister, request the mandatory social security organisations and indirect budget beneficiaries of the Republic budget to submit the data necessary for the drafting of the financial plans of ministries.

The Minister may request of the mandatory social security organisations and indirect budget beneficiaries to submit directly the data relating to their financing, necessary for the preparation of the proposed Republic budget.

The ministry responsible shall submit the proposed financial plans of the mandatory social security organisations to the Minister who shall submit such plan, together with the proposed Republic budget, to the Government.

The Government shall submit the financial plan specified in para. 4 of this Article to the National Assembly, together with the proposed Republic budget.

The financial plan of the mandatory social security organisations shall be approved in accordance with Article 6, para. 3 of this Article.

The responsible body of indirect budget beneficiaries of the Republic budget shall approve the financial plans in accordance with law, other regulation or statute of an indirect budget beneficiary.

Review of Budget Requests

Article 21

The Ministry shall examine the requests of the budget, taking into consideration:

- 1) Revenue and expenditure targets;
- 2) The information and justifications required under Article 19 of this Law.

Prior to finalising the proposed budget, Minister shall inform the direct budget beneficiaries of proposed amounts of receipts and expenditures.

Direct budget beneficiaries shall submit remarks to the Minister in respect of the amount of funds specified in para. 2 of this Article.

The Government shall decide in final instance in the event that no agreement specified in para. 3 of this Article is reached.

Preparation of a Proposed Local Authority Budget **Article 22**

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After the Budget Memorandum has been received, local authority bodies responsible for finance shall submit to the direct budget beneficiaries instructions for preparing the proposed local authority budget.

The instructions referred to in para. 1 of this Article shall comprise the following:

- 1) Principal economic assumptions and guidelines for preparing the draft local authority budget;
- 2) A description of the local government's planned policies;
- 3) An estimate of receipts and outflow of the local authority budget for the budget year and the subsequent two fiscal years;
- 4) Proposed amount of volume of funds in financial plans of direct beneficiaries of local budgets for the budget year and two subsequent fiscal years;
- 5) Procedures and time schedules involved in the preparation of the local authority budget and proposed financial plans of direct beneficiaries of local budgets.

On the basis of the instruction for preparing the proposed local authority budget, direct budget beneficiaries shall draft their proposed financial plans and shall submit them to the local authority body responsible for finance.

Drafting and Submitting the Financial Plans of Indirect Beneficiaries of Local Authority Budgets **Article 23**

The indirect budget beneficiaries of local authority budgets shall be obliged to draft the proposed financial plans on the basis of the guidelines applied to local authority budgets.

The direct budget beneficiaries of local authority budgets shall be obliged, in accordance with guidelines and within the deadlines prescribed by the local authority, to request the indirect budget beneficiaries under their responsibility to submit the data necessary for the drafting of the financial plans of the direct budget beneficiaries.

Local authority body responsible for finance may request directly from the indirect budget beneficiaries to submit the data relating to the financing of beneficiaries that are necessary for the preparation of the proposed local authority budgets.

The competent body designated in a local authority regulation, in accordance with such regulation shall approve the financial plans of indirect budget beneficiaries of local authority budgets.

Submission of Proposed Budget to the National Assembly and/or Local Assembly

Article 24

The Minister shall submit the proposed Republic Budget to the Government.

The Government may request that the Minister present additional information or explanations regarding the Annual Budget Proposal.

The Government determines any amendments to the Proposed Budget, adopts the proposed Republic Budget and submits it together with the Budget Memorandum to the National Assembly.

The local authority body responsible for finance shall submit the proposed local authority budget to the executive body of local authority.

The executive body of local authority may request of the local authority body responsible for finance present additional information or explanations regarding the local authority's draft budget.

The relevant executive body of local authority shall decide on any amendments to the draft budget, adopts the proposed local authority budget and submits it to the local assembly.

Adoption of the Budget and Issuing of Approval on Financial Plans of Mandatory Social Security Organisations

Article 25

The National Assembly and/or local assemblies shall adopt the budget of the Republic, i.e., the local authority budget.

The National Assembly shall approve the financial plans of the mandatory social security organisations.

Restrictions on Adopting the Budget

Article 26

Amendment of the proposed budget made by the National Assembly and/or local council shall be in compliance with the deficit ceiling set in the Government's budget proposal and/or executive body of local authority.

Any proposal to increase an outflow shall also state measures to increase receipts or reduce other outflows by the same amount.

Publication of the Budget

Article 27

The Republic Budget, local budget and financial plan shall be published in the "Official Gazette of the Republic of Serbia".

Fiscal Year and Temporary Financing
Article 28

A budget shall refer to the fiscal year and shall be valid during the year for which it is passed.

The fiscal year shall be a period of twelve months, from 1 January to 31 December of each calendar year.

In the event that the National Assembly and/or local assembly fail to pass a budget before the commencement of the fiscal year, temporary financing shall be instituted for a maximum period of the first three months of the fiscal year.

Temporary financing for the purpose of para. 3 of this Article shall be executed in proportion to funds utilised in the same period in the preceding year's budget, up to a maximum of one-fourth of the total revenues allocated in the preceding fiscal year's budget.

The Government and /or relevant body of local shall pass the decision on such temporary financing.

Amending a Budget and Financial Plans of Mandatory
Social Security Organisations
Article 29

If during the fiscal year a law or regulation is adopted having an effect of decreasing the planned revenues and receipts or increasing the planned expenses and outflows, a decision shall be passed determining additional revenues and receipts, or reducing expenditure and outflow, required to balance the budget.

If during the fiscal year an increase in expenses or outflows or a decrease in revenues or receipts occurs, the budget shall be balanced by either reducing the planned expenses or outflows or by introducing new revenues or receipts.

Budget balancing shall be done through supplementary budget passed in compliance with the budgetary procedure.

No law or regulation may be passed or action taken envisaging spending of public funds outside of the budget.

Provisions of paras. 1 – 4 of this Article shall be accordingly applied to financial plans of mandatory social security organisations.

Estimated Financial Effects of Laws and Other Regulations
Article 30

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An explanation pertaining to a law or other regulation submitted to the Government, and /or the executive body of local authority for determining the proposal, i.e., adoption, shall contain an estimate of financial effects that such law or regulation shall have on the budget.

The estimate referred to in para. 1 of this Article shall contain information on whether the proposed law, i.e. other regulation, increases or reduces budget receipts or outflows.

The estimate referred to in paras. 1 and 2 of this Articles hall include as mandatory:

1. Anticipated changes in receipts and outflows for the budget year and the subsequent two fiscal years,
2. Proposals to ensure funds to cover the increased outflows,
3. Proposals to provide sources of financing for reduced revenues;
4. The opinion of the Ministry and/or local authority body responsible for finance.

III. BUDGET EXECUTION

Collection of Budget Receipts

Article 31

Receipts of the Republic Budget and local authority budget shall be collected and paid in accordance with law and other regulations, regardless of the amounts determined in the budget for individual types of receipts.

Direct and indirect budget beneficiaries shall be required to deposit in full and on time, on due date, on the prescribed account of the relevant consolidated treasury account, of budgetary receipts from their jurisdiction, for their allocation into the budget, in accordance with the law.

The provisions of paras. 1 and 2 of this Article shall also apply in periods of temporary financing.

Allocation of Appropriations

Article 32

Upon passing of the budget, the Ministry and/or body of local authority in charge finance shall inform the direct budget beneficiaries of the approved appropriations.

The direct budget beneficiaries who, in budgetary terms, are responsible for indirect budget beneficiaries shall allocate the funds to respective indirect budget beneficiaries from the approved appropriations of direct beneficiaries. .

Budget Liquidity Planning

Article 33

The Ministry and/or the local authority body responsible for finance shall plan the budget liquidity by forecasting the budget cash flow on the basis of receipts and outflows, within the framework plans of budget execution drafted by the direct budget beneficiaries, in accordance

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with the methodology and within the deadlines set by the Minister, and/or local authority body responsible for finance.

The plan of budget execution shall mean an overview of the planned receipts of direct budget beneficiary pursuant to source of financing, and an overview of the planned outflows.

Determining the Volume of Expenditures of Direct Budget Beneficiaries within a Set Period of Time

Article 34

Direct budget beneficiaries may only make payments up to the volume of outflows determined for a quarter or other period by the Minister and/or the body local authority responsible for finance (hereinafter: *quota*).

In determining the quota for direct budget beneficiaries, the Minister and/or the local authority body responsible for finance shall take into consideration the funds planned within the budget for the direct budget beneficiary, its commitments and the liquidity possibility of the budget.

The Ministry and/or the local authority body responsible for finance shall inform the direct budget beneficiaries of their quota no later than fifteen days prior to commencement of the period to which it relates.

The Minister shall stipulate the procedure and conditions for determining the quotas referred to in the paras. 1 and 2 of this Article, as well as the measures in the event of non-compliance with the quotas.

Commitment and Expenditure Responsibilities

Article 35

Commitments undertaken by each direct budget beneficiary shall comply with the prescribed quotas for each quarter or any such other period as the Minister and/or the local authority body responsible for finance may determine.

A direct budget beneficiary may enter into a commitment that may extend into the subsequent fiscal year provided the full financial assets to liquidate the commitment are provided within the quotas proscribed in the current fiscal year.

All commitments and financial obligations of the Government must be paid only in cash from the Treasury Consolidated Account.

Commitment Management

Article 36

In entering into commitments, direct budget beneficiaries must follow guidelines on terms and conditions of payment as may be determined by the Minister and/or local authority body responsible for finance.

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Direct budget beneficiaries shall enter into commitments on the basis of written agreements unless otherwise provided by law.

Commitments incurred in excess of authority granted in the Budget or incurred in contravention of this Law or other legal requirements, may not be executed on the burden of Treasury Consolidated Account of the Republic and/or local government.

Committed financial assets remaining in the Treasury Consolidated Account at the end of the fiscal year shall be retained for payment of those commitments in the subsequent fiscal year, unless the commitment is cancelled or becomes void.

The Minister shall develop procedures for implementing of the provision in para. 4 of this Article.

Financial assets associated with commitments that are cancelled shall, after the end of the fiscal year in which the commitment was originally made, remain on the Treasury Consolidated Account for inclusion into revenue of the subsequent budget.

Commitments cancelled during the fiscal year in which originally budgeted may be re-committed by the direct budget beneficiary for the same purposes for which they were budgeted.

The Minister and/or local authority body responsible for finance shall issue regulations governing the cancellation and re-use of commitment authority.

Commitment authority and associated financial assets that remain uncommitted at the end of the fiscal year in which budgeted to a direct budget beneficiary are retained at the request of the budget beneficiary for his use in the coming year for the purposes for which they were budgeted, provided they are reported in the next year's budget.

Awarding of Contracts **Article 37**

A contract for supplies, services or construction works concluded by direct and indirect budget beneficiaries and mandatory social security organisations may only be made pursuant to the law regarding public procurement.

Payments from the Budget **Article 38**

Each outflow from the budget must be based on bookkeeping documents.

The legal basis and the amount of the commitment arising from the said authentic bookkeeping documents must be confirmed in writing prior to the actual payment.

The Minister shall specify the methods of entering into commitments, reporting on the commitments entered into and the methods of payments to be made from the Republic and/or local authority budgets.

The provisions of the paras. 1 through 3 of this Article shall be applied to commitments of the mandatory social security organisations.

Repayments to the Budget
Article 39

If no legal grounds existed for an individual payment, a direct budget beneficiary shall immediately require a repayment to the budget.

Should the payment be returned in the same fiscal year it was made, the debit side of the financial plan of the budget beneficiary shall be proportionally reduced.

The provisions of the paras. 1 and 2 of this Article shall be applied to the repayment of funds of mandatory social security organisations.

Repayment of Overpaid Public Revenues to the Taxpayer
Article 40

Should a greater amount of public revenues referred to in Article 12, para. 1, point 1. sub point (1) of this Law be collected from a taxpayer, and/or if the basis for collection was erroneous, a return of funds shall be made in accordance with the law regulating the collection of public revenues.

The repayment of revenues referred to in paras. 1 and 2 of this Article shall be made against the current revenue payment account.

Should the payment account of the current revenue referred to in paragraph 1 of this Article have insufficient funds for repayment, and if the said current revenue in entirety belongs to the Republic budget or local authority budget, and/or is one shared between Federal and Republic budgets, or between Republic and local budgets, the Payment Operations Authority is obliged to transfer the amount of funds to be repaid to the taxpayer to the corresponding public revenues payment account, in proportion to the beneficiary's prescribed participation in allocation of such public revenue.

The provisions of paragraphs 1 through 3 of this Article shall be accordingly applied to the prescribed account of record of the Federal Customs Administration for payment of excise and import sales tax.

The provisions of paragraphs 1 through 3 of this Article shall be accordingly applied to the reimbursement of the contributions for social insurance.

Changes in Appropriations during the Year
Article 41

Should the extent of business activities or authority of a direct budget beneficiary change during the year, the volume of appropriations set aside for its activities shall be increased or reduced accordingly.

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Should the scope of activities or authorities of the direct budget beneficiaries referred to in para. 1 of this Article be increased, the funds shall be provided from the current budget reserve.

Should a new budget beneficiary be formed during the year, the funds required for the activities or authorities for such budget beneficiary shall be provided from the current budget reserve.

Should the scope of activities or authorities of a direct budget beneficiary referred to in para. 1 of this Article decrease, or the direct budget beneficiary cease to exist, and should its tasks not be transferred to another budget beneficiary, the unused funds shall be carried over to the current budget reserve.

Should, during the year, several direct budget beneficiaries be formed from one direct budget beneficiary, the unused funds allocated to the original beneficiary shall be carried over to the current budget reserve and further allocated to the newly formed direct budget beneficiaries.

The decision on changes in appropriations referred to in paras. 1 through 5, and the use of funds of current budget reserve shall be taken by the Government and/or competent executive body of local authority.

The direct budget beneficiary, with the approval from the Minister or local authority body responsible for finance may redirect appropriations approved for certain expenditures up to the 5 % of the appropriation for the expenditure being reduced.

Appropriations may not be transferred between judicial, executive and legislative authorities.

Temporary Suspension of Implementation of the Budget Article 42

If during the fiscal year outflows are increased should or receipts reduced, the Government, on the proposal of the Minister, and/or the executive body of local authority on the proposal of the local authority bodies responsible for finance, may suspend the implementation of individual outflows (hereinafter: temporary suspension of implementation) for a period not to exceed 45 days.

The temporary suspension of implementation may:

- 1) Halt the entering into commitments;
- 2) Propose the extension of contractual terms of payment;
- 3) Halt the issuing of approvals to contracts; and
- 4) Halt the allocation of quotas.

The Ministry and/or the local authority body responsible for finance shall draft the proposed volume and measures relating to the temporary suspension of implementation in co-operation with the direct budget beneficiaries.

The measures relating to the temporary suspension of implementation may apply to all the direct budget beneficiaries.

The decision referred to in the para. 1 of this Article shall be reported by the Government to the National Assembly and by the executive body of local authority to the local assemblies.

**Supplementary Budget
Article 43**

Should it be impossible to balance the budget during enforcement of measures relating to temporary suspension of implementation, the Government and/or the executive body of local authority shall, no later than 15 days prior to the expiration of the period in which the temporary suspension of implementation is being carried out, propose a supplementary budget.

By means of the supplementary budget to be adopted by the National Assembly and/or the local assembly on the proposal of the Government and/or the executive body of local government, the receipts and the outflows of the budget shall be re-balanced.

During the period of adopting the supplementary budget the Government, on the proposal of the Minister, and/or the executive body of local authority may continue with temporary suspension of implementation of individual outflows.

**Budgetary Fund
Article 44**

A budgetary fund shall be an account of record opened by the Government and/or executive body of local authority as part of the General Treasury Ledger in order to separately keep certain budget receipts and outflows with the purpose of achieving the goal stipulated in a special Republic law, and/or local authority regulation or international agreement.

The regulation, that is, agreement referred to in the para. 1 of the this Article shall stipulate:

- 1) The purpose of the budgetary fund;
 - 2) The period of time for which the budgetary fund is established;
 - 3) The Ministry and/or the local authority body responsible for managing the budgetary fund;
- and
- 4) The sources of financing of the budgetary fund.

**Financing the Budgetary Fund and the Commitments
Arising from the Budgetary Fund
Article 45**

The budgetary fund shall be financed from:

- 1) Appropriations provided within the budget for the current year;
- 2) Earmarked receipts of the budget which are defined as earmarked receipts of the budgetary fund; and
- 3) Receipts arising from the management of liquid assets of the budgetary fund.

Budgetary fund commitments are met by the assets of the fund.

**Managing the Budgetary Fund
Article 46**

The responsible ministry, and/or the responsible local authority body shall manage the budgetary fund.

Upon liquidation of the budgetary fund, the rights and obligations of the budget fund shall be taken over by the Ministry and/or the local body referred to in para. 1 of this Article.

Special Conditions on the Use of Budgetary Fund Resources
Article 47

Payments against the budgetary fund may only be made up to the level of available assets in the budgetary fund and commitments may be entered into within the framework of realistically planned receipts of the budgetary fund.

At the end of the current year, any unused resources of the budgetary fund account shall be carried over to the subsequent year.

Current Budget Reserve
Article 48

Within the budget, a part of the planned receipts shall not be allocated in advance but shall be retained as the current budget reserve.

The funds of the current budget reserve shall be used for either unplanned purpose for which no appropriations have been made, or when it becomes evident during the year that insufficient appropriations have been allocated for a particular purpose.

The Government and/or executive body of local authority shall adopt, following the proposal of the Minister and/or local authority body responsible for finance, decisions regarding the use of the current budget reserve.

The funds of the current budget reserve shall be allocated to the direct budget beneficiaries.

Permanent Reserve
Article 49

The budget shall provide funds for the permanent budget reserve, which shall be presented as a separate expenditure position.

The permanent budget reserve shall be used to finance expenditures arising from the participation of the Republic and/or local governments in elimination of the consequences of emergency situations such as floods, drought, earthquake, fire, environmental disasters and other natural disasters and/or other extraordinary events that may endanger lives and health of people or cause damage of large extent.

The permanent budget reserve may also be used for temporary execution of budget commitments in case of reduced volume of receipts.

Short-term loans may be granted from permanent budget reserve funds for purposes set forth in the para. 2 of this Article, as well as to the budgets of local governments.

The permanent budget reserve may not exceed 1.5% of the overall annual budget receipts.

The revenues of permanent budget reserve shall be formed from the uncommitted funds carried forward from the previous fiscal year, and from funds set aside in the amount of 1.5% of monthly revenues collected in the previous month of the current year.

The setting aside referred to in para. 6 of this Article shall be done until the permanent budget reserve reaches the amount equal to the maximum referred to in the para. 5 of this Article.

Should the permanent budget reserve be reduced during the year due to reasons provided under the paras. 2 through 4 of this Article, the setting aside in the amount of 1.5% of monthly revenues collected in the previous months shall be continued until a maximum referred to in the paragraph 5 of this Article is reached.

The funds from the repaid loans referred to in para. 4 of this Article shall be paid into the permanent budget reserve.

Decisions regarding the use of the permanent budget reserve funds in individual cases up to 10% of the permanent budget reserve planned in the budget shall be taken by the Government and/or the responsible executive body of local government, following the proposal of the Minister and/or the local authority body responsible for finance.

Reports on the use of permanent budget reserve funds shall be made to the National Assembly and/or local assemblies.

The National Assembly and/or the local assembly shall take a decision on use of the budget reserve funds exceeding the level referred to in the para.10 of this Article.

Responsibility of the Head of a Direct Budget Beneficiary **Article 50**

The head of a direct budget beneficiary shall be responsible for entering into commitments, verifying commitments, issuing orders for payments to be covered by the budget of the body headed by him/her, and issuing orders for the collection of funds to be credited to the budget.

The head of a direct budget beneficiary shall assume responsibility for legal, correct, economical, and effective use of budget appropriations.

The head of a direct budget beneficiary may delegate individual powers referred to in para. 1 of this Article to other persons in the direct budget beneficiary.

**Allocation of Responsibilities between Order-issuing Authority, Accountants and
Internal Controllers
Article 51**

The functions of order-issuing authority, accountants and internal controllers shall not overlap.

IV. DEBT AND GUARANTEES

**Government Debt and Government Guarantees
Article 52**

The Republic may borrow from any domestic or foreign creditor in accordance with law.

The Republic may contract for a loan or issue securities to finance budget deficit.

The Government shall decide on contracting for a loan or issuing of securities to finance budget deficit

The Republic may contract for short-term loans or issue short-term securities to finance temporary shortfalls in current liquidity.

The Minister shall decide on contracting short-term loans and on issuing short-term securities.

The Republic may issue state guarantees (hereinafter referred to as: guarantees) for debt incurred by legal entities in accordance with law.

The Government shall specify the conditions and procedure for borrowing and issuing of guarantees of the Republic related, but not limited, to accounts credited with loan funds, withdrawal of instalments, drawing of funds from the account, debt servicing, liability accounting, Ministry control, technical control by the relevant ministry, security and right to refunding of the Republic of Serbia.

**Borrowing and Issuance of Guarantees
Article 53**

The Minister shall represent the Republic in the procedures of negotiating contracts on borrowing and issuing of bonds.

The decision on issuing of guarantees shall be made by the Government on the proposal of the Minister, and within the limits referred to in Article 55, para. 1 of this Law.

The Ministry shall negotiate the agreements on borrowing and issuing guarantees.

The Minister shall sign agreements on borrowing and guarantee on behalf of the Republic.

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A direct or indirect budget beneficiary may not authorise any other person other than Minister to sign a contract or other agreement that by its nature represents borrowing that may result in liability burdening the budget.

The contract or agreement concluded in contravention to provisions in paras. 3 through 5 shall be considered void.

All borrowing and issuing of guarantees of the Republic shall be conducted in such a way as to minimise the risk to the financial position of the Republic.

Agreement with the National Bank of Yugoslavia on Debt Servicing Article 54

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Limitations of Debt and Guarantees Article 55

The Republic budget shall include a limitation on the total amount of debt that may be incurred during the Budget year, with the exception of short-term liquidity borrowing that must be repaid by December 31 of the current fiscal year, as well as limitations on the overall volume of guarantees.

In developing the limitation on debt, the Ministry shall consider any relevant factors relating to:

1. Refinancing requirements of the domestic debt;
2. Financing requirements of the budget deficit;
3. Estimates of the following macro-economic indicators:
 - 1) The ratio of total State debt to the Gross National Product;
 - 2) The ratio of the annual interest payments on debt to the Gross National Product;
 - 3) The amount of borrowing from the banks, including from the National Bank of Yugoslavia under the guarantee of securities;
 - 4) The proportion of total short term internal debt in the overall state debt;
 - 5) The proportion of total external debt in the overall state debt;
 - 6) The ratio of debt and guarantees to revenues; and
 - 7) The ratio of total debt service expenditures to exports.

Servicing of Debt and State Guarantees Article 56

Expenditures for the servicing of debt and of guarantees have a permanent appropriation, under this Law.

During the implementation of the Republic Budget, modifications may not be made to plans for amortisation of the debt, nor to the methodologies used for developing such plan, except in cases of adjusting these payments to changes in actual domestic and external debt obligations.

The terms relating to the debt and guarantees may not be changed unilaterally.

Local authority debt shall not be serviced from the Republic budget unless the Government has issued guarantees for such local authority debt.

The provisions of Article 5, para. 6 and Article 42 of this Law shall not apply to the amounts stipulated for the repayment and servicing of state debt and of state guarantees.

Debt and Guarantee Record Article 57

The Ministry shall keep a record of all contracted Government debt and guarantees.

The Minister shall determine conditions, manner and procedure for keeping of the record.

Local Governments Debt Article 58

Local governments may not borrow except for the capital investment part of their budgets.

Local governments shall not issue guarantees.

Local governments may borrow from domestic and foreign creditors for financing capital investment expenditures subject to meeting special criteria determined by the Government.

The decision for borrowing, referred to in para. 3 of this Article shall be taken by the executive body of local government.

The amount of borrowing referred to in para.3 of this Article shall be determined in accordance with the ability of the local authority to finance the repayment of principal and interest from its own revenues.

Should short-term deficits in current liquidity occur during the fiscal year due to unbalanced movements in revenues and expenditures, financing may be obtained through borrowing from the Republic Budget based on criteria set by the Government.

The total amount of short-term borrowing from the Republic Budget shall be repaid by November 30 of the current year.

The amount of short-term or long-term borrowing for capital investments during the fiscal year may not exceed 20 percent of the total realised revenues of the previous year's budget for the local government.

Debt of Mandatory social security organisations Article 59

Mandatory social security organisations may not borrow for any purpose other than for the capital investment part of their budgets except the Republic Health Insurance Authority for procurement of medicines.

Mandatory social security organisations shall not issue guarantees.

Mandatory social security organisations may borrow from domestic and foreign creditors for financing capital investment expenditures subject to meeting special criteria set by the Government.

Provisions of para. 3 of this article shall accordingly apply to borrowing for procurement of medicines referred to in para. 1 of this Article.

The decision for borrowing, referred to in para. 3 of this Article shall be taken by the competent body of the mandatory social security organisations.

The amount of borrowing referred to in para.3 of this Article shall be determined in accordance with the ability of the mandatory social security organisations to finance the repayment of principal and interest from its own revenues.

Should short-term deficits in current liquidity occur during the fiscal year due to unbalanced movements in revenues and expenditures, financing may be obtained through borrowing from the Republic Budget based on criteria set by the Government.

The total amount of short-term borrowing from the Republic Budget shall be repaid by November 30 of the current year.

The amount of short-term or long-term borrowing for capital investments during the fiscal year may not exceed 20 percent of the total realised revenues of the previous year's financial plan of the mandatory social security organisations.

Publishing of Decisions on Debt and Guarantee Article 60

The decisions on debt and guarantee shall be published in the "Official Gazette of the Republic of Serbia".

V BUDGETARY ACCOUNTING AND REPORTING

Budgetary Accounting Responsibilities Article 61

Direct budget beneficiaries shall be responsible for the accounting of their own transactions and transactions of the indirect budget beneficiaries falling within their jurisdiction (hereinafter: budgetary accounting).

Budgetary accounting is the accounting of revenues, commitments and expenditures of direct and indirect budget beneficiaries.

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The Minister and/or the local body responsible for finance shall, on behalf of the Government and/or the executive body of local government, be responsible for accounting of received loans and debt transactions.

Authority to Establish Budgetary Accounting Regulations Article 62

The Government shall specify the accounting system, the General Treasury Ledger system and the method of keeping the Treasury Consolidated Account.

The Minister shall prescribe the method of budget accounting and the content and mode of financial reporting for all direct and indirect budget beneficiaries, mandatory social security organisations and budgetary funds of the Republic and local governments and may issue special instructions on financial reporting to certain state administration bodies.

The Minister shall prescribe the manner of preparation, compiling and submission of final accounts of direct and indirect budget beneficiaries, mandatory social security organisations and budgetary funds of the Republic and local governments.

Proposed Final Account Statement Article 63

The proposed final account statement shall be drafted by the Government and/or the executive body of local government.

The Government and/or executive body of local authority shall submit the proposed final account statement to the National Assembly and/or local assembly.

Calendar for Submission of Final Accounts Statements Article 64

The process of preparation, compiling and submission of Final Accounts Statements of the direct and indirect budget beneficiaries, mandatory social security organisations and budgetary funds shall take place according to the prescribed calendar, as follows:

December 1 - the Minister shall issue instructions on the closure of the records and on the preparation of the final accounts statement;

February 28 - indirect budget beneficiaries and budgetary funds shall prepare their annual statements for the preceding year and submit them to the competent direct budget beneficiary;

March 31 - direct budget beneficiaries shall review and reconcile the final accounts statements of indirect budget beneficiaries and/or budgetary funds under their competence, consolidate said statements and produce a consolidated annual statement which is submit it to the Ministry and/or local authority body responsible for finance.

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March 31 – mandatory social security organisations shall prepare annual account statements and submit it to the Ministry;

May 15 - the Ministry and/or the local body responsible for finance shall produce the consolidated final account statements of the budget and mandatory social security organisations and submit them to the Government and/or executive body of local government.

June 1 - the local body responsible for finance shall submit to the Minister the final account statement of the local authority budget, approved by the executive body of the local government.

July 1 - the Government shall submit to National Assembly the consolidated final account statement of the Republic and mandatory social security organisations in the form of a proposed law.

The dates referred to in para. 2 of this Article represent the due dates in the calendar for submission of final accounts and other acts.

Content of Final Accounts Statements Article 65

The final account statement shall include:

- 1) balance sheet,
- 2) balance of revenues and expenses,
- 3) statement of capital expenditures and financing,
- 4) cash flow statement,
- 5) statement of on the execution of the budget, presented in such away as to clearly identify the difference between the approved budget and execution,
- 6) explanation regarding large discrepancies between the approved funds and execution,
- 7) report on grants and loans received, both domestic and foreign, and debt repayments made,
- 8) report on the outflows from the current and permanent budgetary reserves,
- 9) report on guarantees issued during the fiscal year
- 10) external audit report on financial reports referred to in points 1 through 9 of this paragraph.

VI BUDGETARY CONTROL AND AUDIT

Responsibilities for Internal Control Article 66

Direct and indirect budget beneficiaries and mandatory social security organisations shall establish internal control systems for all transactions relating to the accounts of revenues and expenses, the financial assets and liabilities account and the financing account, as well as the management of state assets.

The internal control system comprises a network forming an organisation, whose aim is to ensure:

- 1) application of laws, regulations, policies and procedures;
- 2) effectiveness of operations;
- 3) economical and efficient use of resources;

- 4) safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- 5) The integrity and reliability of information, accounts and data.

Internal control shall be organised as a system of procedures and responsibilities of all persons involved in the financial and operational processes of direct and indirect budget beneficiaries and mandatory social security organisations.

Mandatory social security organisations, as well as direct budget beneficiaries that are organisationally complex entities, shall organise a separate service of internal controllers.

Other direct budget beneficiaries, except beneficiaries specified under para. 4, may organise a separate service of internal controllers.

The Minister shall determine the direct budget beneficiaries referred to in para. 4 of this Article and shall determine common criteria for the organisation and procedures involved in internal control, on the basis of which the direct budget beneficiaries and mandatory social security organisations may specify the organisation and procedures for internal control.

Where an organised service of internal controllers exists, the controllers shall be directly responsible to heads of direct budget beneficiaries and/or mandatory social security organisations.

Direct budget beneficiaries shall establish corresponding forms of internal control for indirect budget beneficiaries under their authority.

The direct budget beneficiaries of local authority budgets shall set up adequate forms of internal control for all transactions relating to budgetary receipts and outflows, management of assets and debt management of local governments.

Provisions of paras. 1-6 of this Article shall accordingly apply to cases referred to in para. 7 of this Article.

Inspection and Audit Service **Article 67**

Budget inspection and audit shall be carried out by the Ministry, for the purpose of inspecting and auditing:

- 1) Direct and indirect budget beneficiaries;
- 2) Mandatory social security organisations;
- 3) Public enterprises founded by the Government, legal entities founded by such enterprises and/or legal entities in which the Republic has direct or indirect control exceeding 50% of the capital or 50% of votes in the management board, as well as legal entities where public funds comprise more than 50% of the total revenue.

The competent executive body of local authority shall establish a Local Inspection and Audit Service.

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The Local Inspection and Audit Services shall be responsible for carrying out audits and inspections over:

- 1) Direct and indirect beneficiaries of local budgets;
- 2) Public enterprises founded by local government, legal entities founded by such public enterprises an/or legal entities where the local authority exercise direct or indirect control over more than 50% of the capital or more than 50% of votes in the management board, as well as over legal entities in which the funds from local budgets comprise more than 50% of total revenue.

Functions of the Inspection and Audit Service Article 68

The functions of the Republic Inspection and Audit Service are:

- 1) Compliance audit – which means ex post facto checking of budget beneficiaries, organisations, enterprises and/or legal entities specified in Article 67, paras. 1 and 3 of this Law, in respect of observance of internal control rules;
- 2) Assessment of internal control systems – which means evaluation of whether internal controls in the system are appropriate, effective and complete;
- 3) Control of application of the law in the field of material and financial operations and appropriate and lawful use of funds by a budget beneficiary, organisations, enterprises and /or legal entities specified in Article 67, paras. 1 and 3 of this Law;
- 4) Performance audit – which means reviewing the operations and processes of audited bodies - budget beneficiaries, organisations, enterprises and /or legal entities specified in Article 67, paras. 1 and 3 of this Law, including non-financial operations, to assess their performance in terms of economy, efficiency and effectiveness;
- 5) Providing advice on the control and audit implications when new systems, procedures, or work responsibilities are introduced;
- 6) Liasing with external audit institutions, and
- 7) Undertaking other assignments as required to provide assurance about the operation of the internal control system

Rights and Duties Article 69

The Inspection and Audit Service shall be operationally independent. Its work, powers, markings etc, shall be defined by a separate act of the Government, following the proposal of the Minister. This act shall regulate the right of appeal in administrative procedure against inspectors and/or auditors.

The Minister shall determine the work program of the Inspection and Audit Service.

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The provisions specified in paras. 1 and 2 of this Article shall be applied to the inspection and audit on the local authority level.

The Minister shall define the methodology and shall specify the work practice of the Inspection and Audit Service.

The standards relating to the methodologies and details of work practices referred to in para. 4 of this Article shall be applied to the inspection and audit at the local authority level.

The Inspection and Audit Service shall have a quality assurance role over the work of the Local Inspection and Audit Services referred to in para. 5 of this Article to ensure that inspection and audit approaches are applied consistently throughout the Republic.

Local Inspection and Audit Services shall, on request, provide documents and reports to the Head of the Inspection and Audit Service for the purpose set forth in the para. 6 of this Article.

The Inspection and Audit Service and local equivalents shall have access to all data, documents, reports and information they require to carry out their functions in bodies they inspect or audit - budget beneficiaries, organisations, enterprises and/or legal entities referred to in Article 67, paras. 1 and 3 of this Law.

The Inspection and Audit Service and local equivalents shall be adequately resourced (staff, premises and equipment) in order to carry out their functions.

In performing their tasks, the Inspection and Audit Service staff and local equivalents shall have due regard to official and business confidentiality.

Reporting Article 70

The Inspection and Audit Service shall report on inspections and audits conducted, its findings, measures and related recommendations to the Minister.

The Inspection and Audit Service shall also provide copies of its record, reports and recommendations to budget beneficiaries, organisations, enterprises and/or legal entities referred to in Article 67, paras. 1 and 3 of this Law it has inspected and/or audited.

The Minister shall deliver reports referred to in para. 1 of this Article to the Government which shall submit them to the National Assembly semi -annually.

The provisions of paras. 1 and 2 of this Article shall accordingly apply to the Local Inspection and Audit Service.

External Audit Article 71

The annual account statement of the Republic, local authority and financial plans of mandatory social security organisations shall be subject to external audit.

VII BUDGET OPERATIONS

Duties and Responsibilities of the Budget Sector Article 72

The Ministry shall perform the functions Budget Sector, through:

1) In budget preparation:

- (1) Co-ordinating the budget preparation procedures;
- (2) Developing guidelines for budget preparation;
- (3) Analysing the funding requests of the direct budget beneficiaries and proposing the amounts of appropriations to be entered in the draft budget;
- (4) Analysing the financial plans of the mandatory social security organisations and budgets of local governments and proposing the amounts of transfers to be entered in the draft budget;
- (5) Prepares the draft budget;

2) In budget execution:

- (1) Controls the budget execution plan of direct budget beneficiaries, makes corrections if deemed necessary and forwards the corrected plan to the Treasury Sector, for budget execution and cash management;
- (2) Controls commitments in order to determine harmonisation with the adopted budget, approves such commitments and forwards the approved commitments to the Treasury Sector for budget execution;
- (3) Monitors the receipts and outflows of the budget;
- (4) Issues recommendations to the direct budget beneficiaries, local governments and mandatory social security organisations with respect to the budgetary issues.

VIII TREASURY

Duties and Responsibilities of the Treasury Sector Article 73

The Ministry and/or local body responsible for finance shall perform the functions of the Treasury, through:

1) Financial planning, which involves:

- (1) Projecting and monitoring inflows into the Treasury Consolidated Accounts and resource requirements for the payment of expenditures, including;
 - Cash flow analysis,
 - Budget implementation plan analysis, and
 - Debt services analysis;
- (2) Defining quarterly, monthly and daily quotas on commitments and payments.

2) Management of cash assets, which involves:

- (1) Management of the Consolidated Treasury Accounts into which all receipts are credited and from which all government payments are made, including;
 - Opening and controlling all bank accounts and sub-accounts, and

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- Managing all banking relations;
 - (2) Liquidity management;
 - (3) Develop procedures for collection of all receipts through the banking system; and
 - (4) Management of financial assets.
- 3) Expenditure control, which involves management of the processes of commitment authorisation, verification of receipts of goods and services, and approval of outflows of budget funds.
- 4) Debt management, which involves:
- (1) Management of all new credit negotiations and agreements,
 - (2) Maintenance of debt record, and
 - (3) Management of all debt proceeds.
- 5) Budget accounting and reporting, which involves:
- (1) Accounting operation for;
 - Processing of payments and recording receipts,
 - Maintenance of the journal, general ledger and selected subsidiary ledger for all receipts and outflows,
 - Accounting for international grants and other assistance.
 - (2) Financial reporting; and
 - (3) Accounting methodology, including;
 - Maintaining the classification systems,
 - Prescribing budget accounting rules and regulation, and
 - Prescribing internal and external reporting requirements.
- 6) Management of financial information system.

“VIIIa PUBLIC PAYMENT ADMINISTRATION

Organisation Article 73a

Organisational units shall be formed to perform tasks under the competence of the Public Payment Administration.

The manner of forming, number, structure, network and purview of organisational units specified in paragraph 1 of this Article shall be regulated by an act of the Minister, following the proposal of the Public Payment Administration director.

Management Article 73b

The Public Payment Administration shall be managed by a director.

The Government appoints the Director of the Public Payment Administration, following the Minister’s recommendation.

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The Director of the Public Payment Administration shall provide work co-ordination and uniform application of regulations in all regional units, achieved through the acts of the Minister and direct issuing of work instructions.

Following the recommendation of the Director of the Public Payment Administration, the Minister shall regulate:

- 1) internal organisation and job classification in the Public Payment Administration which sets out special skills and knowledge required for individual job positions;
- 2) labour relations derived rights and duties of employees in the Public Payment Administration (titles, amount of salary base for computation of salaries, salary compensation, criteria for motivational rewarding, awards, conducting of disciplinary proceedings, pronouncement of disciplinary measures, as well as authorisation to conduct disciplinary proceedings and delegation of such authority);
- 3) professional education, training and advanced training of employees of the Public Payment Administration;
- 4) rules of conduct of the Public Payment Administration employees;
- 5) activities incompatible with official duty;
- 6) other issues in accordance with law.

Competence Article 73v

The Public Payment Administration shall maintain records and perform tasks within the system of Consolidated Treasury Account, as follows:

- 1) register of direct and indirect spending units of the Republic budget and/or local authority and mandatory social security organisations;
- 2) public revenue deposit accounts, comprising sub-accounts of the Republic Consolidated Treasury Account;
- 3) distribute credited public revenue to relevant sub-accounts of different government levels, in accordance with law;
- 4) sub-accounts of direct and indirect spending units of the Republic budget and/or local authority and mandatory social security organisations, included in the system of the Consolidated Treasury Accounts;
- 5) other accounts in accordance with law and other regulations;
- 6) receive, control and process payment orders of direct and indirect spending units of the Republic budget and/or local authority and mandatory social security organisations, included in the Consolidated Treasury Account system;
- 7) issue payment orders against sub-accounts of direct and indirect spending units of the republic budget, and/or local authorities and mandatory social security organisations, included in the Consolidated Treasury Account system Account, pursuant to law and granted authorisation, based on court and other executive order, error rectification and payment of services;
- 8) effects cash payments of direct and indirect spending units of the Republic budget, and/or local authority and mandatory social security organisations, included in the Consolidated Treasury Account system;
- 9) drafts and submits reports on effected payment orders against or in favour of their sub-accounts to direct or indirect spending units of the Republic budget and/or local authority and mandatory social security organisations, included in the Consolidated Treasury Account system;

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10) submits data relative to budget accounting, pursuant to provision of Article 62, paragraph 2 hereof;

11) receives, controls and processes annual and semi-annual accounting statements of spending units whose sub-accounts are maintained by the Public Payment Administration;

12) keeps fiscal statistics and manages the single information system of public expenditure in the Republic, in accordance with regulations issued by the Minister;

13) monitors liquidity of direct and indirect spending units of the Republic budget and/or local authority and mandatory social security organisations, included in the Consolidated Treasury Account system and issues information thereupon pursuant to regulations.

Powers of the Minister Article 73g

The Minister prescribes conditions and manner of opening and closing sub-accounts of the Consolidated Treasury Account, plan of such sub-accounts, manner and procedure of financial transactions on the Consolidated Treasury Account, as well as manner and procedure for undertaking internal control of financial transactions on the Consolidated Treasury Account.

Payment from the Account and/or sub-account Article 73d

Payment from the Account and/or sub-account of the payment order issuing authority shall be effected up to the amount of funds on such accounts.

Orders specified in paragraph 1 of this Article whose payment is not covered with available funds are recorded and executed pursuant to time of receipt, unless otherwise provided by law.

Non-execution of the payment order Article 73dj

The Public Payment Administration shall not execute a payment order that is not in accordance with regulations and, at the request of the issuing authority, shall submit within three days following the date of submission of the order, a written explanation of the reasons for rejecting of the order.

List of direct and indirect budget spending units Article 73e

The Minister determines the list of direct and indirect spending units of the Republic budget and/or local authorities and mandatory social security organisations, included in the Consolidated Treasury Account system.

The list specified in paragraph 1 of this Article is published in the "Official Gazette of the Republic of Serbia".

Amendments to the list specified in paragraph 2 of this Article are published quarterly in "Official Gazette of the Republic of Serbia", within 15 days following end of quarter.

Extending other financial services
Article 73ž

The Public Payment Administration may provide other financial services and perform other tasks in accordance with the agreement, pursuant to which it acquires revenue.

The amount of compensation for extending services specified under paragraph 1 of this Article is determined by the Government, following the Minister's recommendation.

Employment
Article 73z

Regulations governing state administration, employment and salaries in state bodies shall apply to employees of the Public Payment Administration, as well as health and pension/disability insurance regulations, unless otherwise stipulated by this Law.

Public Payment Administration employees shall execute job-related instructions of the director and/or direct supervisor, with the exception of such that instruct commission of acts constituting a criminal offence.

Public Payment Administration employees are required to perform the tasks under their competence even after working hours, on weekends and state holidays, when necessary.

Public Payment Administration employees may not engage in activities incompatible with official duty and shall, in performing tasks under their competence, adhere by the rules of conduct for Public Payment Administration employees.

Employees are required to participate in advanced training, education and training pursuant to the Public Payment Administration program.

Operating funds
Article 73i

Funds required for the work of the Public Payment Administration are allocated in the Republic budget.

For advanced training, education and training, designing, installing and maintenance of the information system, procurement of equipment for work, construction and purchase of office space and motivational rewarding of employees, the Public

Payment Administration is entitled to a part of other revenue sources, determined by the financial plan of the Administration.

An organisational unit of the Public Payment Administration may acquire liabilities within the limits of funds determined by the financial plan".

IX MONEY PENALTIES

Penalties for Offences
Article 74

A fine of 2,000 to 20,000 dinars shall be pronounced to the responsible official of any budget beneficiary, the responsible person in mandatory social security organisations or any other responsible person, for committing the following offences:

- 1) If such person enters into a commitment or pays out of a budget account any expenditure that has not been foreseen in the budget;
- 2) If such person does not comply with the provisions of Articles 19, 20, 22 and 23 of this Law in the preparation and passage of the budget;
- 3) If the budget proposal and annual accounts that are submitted to the National Assembly and/or local assembly fail to contain the sections stipulated by Article 10 and 65 of this Law;
- 4) If such person fails to comply with the provisions of Articles 31 through 41, 50 and 51 of this Law in the execution of the budget;
- 5) If such person borrows in a manner contravening the provisions of Articles 52 through 60 of this Law;
- 6) If such person defers due payment or approves instalment repayment without obtaining prior approval from the Government and /or executive body of local government;
- 7) If such person fails to comply with the accounting and reporting provisions of Articles 61 through 65 of this Law;
- 8) If such person fails to remedy problems identified in written internal control reports, and/or in findings of the Budget Inspection and Audit or fails to do so in a timely fashion (Articles 66 and 79).

Misdemeanour Proceedings
Article 75

The motion to initiate misdemeanour proceedings referred to in Article 74 of this Law shall be filed by internal controllers, Budget Inspection and Audit Service, local inspection and audit service and other persons authorised to supervise implementation of this Law.

Misdemeanour proceedings specified in para. 1 of this Article shall be conducted in accordance with provisions of the law regulating misdemeanours.

X TRANSITIONAL AND FINAL PROVISIONS

Abrogation of Particular Laws
Article 76

On the day this Law comes in effect, the provisions of other laws shall cease to be in effect if contrary to the provisions of this Law.

An exception to the provision of the para.1 of this Article are Articles 18 through 91 of the Law on Public Revenues and Public Expenditure ("Official Gazette of the Republic of Serbia" Nos: 76/91, 41/92, 18/93, 22/93, 37/93, 67/93, 45/94, 42/98, 54/99 and 22/01), relating to local authorities, that shall remain effective until expiration of the time limit specified in Article 78, para. 4 of this Law.

Deadline for Issuing Regulations
Article 77

The regulations based on the authorisations of this Law shall be enacted within 12 months from the day this Law comes into effect.

Until the regulations referred to in para. 1 of this Article are enacted, the regulations effective prior to the effectiveness of this Law shall be in use, in accordance with the authority set forth in this Law.

Transitional Period Prior to Establishment of the Treasury Consolidated Account
Article 78

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The Minister closes the accounts of the Republic budget direct and indirect beneficiaries and mandatory social security organisations opened with the organisation authorised for conducting payment operations on 31 December 2002.

The funds remaining on the direct and indirect budget beneficiaries' and mandatory social security organisations' accounts on the day the accounts are closed, shall be transferred to the Consolidated Treasury Account, and shall be made available to the budget beneficiaries and/or organisations.

The funds collected in accordance with special regulations or from other sources, upon closing of the direct and indirect budget beneficiaries' and mandatory social security organisations' accounts, shall be transferred to the CTA and made available to these beneficiaries and/or organisations, while the total amounts of such funds shall be separately shown in the final accounts statement of the Republic and /or financial plan of the mandatory social security organisations.

Local authority body responsible for finance closes the accounts of the direct and indirect beneficiaries of the local budget, opened with the organisation authorised for conducting payment operations on 31 December 2002. The provisions of Articles 18 – 91 of the Law on Public Revenues and Expenditures specified in Article 76, paragraph 2 hereof that relate to local authorities shall remain in force until 31 December 2003.

The provisions of paras. 2 and 3 of this Article shall be accordingly applied to the direct and indirect beneficiaries of local budgets.

Transitional period for depositing of funds
Article 78a

Cash assets of direct and indirect spending units of the Republic budget and mandatory social security organisations, on deposit with commercial banks as deposits at sight on the day this Law comes into effect, shall remain on deposit with such banks as part of the Consolidated Treasury Account, and the Minister shall subsequently take a decision on deposit before 1 July 2003.

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Cash assets of spending units and organisations specified in paragraph 1 of this Article on fixed-term deposit with commercial banks on the day this Law comes into effect, will be deposited by the Minister on the Consolidated Treasury Account following expiry of term of deposit, not later than 31 December 2003.

From the day this Law comes into effect, cash assets of spending units and organisations specified in paragraph 1 of this Article may not be placed on fixed-term deposit with commercial banks.

Cash assets of direct and indirect spending units of local authorities budget, as part of the consolidated treasury account of local authorities, shall be deposited with commercial banks up to 31 December 2003 as deposits at sight, after which the decision on deposit shall be taken by the local authority body responsible for finance.

Cash assets of direct and indirect spending units of local authorities budget on fixed term deposit with commercial banks on the day this Law comes into effect, will be deposited by the local authority body responsible for finance on the Consolidated Treasury Account following expiry of term of deposit, not later than 31 December 2003.

Cash assets of direct and indirect spending units of local authorities budget placed on fixed-term deposit with commercial banks during the year 2003, as part of the consolidated treasury account of the local authority, will be deposited on the consolidated treasury account by the local authority body responsible for finance following expiry of term of deposit, not later than 31 December 2003.

The procedure specified in paragraph 6 of this Article shall be applied to cash assets of direct and indirect spending units of local authorities which were placed on fixed-term deposit with commercial banks during the period from coming into force of this Law until 31 December 2002.

**Transitional Period for Implementing Measures Resulting from Findings
Of the Budget Inspection and Audit Service
Article 79**

Until such time the system of internal control specified in Article 66 of this Law is established in direct and indirect budget beneficiaries and mandatory social security organisations, and if during inspection and audit procedure illegalities are determined, the Budget Inspection and Audit Service shall by decision order measures for their elimination and shall undertake other measures stipulated by law.

The decision of the Budget Inspection and Audit Service is final in administrative proceedings.

Provisions of paras. 1 and 2 of this Article shall be accordingly applied to the local inspection and budget service.

Provisions of paras. 1 through 3 of this Article shall be applied until stipulations referred to in para. 1 of this Article are met, but not subsequent to December 31, 2003.

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Temporary Appointment of External Auditors
Article 80

Until the High External Audit Authority is established, the National Assembly shall decide on engaging suitably qualified auditors for conducting external audit of annual accounts of the budget and mandatory social security organisations.

Entry in Force of the Law
Article 81

This Law comes into effect on the eighth day upon being published in the "Official Gazette of the Republic of Serbia".