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## Department for Legal Affairs



# LAW ON BUDGETS IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

**“Official Gazette of the Federation of Bosnia and  
Herzegovina”, 19/06**

**NOTE: The Laws on Changes and Amendments published in the “Official Gazette of the Federation of Bosnia and Herzegovina”, 76/08, 5/09, 32/09, 9/10, 36/10 and 45/10, are not included in this translation.**

# LAW ON BUDGETS IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

## I – GENERAL PROVISIONS

### Article 1

This Law shall regulate the planning, making, enactment and execution of the budget of the Federation of Bosnia and Herzegovina (hereinafter: Federation), budget of cantons, towns and municipalities (hereinafter: budget) and financial plans of off-budget funds, incurring of debts, guarantees and debt management, accounting, reporting, supervision and revision of budgets and other budget users.

### Article 2

As regards this Law, terminology used in the Law shall bear the following meaning:

1. *appropriation* represents a legal authorization provided by a legislative body which is contained in the budget for budget users in relation to taking over of the obligation on purchase of goods, services, works and objects which shall be used for the purposes set in budget, in the amounts which may not be higher than the amount approved for these purposes during a fiscal year;
2. *financial plan* is an act of a budget user, off budget fund and off budget user which shall establish his/her revenues and receipts, as well as a one-year expenditure in accordance with this Law;
3. *financial reporting* stands for a set of information on financial position, business results, as well as cash flow of budget, budget users, off budget funds and off budget users;
4. *fiscal year* is a period between 1 January and 31 December;
5. *functional classification* is a set of tasks, functions and programmes of Federation, cantons, towns and municipalities classified according to their own purpose;
6. *main treasury ledger* is a systematic registry of transactions, business activities, revenues, receipts, expenditures and expenses, as well as status of property, obligations, ownership claims and sources, which have been incurred during a fiscal year in relation to budget;
7. *off-budget(-ary) fund* is a legal person established on the basis of Law which is financed from restricted taxes and non-tax revenues, namely contributions. Pursuant to this Law, off budget funds are considered to be pension-invalid fund, health fund, employment fund, as well as the other funds established through the Law;
8. *off-budget(-ary) users*, pursuant to this Law, are economic companies and other legal persons in which Federation, cantons, towns and municipalities have a decisive managing influence on the basis of capital structure;

9. *public funds* represent, without restrictions, all funds paid on the basis of revenues, compensations and revenues from the provision of public services and activities, credits and grants which must be deposited on the Single Treasury Account and be paid from the Single Treasury Account;
10. *single treasury account* is a system of budget bank accounts through which the payments of revenues and receipts as well as the payments of expenditures and expenses are being performed and registered in the main treasury ledger system;
11. *consolidation* is the statement on financial data of more mutually linked budgets and/or budget users as well as off budget funds as if it were a single subject;
12. *modified accounting event basis* is the accounting basis according to which the revenues shall be registered for a period in which they become available and measurable, and expenditures are recognized at the moment the obligation is created;
13. *operational plan* is the amount of funds to cover expenditure and expenses which are approved by the minister of finance after the recommendation of a budget user;
14. *development programme plan* is the planning of tasks for investments and capital donations;
15. *revenues* imply, with no restriction, tax and non-tax revenues and other revenues established by laws, namely activities of budget institutions;
16. *budget* is an act which establishes the plan of financial activities of budget users which includes projection of the amount of revenues and receipts and the established level of expenditures and expenses of the Federation of Bosnia and Herzegovina, cantons, cities and municipalities for the period of one fiscal year. Budget also establishes the ceiling of total debt of the Federation of Bosnia and Herzegovina, cantons, cities and municipalities, including the existing debt and the projection of new debt for a given fiscal year.  
Budget is enacted by the legislative body of the Federation, cantons, city councils and municipal councils;
17. *budget approval of funds* is the framework amount of funds to cover expenditures and revenues established for a budget user on a monthly basis;
18. *budget expenditure* is outflow of money for financial and non-financial property and payment of loans;
19. *budget and off-budget supervision* is a controlling system of material-financial business of a budget user and physical persons to whom budget funds are provided for;
20. *budget users* are the ministries, other administration bodies and the others which are entered in the budget as budget users;
21. *budget receipts* are inflows of money from financial property, non-financial property, local and foreign support and indebtedness;
22. *budget projection* is the estimate of revenues and receipts as well as budget expenditures and expenses for year long planning;
23. *budget accounting* is a part of accounting system which arranges planning, registering, analysis, supervision and reporting on business events of budget users and off-budget funds;

24. *budget expenditures* are regulated through law and regulations enacted on the basis of law for operations, functions and programmes which are planned in the budget and the financial plans of budget users,
25. *internal control* is the organization, policies and procedures used to provide for desired results of government programmes; to provide for the fact that the resources used in these programmes are in accordance with the set goals of a relevant organization; that the programmes are protected from losses, frauds and bad management and that one would have available the relevant and timely information which is used in the reporting, support and decision making process;
26. *internal audit* is an independent activity which provides for objective analysis targeted towards the improvement of business of a relevant body. This activity helps the body to reach its goals through the introduction of systematic and disciplined methods for making estimates and improving the efficiency of risk, control and management processes;
27. *indebtedness* is the taking of loans and issuance of securities (for the payment of debt principal and financing of budget deficit)

### **Article 3**

The budget funds shall be used for financing activities, functions and programmes of the bodies of the Federation, namely Cantons, cities and municipalities, as well as of other budget users, in the amount necessary for their performance and execution, and also for financing the rights of the recipients of the budget funds as stipulated by laws and other regulations adopted on the basis of the law.

The regulations that have financial consequences on the budget must be explained and justified by a cost-benefit analysis.

Budget preparation and execution shall be based on the principles of legality, efficiency, cost-effectiveness and transparency.

### **Article 4**

All revenues and incomes, expenditures and costs shall be presented in budget on the gross principle.

The budget must be balanced and the total revenues and incomes must cover the total expenditures and costs.

The revenues and income shall be used to cover all expenditures and costs, except where otherwise provided by this Law and Law on Budget Execution for a particular year.

The budget users may take over the liabilities from the budget of the current year only for the purposes and up to the level determined in the special part of the budget, and if all prerequisites prescribed by law and other regulations are met, except where otherwise provided in this Law.

## **Article 5**

The Budget shall be adopted by the Parliament of the Federation of Bosnia and Herzegovina (hereinafter: the Parliament), legislative bodies of the cantons, i.e. city or municipal councils, for the budget year that coincides with calendar year, and this shall be done before the beginning of the year to which it applies.

Pursuant to paragraph 1 of this Article, besides the budget, the Law on Budget Execution shall also be adopted defining the structures of revenues and income, as well as the expenditures and costs payable from the budget and their execution, payment priorities, scope, debt and guarantees, public debt management and financial and non-financial property, rights and obligations of the budget users, authority of the Government, Ministry of Finances and the Minister of Finance in the execution of the budget for the current year, penalties for failure to meet obligations and other issues related to budget execution.

## **Article 6**

The Budget shall consist of the general part and special part, and development programme plan.

General part of the Budget shall contain the Revenues and Expenditures account and Financing Account.

Special part of the budget shall consist of the budget user expenditure and cost plan, divided in current and development programmes for the current budget year and the following two years.

Development programme plans shall be made by the development programmes of the budget users as defined in the medium-term development plan document, by special laws or other regulations.

## **Article 7**

Revenue and expenditure account of the Budget of the Federation and budgets of the Cantons, cities and municipalities shall comprise:

- 1) REVENUES
  - taxes identified by law

- non-tax revenues, such as revenues from entrepreneurship and property;
- administrative and court compensations, fees and fines;
- revenues earned through performing the core activity and other jobs of the budget users in the market.

## 2) EXPENDITURES

- for the employees, such as current expenditures on salaries, compensations, costs of materials and services,
- current transfers and interest payments,
- for subsidies, aids and compensations,
- capital transfers.

The Financing account shall feature the revenues from financial and non-financial property, foreign and domestic grants, and credits and loans received, as well as the expenditures on financial and non-financial property and for repayment of credits and loans.

### **Article 8**

Financial plans of the off-budget funds shall include a general part and a special part, which features the revenues and income, as well as the expenditures and costs classified under current or development programmes.

The Federation Minister of Finance (hereinafter: the Minister of Finance) shall prescribe the content of the Financial Plan referred to in paragraph 1 of this Article.

## **II DEVELOPING BUDGET AND FINANCIAL PLAN**

### **1. Budget Framework Paper**

#### **Article 9**

Budget management and development shall be based on the Budget Framework Document that covers at least the current fiscal year and two following fiscal years.

The basis for developing the Federation budget shall be founded on the expected economic development, expected development of social sector, macro-economic indicators and forecasts of revenues and expenditures for the years covered by the Budget Framework Paper.

Three-year budget planning shall become the obligation of all budget users and users of the off-budgetary funds.

The Ministry comprising the lower level units shall prepare the financial plan described under Article 10 of this Law at the level of budget user and spending unit for which the Ministry is responsible.

### **Article 10**

The responsible Federation agencies shall prepare the reports on economic and fiscal policy for the current year, plan for the following budget year and the forecasts of development for the next two years not later than in April of the current year.

The Federation Government (hereinafter: the Government), on proposal by the Federation Ministry of Finance (hereinafter: the Ministry of Finance), shall pass and submit for adoption the guidelines for economic and fiscal policy for the three years.

The guidelines shall contain the following:

- 1) expected social and economic growth for the current and two following budget years;
- 2) the main indicators of fiscal and economic policy of the Federation;
- 3) evaluation of revenues and expenditures, as well as income and costs from all budgets at all levels in the Federation;
- 4) proposed framework scope of financial plan by budget users for previous budget year, current budget year, following budget year and for the next two years.
- 5) aggregate overview of commitments from the Federation budget that have to be covered in the following years, and the policy plan of the development-investment programmes.

The guidelines referred to in paragraph 2 of this Article shall have to be submitted to the Government by the Ministry of Finance not later than May of the current year

### **Article 11**

Based on the guidelines, the Minister of Finance shall have the obligation to send to the budget users an act on the methods and elements required for drafting the financial plan proposal.

A financial plan proposal must contain:

- 1) revenues and income shown by types (including the revenues which are considered budget user revenues);
- 2) expenditures and costs forecasted in a three-year period (current budget year and two following years) classified in accordance with budget classification prescribed in the chart of accounts of the budget;
- 3) planned number of positions and structure of the employees (for the current budget year and for the following two years) for whom the budget funds are being requested in accordance with the guidelines, laws and bylaws.

4) explanation of the financial plan and estimated needs so that the Ministry of Finance could perform an overview and analysis of all proposals submitted by budget users;

5) development programme plans by years for each budget user, which are defined in the Document on Medium-Term Development Plan, special laws or other legislation,

6) Procurement plan for long-lasting property (hereinafter: the procurement plan) that includes long-lasting property required for normal operation of the budget users.

7) legislation which provides for its implementation.

## **Article 12**

Budget user programmes referred to in Article 11, paragraph 2, sub-paragraph 5, shall contain:

1. Title of the programme
2. Description of the programme (of general and specific goals)
3. Funds needed for programme implementation
4. Necessary number of employees for programme implementation
5. Estimate of results
6. Estimate of unforeseen expenditures and risks.

In the plan of development programmes, all planned budget revenues and income, budget expenditures on non-financial property (investment), capital aids and donations for the following three years shall be expressed, and divided by:

- 1) types of revenues and incomes;
- 2) individual budget user programmes;
- 3) what allocations for this programme will have to be made from the budgets in the following years;
- 3) sources of revenues for overall implementation of the programme.

The development programme plan shall be adjusted on annual basis.

## **Article 13**

Budget users shall prepare proposals of the development programme plan, with the explanation they propose to the line ministry, i.e. body responsible for that particular budget user.

Development programme plan referred to in paragraph 1 of this Article must be harmonized with the proposed financial plan of that budget user.

The plan proposal referred to in paragraph 1 of this Article must be in line with the proposed financial plan of the budget user.

The line ministry, or agency responsible for the budget user referred to in paragraph 1 of this Article, shall make a joint proposal of a development programme plan that has to be in line with the budget proposal. Individual programmes or budget user programme must be in line with the mid-term development document, as well as with the budget guidelines.

Budget users shall draft proposal of a procurement plan for fixed assets, accompanied with an explanation, and they shall propose it to the responsible ministry or agency responsible for the budget user.

#### **Article 14**

Minister of Finance shall consider the financial plans and programmes of the budget users and propose to them necessary changes to the budget user plans.

The Government shall consider and adopt the Budget Framework Document not later than 30 June of the current year, together with the mid-term expenditure framework for a three-year period.

### **2. Submission of budget requests**

#### **Article 15**

The Ministry of Finance shall have the obligation to forward instructions to the budget users about preparation of their requests for budget allocations, deadlines for submission of requests for budget allocations, and budget spending ceilings, not later than by July 1<sup>st</sup> in the current year for the following year.

The instructions shall contain the core content of the Budget Framework Paper and indicative ceilings for the next fiscal year, as derived from the Budget Framework Paper for each budget user

The Government shall issue a Decree regulating which revenues are considered own revenues, and how and at what time they would be distributed.

Along with an estimate of revenues and requests for approval of budget allocations, the budget users shall also submit appropriate analysis or explanation. In case of capital projects, in the first year the request must contain the whole amount of the project expenditures, project management plan by phases, as well as expenditure estimates for each following year.

Budget users shall have to submit their requests described under paragraph 4 of this Article to the Ministry of Finance by 1 August of the current year.

## **Article 16**

The Ministry of Finance shall consider the revenue estimates and requests for approval of expenditures submitted by the budget users, and after the discussions and consultations with the budget users, the Ministry of Finance shall determine the amounts allocated to each individual budget user. The Minister of Finance shall submit to the Government draft budget for the following fiscal year by 1 October of the current year.

The Minister of Finance shall submit to the Government draft budget for the following fiscal year by 1 October of the current year.

While considering the budget proposal, if there should be any disagreement between the Minister of Finance and other ministries responsible for individual budget users or other administrative agencies, the Minister of Finance has to prepare a report for the Government, and then the Government shall make a final decision.

### **3. Budget content**

## **Article 17**

Draft budget must contain the following:

- 1) Detailed presentation of all public revenues and expenditures from the budget as specified under Articles 6 and 7 of this Law;
- 2) Proposed use of the budget surplus, or sources for covering budget deficit;
- 3) Functional classification of budget user expenditures, in accordance with methodology prescribed by Federation Minister of Finance;
- 4) Revenues and expenditures of each budget user in accordance with the revenues and expenditures (by categories, sub-categories and items) of classification in the chart of accounts.

In the case of adoption of a multi-year investment programme, capital expenditures shall be considered future liabilities of budget lines, in accordance with the time plan criteria determined as an integral part of the investment programme, and draft budget must also contain annual overview of planned expenditures by lines for investment programmes lasting over one fiscal year.

Draft budget shall specify the maximum amount of the short-term borrowing that would enable the Ministry of Finance to cover the expenditures and to manage their cash effectively, providing that such borrowings are repaid during the same fiscal year.

Draft budget shall specify the maximum amount of the long-term borrowing that may be undertaken during the fiscal year.

Draft budget shall specify the maximum amount of guarantees that may potentially become liabilities.

Draft budget shall also specify the amount of current reserves, which may not exceed 3% of the budget revenues, no incomes included.

An explanation shall have to be enclosed with the Draft budget that contains the following:

- 1) Macro-economic indicators and analysis of their effects from the Budget Framework Paper;
- 2) Data on all revenues and expenditures from previous fiscal year and report on budget execution in the first six months of the current fiscal year for each budget user;
- 3) Information on current and long-term liabilities for foreign debt of the Federation, including repayment of the principal, payment of interest and other debt-servicing liabilities;
- 4) Information on liabilities based on internal debt of the Federation, including the repayment of the remaining principal and interest payment;
- 5) Capital expenditures;
- 6) Guarantees.

#### **4. Off-budget fund financial plan**

##### **Article 18**

Financial plan for an off-budget fund shall be made by the responsible agency specified by law, or by act of that fund, in the way foreseen in that piece of legislation and under conditions specified under this Law.

When preparing the financial plan for an off-budget fund, the economic parameters and guidelines shall be applied as referred to in Article 10, paragraph 2 of this Law.

Proposals of the financial plan for an off-budget fund must contain the information described under Article 11 of this Law.

Proposals of the financial plan for an off-budget fund shall be submitted by the responsible Federation ministry to the Federation Government before 20 September of the current year, with the prior consent obtained from the Federal Minister of Finance who is authorized to propose its changes or amendments.

### **III ADOPTION OF A BUDGET**

#### **Article 19**

After first having been considered by the Federation Government, the budget proposal for the next year shall be submitted by the Prime Minister to the Parliament not later than 1 November of the current year for the next fiscal year.

Along with the proposal of the budget of the Federation, financial plans of the off-budget funds shall also be submitted, accompanied with an explanation, and also the Budget Framework Paper as information, and they are submitted to the Parliament together.

All changes the Parliament makes to the proposed budget must be in accordance with the determined deficit ceiling. Proposals entailing increased expenditures must also contain proposed measures to increase revenues or to reduce other expenditures by the same amount.

The Parliament shall adopt the proposed budget by 31 December of the current year.

#### **Article 20**

The budgets of cantons, cities and municipalities, and financial plans of their off-budgetary funds shall be consolidated at the cantonal level and submitted to the Federation Ministry of Finance within 15 days from the day of their adoption for the purpose of final consolidation.

#### **1. Provisional financing**

#### **Article 21**

If the Parliament fails to enact the Budget before the start of the fiscal year, financing shall be carried out on a provisional basis, but for no longer than three first months of the fiscal year.

The decision on the provisional financing shall be taken by the Parliament.

The provisional financing, for purposes of paragraph 1 of this Article, shall be carried out in proportion to the funds spent in the same period, or up to the three-month average for the preceding fiscal year.

The Budget beneficiaries may not start any new or expanded programs and activities until such time as the Budget has been approved.

Continuation of multiple-year projects, procurement of goods and services, or continuation of payment of funds for these purposes, shall be allowed in accordance with the terms and conditions of provisional financing, provided that the multiple-year financing or authorisation for future obligations were already approved in the previous budgets.

Once the provisional financing has been terminated, the revenues and receipts generated and the expenditures and expenses realised within that period shall be incorporated into the current year Budget.

The Budget must be adopted no later than by 31 March of each current year.

In the event of failure to adopt the Budget by 31 March, thereafter no expenditures shall be realised for any purposes other than loans repayment, until such time as the Budget has been adopted.

## **2. Temporary measures for budget balancing and budget amendments.**

### **Article 22**

Exceptionally, in the event that during a budget year some new liabilities from the budget have been incurred, or as a result of economic trends, the expenditures and/or costs increase, or revenues and/or income have decreased, the Federation Government may, on proposal by the Ministry of Finance, take the decision to suspend payment of specific expenditures and/or costs for 45 days.

By adopting the measures of temporary suspension of budget execution, the Federation Government may:

1. Suspend making new commitments, and/or
2. Propose extension of the contracted deadlines for payments; and/or
3. Stop reallocation of budget funds required because of new commitments.

### **Article 23**

The Federation Government must notify the Parliament immediately upon making the decision mentioned under Paragraph 2 of Article 22 of this Law.

If it proves impossible to balance the budget during the period of implementation of the measure of temporary suspension of payments, the Federation Government must propose changes and amendments to the budget not later than 15 days before expiration of the deadline for temporary suspension of budget execution.

In addition, if the revenues grow, the Ministry of Finance may also decide to start the procedure of changing and amending the budget.

Any change or amendment to the budget shall be done by the same procedure that is used when adopting the budget.

During the procedure of adopting changes and amendments to the budget, the Federation Government may, on proposal by the Minister of Finance, extend the temporary suspension of execution of individual tasks.

The purpose of changes and amendments to the budget that are adopted by the Parliament on proposal by the Federation Government shall be to re-establish the balance between the revenues and incomes, and expenditures and costs paid from the budget.

#### **Article 24**

Provisions referred to in Article 9 to 23 of this Law are accordingly implemented in the preparation and enactment of the budgets of Cantons, towns and municipalities, and financial plans of their off-budgetary funds.

### **IV BUDGET EXECUTION**

#### **Article 25**

A treasury shall be established within the Ministry of Finance for the purpose of executing the budget, supervising the budget execution, managing the finances and maintaining the single treasury account, and also doing the accounting.

The off-budget funds and municipalities shall have to introduce treasury operations within three years from entry into force of this Law.

The Federation Ministry of Finance shall prescribe the procedures and accounting methodology for the purpose of securing unified operation of all budget users when executing the budget.

Single treasury account (hereinafter: STA) shall comprise the depository, investment and reserve accounts, and also one or more transaction accounts, a special account for development funds management, as well as special accounts for debt and international contracts management.

#### **Article 26**

The Ministry of Finance shall be responsible for the complete and timely collection of revenues to the STA, in accordance with the Law on Treasury in the

Federation of Bosnia and Herzegovina (“Official Gazette of the Federation BiH” No. 58/02 and 19/03), and relevant implementing regulations.

The line ministries and other budget users shall be responsible for the complete and timely collection and payment of their own revenues and fees to the STA.

The Ministries and other budget users shall be responsible for legality, purposefulness, effectiveness and economy when using the budget funds.

The conditions concerning claims stemming from a contract, or any other claim based on the revenues, may not be written off or changed without approval by the Ministry of Finance.

### **Article 27**

Transactions of all revenues, income, expenditures and payments shall be registered in the General Ledger of the Treasury.

A special registry shall be maintained for the users of the Federation Budget in accordance with the prescribed budget classification.

### **Article 28**

Following the adoption of the budget, the Ministry of Finance shall have the obligation to notify the budget users about the approved budget funds and allocations from the budget over time.

The budget shall be executed on the basis of monthly plan of allocation of available budget funds for each budget user, approved by the Minister of Finance, on the basis of cash flow plans, which are used for projecting payments to and from the STA.

### **Article 29**

Based on the allocation of budget funds and instructions by the Ministry of Finance, the budget users shall prepare and propose operational budgets to the Ministry of Finance.

The proposed operative budgets shall also include the expenditures for each month.

The Ministry of Finance shall notify the budget users on approved operational budgets.

Remaining within the amounts of approved operational budgets, the budget users shall issue payment orders and keep track of budget transactions using computerized

system of the General Ledger of the Treasury, in accordance with the instructions provided by the Ministry of Finance.

### **Article 30**

The Ministry of Finance shall make payments on behalf of all budget users through the computerized STA system.

The budget users shall have to produce reports on status of payments and available budget funds in accordance with the instructions provided by the Ministry of Finance.

### **Article 31**

The budget users shall not be allowed to make commitments and plan expenditures or burden the budget lines except when such expenditures or burdens have been approved within the amount allocated to that particular budget user.

Expenditures of budget users may not exceed the amounts of allocated budget funds approved for each month, or other time period as determined by the Ministry of Finance, except with the consent of that Ministry.

The Minister of Finance shall be entitled to issue a decision to suspend the execution of a decision that is contrary to this law or the budget.

Expenditures and burdens on the budget lines that are paid from the allocated grants or loans given to the budget users may not be executed before receiving instructions that are adopted by the Ministry of Finance.

### **Article 32**

Unused appropriations and burdens expire on 31 January of the following fiscal year.

The appropriations can be transferred to the following fiscal year for financing capital projects using financing from special funds, as well as for financing projects of special importance for economic development or improved efficiency.

The appropriations for the purposes of financing several year long capital projects shall be transferred to the following fiscal year, in accordance with the amounts and time schedule determined in the capital budgets made for several years.

### **Article 33**

The Ministry of Finance, on proposal by the budget user, may decide to restructure the expenditures within the total amount approved for the particular budget user, which shall not exceed 10% of the total approved expenditures for the particular budget user.

The Law on Budget Execution shall regulate the scope and type of the expenditures for restructuring.

Within the approved budget, the reallocation of funds shall exceptionally be permitted among the budget users, which shall be decided by the Government on proposal by the Ministry of Finance.

### **Article 34**

Emergency and unforeseen expenditures that may occur during the budget year shall be covered from the current contingency reserve funds that are determined in the budget in accordance with Article 17, paragraph 6 of this Law.

The allocation of funds shall have to be approved by the Government in accordance with the criteria for use of the funds from the current contingency reserves as determined in the Law on Budget Execution, upon having obtained the prior opinion of the Ministry of Finance.

The budget allocations for the current contingency reserves must not exceed 3% of total revenues, including income.

In the event that, during a fiscal year, some responsibilities of a budget user are transferred onto somebody else, or the budget user is terminated, the Government shall have to establish a Commission for Disposal of all its property. After adopting the report by this Commission, the Ministry of Finance shall transfer the remaining funds to the current reserve, while the transfer of the unused appropriations shall be made on the basis of Government's decision.

The Minister of Finance shall have to report to the Government each month on the use of the budget reserves.

The use of the current contingency reserves referred to in paragraph 1 of this Article may be approved up to specific thresholds by the Prime Minister, Deputy Prime Ministers and the Minister of Finance, in accordance with the Law on Budget Execution.

The Government shall file quarterly reports to the Parliament concerning the use of the budget contingency reserves referred to in paragraph 1 of this Article.

## **1. Planning liquidity**

### **Article 35**

The Ministry of Finance shall be responsible for planning quarterly and monthly cash flows referred to in Article 28, paragraph 2 of this Law, which forecast the funds going to and from the single account, and which funds are the basis for budget execution.

When making the cash flow plans, the Ministry of Finance uses information obtained from various sources, including, but not limited to, the following:

- 1) Final balances from the single treasury account for the previous period;
- 2) Forecasts of all revenues to the single treasury account;
- 3) Forecasts of all expenditures;
- 4) Debt servicing liabilities;
- 5) Projections of foreign debt, aid and borrowing; and
- 6) Key trends of macro-economic parameters.

The Ministry of Finance shall analyze the information, prepare proposals of the cash flow plan and determine, on a quarterly and monthly basis, the payment of the budget liabilities, respecting the budget liquidity and the commitments of the budget user, up to the amount planned in the annual financial plan of the budget user.

In the event that a deficit has been planned, the cash flow plan shall also include the recommendations concerning the required adjustment measures.

### **Article 36**

Within the preparation of the budget and financial plans, and on the basis of the three year budget planning and execution, the Government shall take measures related to the off-budget users in the Federation through authorized bodies and in accordance with law.

## **2. Investing public funds**

### **Article 37**

The Ministry of Finance may invest any amount that is on the STA, which is currently not needed for budget and off-budget purposes.

Investing the free public funds referred to in paragraph 1 of this Article shall be done exclusively for the purpose of increasing the budget funds and off-budget funds in the Federation, in accordance with the conditions prescribed in the Law on Investing Public Funds (“FBiH Official Gazette”, number 77/04)

The funds earned through the investments pursuant to paragraph 1 of this Article shall be paid to the STA.

The investment activities referred to in paragraph 2 of this Article shall be subject to audit by the Office for Budget Audit in FBiH.

Reporting on the results of invested public funds shall be performed in accordance with the law provisions stated in paragraph 2 of this Article.

### **Article 38**

Provisions of paragraph 25 through 37 of this Law shall be implemented with the budget executions of cantonal, municipal and town budgets, and their off-budget funds.

## **V - INCURRING DEBT AND DEBT MANAGEMENT**

### **Article 39**

Financial commitments taken in the name and for the account of the Federation, in accordance with law and other regulations, shall be considered as debt of the Federation and they shall constitute the liabilities of the Federation.

The Federation, a canton, a town and a municipality may incur debts for the purposes, under the terms and conditions and in the scope prescribed by law.

The debt of the Federation may have the form of a loan, issuance of securities, or registration in the book of accounts.

### **Article 40**

The amounts of the Federation debt or guarantees shall be decided by the Parliament, on proposal by the Government.

The Decision referred to in paragraph 1 of this Article shall be made in accordance with the amounts and purposes determined in the annual budget and the Law on Budget Execution of the Federation.

The Law on Budget Execution of the Federation shall determine the new debts ceiling, as well as the ceilings for the current Federation debt repayment and ceilings for other short-term debts.

### **Article 41**

The Federation debts may be incurred in the following cases:

- 1) For financing budget deficit;

- 2) For financing capital investments and special programmes, as approved by the Federation Parliament;
- 3) For refinancing total or part of outstanding debt of the Federation;
- 4) For financing and settling of governmental obligations on the basis of internal debt, in accordance with the Law on Establishment and Forms of FBiH Internal Obligation Settlement (“FBiH Official Gazette”, number 66/04)
- 5) For full or partial payment of Federal guarantees, in case when a debtor does not settle its obligations.

#### **Article 42**

The Federation may take short-term debt inside the country for temporary financing of cash-flow deficit.

The short-term debt referred to in paragraph 1 of Article shall be repaid during the current fiscal year, and at no time during the current fiscal year may it exceed 5% of the revenues earned during the previous fiscal year.

#### **Article 43**

The provisions pursuant to Article 42 shall also apply to the cantons, cities and municipalities.

#### **Article 44**

The Federation off-budget funds are allowed to incur debt only within the country and in the national currency, and with the prior written consent by the Minister of Finance.

The amount of debt referred to in paragraph 1 of this Article shall be approved by the Federal Parliament in the process of adoption of the annual financial plan of the off-budget fund, where the upper limits of the new debt, as well as the liabilities from the current debt repayment of the off-budget funds, as well as other short-term borrowings, must be clearly specified.

#### **Article 45**

The guarantees of the Federation according to law, may only be issued when they relate to financing capital investments.

#### **Article 46**

The cantons, cities or municipalities may create liabilities on the basis of borrowing and in accordance with law, only if the Cantonal Assembly, City or Municipal Council has approved the debt or issuance of the guarantee.

Repayment of the cantonal, city or municipal debts shall be an explicit obligation of the canton, city or municipality, respectively.

The cantonal, city or municipal debts shall not be considered, either direct or indirect, liability of the Federation, except when the Federation Ministry of Finance had issued guarantees for credits taken by a canton, city or municipality.

#### **Article 47**

The debt of a canton, city or municipality, according to law, may be incurred in the following cases:

- 1) For financing budget deficit;
- 2) For financing capital investment and special programmes adopted by the Parliament;
- 3) For refinancing of total or a part of the outstanding Federal debt;
- 4) For payment of Federal guarantees, fully or partially, in case when a debtor does not settle their obligations.

#### **Article 48**

A canton, city or municipality may issue guarantees for financing capital investments only under condition that the legal person who is the borrower of the funds is majority-owned by the canton, city or municipality, or is under supervision of the canton, city or municipality.

#### **Article 49**

Cantonal guarantees, according to law, may only be issued in relation to financing capital investments.

#### **Article 50**

The format of the loan and the type of the security instrument for the loan shall be decided by the Government.

The contracts on the budget debt or issuing of guarantees shall have to be signed by the Minister of Finance.

#### **Article 51**

In terms of debt management, the Federation and the Cantons conduct consultations among themselves as a part of budget preparation process, and they specify the upper limit of consolidated debt of the Federation, as well as the level of new debt for the following fiscal year.

In the event that no agreement may be reached among them, the Minister of Finance shall be authorized to propose the upper level of consolidated debt of the Federation, including also the upper level of new loans for the next fiscal year before finalizing the budget.

In connection with paragraph 1 of this Article, the Federation Government may propose measures to restrict the borrowing of the cantons, cities and municipalities and off-budget funds in the Law on Budget Execution for the specific year.

#### **Article 52**

The Ministry of Finance shall be responsible for the debt management.

The Ministry of Finance shall keep the records on the debt, guarantees issued and loans, in accordance with law and implementing legislation.

#### **Article 53**

Detailed records concerning the holders of securities mentioned under Article 42 paragraph 3 of this Law shall be maintained on behalf of the Federation by the financial institutions authorized for that purpose by the Federation Ministry of Finance.

All payments of interests or principal of the debt and guarantees of the Federation may be paid from the STA in accordance with the conditions and deadlines contracted by the Federation.

#### **Article 54**

The Ministry of Finance shall keep the records of all outstanding debt and guarantees of the Federation, cantons, cities and municipalities.

The Ministry of Finance shall prescribe the content of debt records, as well as the deadlines for submission of the report on total outstanding debt and guarantees.

The Ministry of Finance shall have to deliver to the Ministry of Finances and Treasury of Bosnia and Herzegovina a Report on the Consolidated Debt of the Federation not later than 31 March of each current fiscal year.

### **VI- BUDGET ACCOUNTING, SUPERVISION AND AUDITING**

#### **Article 55**

The Ministers, or heads of budget agencies and bodies, shall be responsible for accounting, conducting internal supervision and supervising their ministries, including the budget users and spending units that fall under their scope of responsibility.

In addition to managing revenues and expenditures of the Ministry of Finance, the Federation Minister of Finance shall be responsible, on behalf of the Government, for accounting and internal supervision of borrowing transactions and debt.

The Ministry of Finance may supervise the accounting documents describing revenues and expenditures of the budget users, of the off-budget funds, and cantons, cities and municipalities.

The methods of supervision referred to in paragraphs 1, 2 and 3 of this Law shall be prescribed by the Minister of Finance, and they shall be conducted at specific time intervals.

## **1. Accounting**

### **Article 56**

The budget accounting shall regulate the business ledgers, book-keeping documents and data processing, the contents of the chart of accounts, recognition of revenues and income, as well as the expenditures and costs, evaluation of the balance sheet lines, reevaluation, financial reporting and other areas related to budget accounting.

### **Article 57**

The budget accounting shall be based on the accounting principles: accuracy, veracity, reliability, comprehensiveness, timeliness and individualized presentation of business events, and on international accounting standards for public sector.

The budget accounting shall be done on the principle of dual book-keeping and in the accounts from the budget chart of accounts.

### **Article 58**

The budget accounting shall be implemented by the Treasury and by the budget users.

The budget accounting shall also be implemented by the off-budget funds.

### **Article 59**

Recognition of the revenues and income, as well as the expenditures and costs through the General Ledger of the Treasury system shall be implemented on the basis of modified event accounting.

The revenues and incomes shall be recognized only during the period when they are measurable and available, i.e. once they have been paid to the STA.

The expenditures and costs shall be recognized at the time when the payment commitment has been made.

### **Article 60**

The Federation Government shall pass a Decree on accounting of the budgets of the Federation and budgets of the cantons, cities and municipalities and off-budget users.

### **Article 61**

The Federation Minister of Finance shall make sure that the uniform accounting procedures are used, and he/she also passes the book-keeping regulations and regulations on content and method of financial reporting for all ministries, budget users, off-budget funds, and cantons, cities and municipalities.

## **2. Internal control and internal audit**

### **Article 62**

Budget users shall have to establish an internal control system by applying international internal control standards in order to make sure that all the core activities are performed.

The Ministry of Finance shall pass instructions for establishing and sustaining the internal control systems, and budget users shall have the obligation to enact a rulebook on internal controls.

The internal control system shall ensure the establishment of organization, policies and procedures used to achieve the intended results of the Government programmes, to make sure that the resources used in these programmes are in line with the goals of the respective organization, that the programmes are protected from loss, fraud and mismanagement, and that reliable and timely information used for reporting, providing support and decision making are available.

### **Article 63**

The internal audit shall be a body within the budget user that independently and objectively evaluates performance of comprehensive tasks and functions of budget users, warns about observed irregularities and conflicts with laws or other regulations, as determined by their scope of work, and also proposes measures for remedying them, and the measures for improving operation of the budget user.

The internal audit of a budget user shall be established by the Head of the Budget User.

The Government shall issue a separate act in order to identify the budget users in regard of which the internal audit shall be conducted by the ministries of finance.

Notwithstanding paragraph 1 of this Article, on proposal by the Ministry of Finance, the Government shall make a plan of internal audits, and in this case the internal audit shall be conducted by the Ministry of Finance.

The Minister of Finance shall issue a rulebook prescribing conditions that must be met by the individuals in order to carry out duties of internal control, the methodology in accordance with professional standards and internal audit standards, and the Code of Professional Ethics of an Internal Auditor.

The Minister of Finance shall issue a rulebook prescribing common criteria on the basis of which the budget users may establish their own audit, in accordance with the International Internal Audit Standards.

The budget users shall have to establish the internal audit within 90 days from adoption of the rulebook referred to in paragraph 5 of this Article.

#### **Article 64**

Provisions under articles 55 through 63 of this Law shall apply accordingly to the cantons, cities and municipalities.

### **3. Financial reporting and audit**

#### **Article 65**

The Ministry of Finance shall have to submit to the Government monthly reports within the period of no later than 30 days, whereas the quarterly and semiannual financial reports within the period of no later than 60 days following the end of each respective reporting period.

#### **Article 66**

In accordance with the instructions issued by the Ministry of Finance, all budget users have to prepare quarterly financial reports with the explanations of programme results of budget execution. The quarterly reports shall be submitted to the Minister of Finance within the period of 30 days following the end of each quarter.

The Federation Minister of Finance may issue special instructions concerning financial reporting for specific bodies of the Federation administration.

### **Article 67**

The Ministry of Finance must prepare and submit the quarterly report on the budget execution to the Government. This report must contain the following:

- 1) An overview of fiscal situation;
- 2) Comparative overview of approved and actual revenues and expenditures; and
- 3) Proposed improvement measures.

### **Article 68**

As a part of budget execution, the Government, on proposal by the line ministries, shall consider the reports on operation of off-budget users referred to in Article 36 of this Law at least twice a year.

### **Article 69**

The budget execution reports of cantons, cities and municipalities, as well as financial plans of their off-budget funds for each quarter of the fiscal year shall be consolidated at the level of the canton and submitted to the Ministry of Finance within the period of 30 days following the end of the accounting period.

### **Article 70**

The budget user or the off-budget fund shall have to prepare the annual accounting report of their financial plans and deliver it to the responsible ministry (or service) of finance and the responsible institutions in accordance with law and other regulations no later than by the end of February of the current year for the previous year.

In the event that a budget user has failed to submit the annual report in due time, the Minister of Finance shall have the discretionary right to temporarily suspend the approval of expenditures until such time as the annual report has been received.

### **Article 71**

The Ministry of Finance, i.e. administrative bodies for finances, shall have to make the consolidated accounting report for budget users and the annual report for the previous fiscal year before 15 April of the current year.

### **Article 72**

The consolidated annual budget accounting reports of the cantons, cities and municipalities, and financial plans of their off-budget funds shall be consolidated at the

cantonal level and delivered to the Federation Ministry of Finance by 15 May of the current year for each previous fiscal year.

### **Article 73**

The Minister of Finance shall have the obligation to submit to the Government in due time a report on budget execution of the Federation for the previous year, and the Government to submit it for adoption to the Parliament within the period of six months following the end of the fiscal year.

### **Article 74**

The content of the report referred to in Article 73 of this Law must be in accordance with the contents and classification of budget account, as well as provisions under Article 17 of this Law, and it must include:

- 1.Revenues and income for the fiscal year that have been approved by the Parliament or changed subsequently;
- 2.Actual revenues and income, expenditures and costs during the year, presented in a way that clearly shows the difference between the approved budget and actual budget execution;
- 3.Opening and closing STA balance;
- 4.Opening and closing status of assets, liabilities and sources of ownership;
- 5.Explanation of significant deviations;
- 6.Information on all changes of debt and debt management, and on guarantees issued during the fiscal year;
- 7.Information on use of the budget reserves;
- 8.Information on corrective actions taken for the purpose of implementing audit recommendations from the previous year.

The Federation Ministry of Finance shall pass a separate act to regulate preparation of any additional financial reports.

### **Article 75**

Annual reports of each budget user shall be audited by the Office for budget auditing in FBiH, in accordance with the Law on Budget Auditing in the Federation of Bosnia and Herzegovina ("FBiH Official Gazette", number 48/99).

The audit referred to in paragraph 1 of this Article must be completed within 120 days after the submission of the annual report of the Federation budget users, before the Ministry of Finance is obligated to submit the annual report on budget execution in accordance with Article 74 of this Law.

## **Disclosure**

### **Article 76**

The Budget Framework Paper referred to in Article 14 of this Law, the Budget, the Law on Budget Execution, as well as any change or amendment to the Budget of the Federation shall be published in the “Official Gazette of the Federation BiH”, i.e. official gazettes of the cantons within ten days following adoption thereof.

Any use of current contingency reserves shall also be published in the “Official Gazette of the Federation BiH”, i.e. official gazettes of the cantons within ten days from the day of adoption of the Government decision, in accordance with Article 34 of this Law.

All quarterly, semi-annual and annual reports on budget execution shall be published in the “Official Gazette of the Federation BiH”, i.e. official gazettes of the cantons within ten days following the day of their submission, in accordance with Articles 68 and 74 of this Law.

The monthly reports on budget execution and all documents listed in this Article shall also be published on the official webpage of the Ministry of Finance.

The decision on debt and loans shall be published in the “Official Gazette of the Federation BiH”, i.e. official gazettes of the cantons within the period of ten days following the day of their adoption.

### **Article 77**

Provisions under Articles 65 through 76 of this Law shall apply to cantons, cities and municipalities.

## **VII - PENALTIES**

### **Article 78**

A responsible person in the budget user, a responsible person in the off-budget fund, an executive officeholder in cantons, cities or municipalities who are responsible for budget, or any other responsible person, shall be fined in the amount ranging from 1.000 to 5.000 KM for violation, if:

- 1) The requests for budget allocations have not been submitted in accordance with Article 15 of this Law;
- 2) They fail to adhere to provisions under articles 9 through 23 of this Law when preparing and adopting the budget;
- 3) The accounting records have not been kept in accordance with article 57 of this Law;

- 4) Quarterly reports have not been submitted in accordance with Article 66 of this Law.

A responsible person in the budget user, a responsible person in the off-budget fund, an executive officeholder in the cantons, cities or municipalities who are responsible for budget, or any other responsible person, shall be fined in the amount ranging from 5.000 to 20.000 KM for violation, if:

- 1) The budget user expenditures have been realized contrary to provisions under articles 31 through 34 of this Law;
- 2) Authorized officials of internal audit have not been enabled to conduct their audit as provided under Article 63 of this Law;
- 3) Cash management has been done contrary to the provisions under Article 26 of this Law;
- 4) If he/she has undertaken the debt contrary to provisions under Articles 39 through 54 of this Law.

## **VIII – TRANSITIONAL AND FINAL PROVISIONS**

### **Article 79**

The Government shall pass the regulations referred to in Articles 15, 60 and 63 of this Law within the period of 90 days following the adoption of this Law.

The Minister of Finance shall pass the implementing regulations referred to in Article 8, paragraph 2, Article 25, paragraph 3, Article 54, paragraph 2, Article 61 and 62, paragraph 2 and 63 of this Law within the period of 60 days following the adoption of this Law.

### **Article 80**

In the event that the liabilities and rights arising from other laws or legislation contravene this Law, this Law shall prevail.

### **Article 81**

As of the day when this Law enters into force, the previous Law on Budgets in the Federation Bosnia and Herzegovina (“Official Gazette of the Federation of BiH” No. 20/98) shall cease to apply.

### **Article 82**

This Law shall enter force on the eighth day following its publication in the “Official Gazette of the Federation BiH”.