

LEGAL AND ACCOUNTING ASPECTS OF THE UTILITY ACTIVITIES IN THE REPUBLIC OF SRPSKA

PhD Duško Šnjegota

Associate professor at Economic Faculty of University in Banja Luka

mail: dusko.snjegota@ef.unibl.org

Branka Milošević – Šnjegota, MA

Professor of economic subjects at secondary school of Economics in Banja Luka

mail: bmilosevicsnjegota@yahoo.com

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Abstract: According to actual legislation, the performing of communal activities in the Republic of Srpska is mainly entrusted with public utility companies founded and managed by local governments (municipalities and cities), as well as their majority owners. Municipalities and cities have a legal obligation to prescribe the conditions and manner of performing utility activities, material, technical and other conditions for the financing, development, the construction and maintenance of utility infrastructure, the conditions for the functioning of the technical and technological unity of utility systems and devices and others.

One of the constant problems in the present management, financing, and monitoring and reporting on the real effects of the management of public utility infrastructure refers to the fact that it is a property that is owned (usually in the business balance) of local governments, but which is often included in the business balance of public utilities companies, such corporations, which managing these assets realize their regular business income.

Different approaches to the legal treatment of utility infrastructure and its different models accounting for, among other things, significantly affecting the quality of information on financial position and performance of public utilities companies, and through it to relation managers and owners according to its maintenance and renewal. The actual ballast of many years of

unresolved dilemmas in this area in the final bears citizens, who are have the right to use public services of appropriate quality and under acceptable economic conditions.

Keywords: utility infrastructure, legal aspects, management, accounting

1. INTRODUCTION

Public utility company should be any company established by the appropriate local government (municipality or city), in order to ensure lasting performance of certain activities of general interest and satisfying the needs of users of municipal products and services.

Utility services of special public interest are the production and delivery of water purification and waste water production and supply of thermal energy, waste from residential and business premises and management of public spaces for the parking of vehicles, maintenance of public toilets, management of cable ducts for communication cables and systems, public market activity, funeral business, chimney sweep business, public transport of people in urban and suburb traffic, cleaning of public areas in populated places, maintenance, development, and the equipment in public green and sports facilities, the maintenance of public traffic areas in populated areas, removal of atmospheric precipitation and other waters in the

public area, public lighting in the urban areas and etc.

Some public utility companies dispose and manage immovable property of great value (such as systems for the production and distribution of water, heat, etc.) That are not owned by them. At the same time, these businesses involves the provision of technical-technological and economic unity of the entire municipal system and the compliance of its maintenance and development.

Public utility companies are companies - Corporations (registered in the form of stock companies), resulting from the former state companies that are in the process of transition to a greater or lesser extent, passed through the process of incorporation, there being used as their majority owners appear local governments from different levels (the municipality and cities). At the same time, due to the fact that public utilities, taking into account the social aspect of their use, as a rule, do not offer on market principles, and local levels of government to manage public utility companies must ensure equal and fair access to municipal services to all users regardless of their economic and social situation, the management of municipal infrastructure (as well as in all the other assets) by public utilities is usually not sufficiently based on principles of economically, efficiency and effectiveness. On the other hand, an unclear legal treatment of these assets affects its accounting scope and quality of information concerning the property, which is present in the external financial reports (public utility companies or local levels of government).

Qualitative research conducted for the preparation of this work aimed at presentation of the basic legal and accounting aspects of municipal activities in the Republic of Srpska, with special emphasis on the coverage of real estate and other parts of the utility infrastructure. The aim is also to offer appropriate solutions that ultimately could improve the management system of public utility infrastructure, in order that the system has become economically sustainable and cost-effective it would, among other things, have a positive effect on the quality of municipal services provided to a wide range of users.

2. LEGAL REGULATION OF UTILITIES IN THE REPUBLIC OF SRPSKA

Law on communal activities (Official Gazette of the Republic of Srpska, No. 124/11) stipulates the obligation for local governments to provide an organized communal services and to further prescribe the conditions and manner of performing utility activities, material, technical and other

conditions for financing, development, construction and maintenance of municipal facilities, the requirements for operation and technical-technological unity of the system and devices, the possibility for the subsidized price of utilities, user categories and terms of subsidies, and the unit of account for each type of communal services and payment of utility prices.

The law stipulates that local governments for the purpose of performing utility activities and other activities of public interest can be established by a public utility company or delegate the performance to other companies. Local governments, providers of utilities and users of utilities are obliged to implement long-term measures, as well as minimum requirements relating to the reduction of energy use and a shift to the use of energy from renewable sources, and to create conditions for the energy efficient use and improving the energy performance of buildings and reducing negative impacts on the environment, according to the principles and deadlines established by regulations on energy efficiency and environmental protection in the Republic of Srpska. Minimum requirements and long-term measures are:

- application of new technologies in the performance of utility services, which enable the use of primary energy from renewable, or energy of non-fossil source such as wind power, solar, aero-thermal, geothermal and hydrothermal energy, water, biomass, gas from municipal waste treatment plants wastewater and biogases,
- Providing the stimulus conditions and measures to build new buildings or when major reconstruction of the existing buildings are converted into buildings with almost zero energy consumption, but buildings with very high energy performance and very little need of energy that will significantly be covered by energy from renewable sources wherever possible and economically acceptable,
- Obligatory installation of measuring devices utility products for each condominium owner for all new buildings and for existing when performing major reconstruction if the technical characteristics of the building permit and when it is economically acceptable,
- Stimulation of installing intelligent measurement system when building or building is done major reconstruction of the building, and the installation of the system of active control, such as systems for automation, control and monitoring of which aim to save energy,

- Stimulating the use of the remote system for heating or cooling buildings that are wholly or partly based on renewable energy,
- establishment of a regular review of technical building systems and equipment used for heating or cooling buildings, ventilation, hot water and lighting, as well as
- Providing regular advice and recommendations to users on a variety of methods and practical solutions that serves to improve the energy performance of the building and the creation of conditions for the development and establishment of a system of certification of the energy performance of the building showing the energy performance of the building and recognized by competent institutions.

Law on the transfer of property rights in the Republic of Srpska capital in companies that provide utility services to local government units (Official Gazette of the Republic of Srpska'' No. 50/10), arranged the transfer of ownership rights to the Republic of Srpska capital in companies that provide utility services to local governments. Under the capital for the purposes of this Act means the capital expressed in shares and stakes in companies, as well as equity in companies that are not organized and coordinated by its general acts with applicable laws. This law is the management of public utility companies from the republic transferred to local governments, actually to municipalities and cities, which are according to the regulations on public utilities responsible for the establishment of an efficient and effective system of municipal activities.

The legal framework for carrying out these utilities now probably the greatest confusion in terms of natural law in relation to the infrastructure, such as property, disposal, management, maintenance and etc. Act introduced the identification and transfer of rights to dispose of property to local governments (Official Gazette of the Republic of Srpska No. 70/06), which set the property of local governments, transferring state-owned property to local government units, registering the property in the public registers of records on real estate, downloading and transfer of the local governments, all in order to carry out its basic functions. Under this law the property of local self-governments units is considered property consisting of movable and immovable property to which the right of disposal, administration or use of a unit of local government, its legal predecessors or its authorities, as well as property, which is the date of entry into force of this Act on the basis of law or other regulation, legal business,

inheritance or decision of a state authority, etc. gained by local governments, and all movable and immovable assets needed to carry out the mandatory functions of local governments, and is among other things make the public infrastructure, commercial and other facilities of public utility companies founded by the local government units or facilities that are funded from the budget local governments or through voluntary citizen, and other property by local governments as a legal successor of establishment and institutions that do not exist anymore.

Looking at the legal framework described in one corner, and bearing in mind the nature and purpose of utility services, fully justified seems a requirement for utility infrastructures should be an asset in public ownership at the local level. However, the actual management of these assets is realized in practice in different ways, with the participation of authority in local government, organs of the public utility companies, and often both, which primarily depends on the characteristics of the regulatory framework applied in this case. Different models of administration of which in turn, directly or indirectly, depends on the balance and the treatment material infrastructure used by the public utility companies have negative impact on the quality and availability of the utility service, in particular in specific areas such as the production and supply of thermal energy. Balance sheet treatment of these assets, on the other hand, depends on the characteristics of the system of accounting and financial reporting applied by public sector entities.

3. ACCOUNTING COVERAGE FOR UTILITY ACTIVITIES

In accordance with legal regulations (based on the law about accounting and revision of the Republic of Srpska, Official Gazette of the Republic of Srpska No. 94/15 and regulations that apply under that law¹), public companies in the Republic of Srpska financial statements of general purposes prepared in accordance with International Financial Reporting Standards (IFRS) including the applicable International Accounting Standards (IAS) accounting for property, facilities and equipment used in the provision of communal services is regulated under IAS 16- Property, facilities and equipment. According to this accounting standard, the purchase value/cost price of certain property, facility and equipment are recognized as an asset, if and only, if it is probable that future economic benefits associated with the item will flow to the reporting entity and if the purchase value or cost price of the implement can

be measured reliably (calculated). The standard does not define a unit of measure for recognition, that what constitutes an item of property, facility and equipment, which makes it necessary reasoning in the application of criteria for recognition in relation to the circumstances specific to certain reporting entity. In accordance with such defined the principle of recognition, an entity assesses all costs of property, facility and equipment at the time when it is incurred (principle of disposal), which includes the initial costs incurred during the acquisition or construction of property, facility and equipment and costs incurred subsequently, as a result of extension means, the replacement of part or servicing. Seeing from an accounting point of view, taking in this regard to the accounting principle "substance over the form", the principle of causality, etc. It seems logical that the costs of construction, maintenance and general management utility infrastructure to be directly attributable to income that reflects an economic benefits of the asset, which can be achieved only if the assets and income balances belong to the same reporting entity. This type of a solution would entail mandatory inclusion of municipal infrastructure in the balance of public utilities.

On the other hand:

- statutory obligation for local governments to provide organizational, financial and other requirements for the construction, maintenance and operation of municipal facilities and for technical-technological unity of the system, and edit and provide carrying out of communal services and their development,
- the fact that the economic benefits from the management of municipal infrastructure and typically under the non-market conditions of business, belonging to public utilities organized as a capital company,
- The fact that municipal infrastructure is a public good, and well in public ownership, and
- the Law on Establishment and transfer of rights to dispose of property to local self-government,

lead to a decision according to which the property, facility and equipment, that make up the unique system of municipal infrastructure, and a single system for the provision of municipal services in the balance is often, although not exclusively, treat the assets of local self-government¹³.

In fact, studies have shown that due to the complex and unclear regulations in this area part of the municipal infrastructure currently in the balance of

¹³ Although it is currently only one of the applied model

public utilities, part of the balance sheets of local self-governments on whose territory these public companies are situated, while part is not recorded. On the other hand, there are many cases of the objective duplication business records of the same property¹⁴, as well as the partial recording of the individual portions of the property that in technological and economic point consists of a single functional unit, based on a direct balance linking the investment in the construction of material handling facilities with sources of funds from which this investment is financing. Thus, for example, can identify instances in which the part of communal infrastructure was built before the war, actually "taken over" from former social/state owned enterprises is still in the balance sheets of the respective utilities, while the portion built in recent years, usually from credit funds obtained through the national and local levels of government is in the balance sheets of local self-governments. At the same time, income from providing utility services are normally presented in the balance sheets of utilities although it is often part of these revenues dedicated used for repayment of loan funds on the basis of which the obligations, again, sometimes found in the balance sheets of local self-governments and sometimes the balance of public utilities. It is clear that different approaches to the balance sheet treatment of assets comprising the infrastructure, revenues from the provision of municipal services, the cost of current and investment maintenance expenses of financing the reconstruction and renovation of old and construction of new utility networks etc., Among others, directly influence the presentation of inaccurate property, financial position of the entities that provide municipal services as well as local self-governments. The whole system becomes further complicated, if we take into account the fact that local self-government, as majority owner of public utility companies (owners with controlling share in equity), in most cases, in its (consolidated) balance sheets, as a rule, are recorded and participation the capital of all controlled entities of the public sector, including public utilities. Similarly, account should be taken of the fact that public utility companies corporatized capital companies in which, like all other companies, form a rather complex control structures (Assembly of the owner, the supervisory board, board of directors, etc.). In accordance with

¹⁴ In the presence of improvisation on the basis of which one and the same, by their very nature tangible fixed assets, used to treat the material and sometimes intangible assets (referring to the disposal and management of the property), in which no distinction is made between the balance sheet value of tangible assets and values associated rights (when they were in balance sheet terms possible to accurately identify and calculate) associated with the management of the economic benefits from the use of municipal infrastructure.

the regulations governing the operations of companies and public companies, as well as in the structure of ownership of these companies participate and minority shareholders - shareholders without control, but with the right to manage and dividends in accordance with the amount of their participation in the capital.

Highly specific regulatory framework of municipal activities in the Republic of Srpska leads or may lead to distortion of the unity of the communal system on the territory of a particular local community, which negatively reflects on the quality and availability of utilities, effective responsibility for the inadequate functioning of the system or some of its parts, expressed high losses certain areas, such as water losses, a high level of outstanding receivables from customers, and so on.

4. POSSIBLE IMPROVEMENTS IN THE SYSTEM OF MANAGEMENT OF COMMUNAL INFRASTRUCTURE

In domestic economic, social and even political circumstances, it seems natural that the utility companies in predominantly public ownership, which can be explained in different ways. First of all, in terms of weak economic strength of a significant number of user utilities and services is necessary to provide at prices below market, and prices that are lower than those that would be for profit-oriented companies were economically justified¹⁵.

Unity of local self-governments, as the authorities are responsible for editing utilities, naturally should have a majority and direct control over the operating policies of public utilities, which puts them in a position that in this area actively pursue a policy of sales and pricing of municipal services, employment policy, choice of management, managerial and supervisory bodies, and thus to effectively make decisions about how to manage and dispose of the economic benefits that directly or indirectly acquire on the basis of disposal important public resources (drinking water, heat, etc.). Public utility companies are, although they take the legal form of corporations, actually stock company, substantially much closer to quasi-profit legal entities, but quasi-social institutions, which in particular in terms of the economic and financial crisis as well as incomplete transition and reform process, the objective is not operating in the profit-based and to a large extent depend on the direct or

indirect budget support as the sole relatively stable source of their additional financing. In fact, if there is willing to over public utilities run social policy, the authorities have to be ready and to provide significant financial support to these enterprises and that, in turn, implies at least a minimum effective control over their business policies. True, it was enabled through the available control and monitoring structures established on the basis of regulations on the operations of companies and public enterprises, however, direct control over the assets has traditionally been more effective than direct control over the net assets (equity), although the actual effects of such controls not in favor of this view. By expressing direct political support, managers in public companies, unlike those in the real sector, generally do not bear the negative consequences of inadequate or insufficiently effective business decisions, that control their position makes attractive, even when management fees are not relatively high. On the other hand, a significant reduction in real space for effective decision-making on business policies, public utility companies and significantly reduces management responsibility for the lack of good business results. In such circumstances, obviously there is not a clear economic interest expressed in terms of effective management, there is not even clearly definable nominal holders of that interest. In other words, the accountability system is rather scattered between the different management structures, and the management system is based on understanding that "everyone may be responsible but at the same time no one is responsible" for bad business results.

Finally, it is important to note that local authorities, in the case of delegation of municipal services to private entities, can hardly ensure an effective system of public oversight and control, and effective protection of public interest in the utilities sector, which undoubtedly represents a significant political, economic and social risks that to holders of local authorities hard to accept.

However, too long duration of the transition process, with no clear indication of when the individual stages of the transition, such as the restructuring of public enterprises, a comprehensive reform of the social security system and others, could be completed with additional problems in the functioning of the entire public sector occurred in parallel with the action of factors of global economic and financial crisis, lead to the conclusion that it is necessary to think about possible changes in the organization and functioning of public sector entities, including public utilities. First of all, the system of providing municipal services at prices that are significantly below market prices, among other factors such as

¹⁵ This practice, on the one hand, an integral part of the social responsibility policy and constitutes indirect support to the population, especially vulnerable groups, such as pensioners and others. But on the other hand it is a very strong leverage in a particular political support for those in authority by rather wide constituency

excessive employment, irrational and purposeless public procurement, incompetent management, etc., Affect the operations in the zone substantially denominated operating losses of many public utilities. These losses can currently only be covered at the expense of budget funds managed by unities of local self-governments or, possibly, higher levels of government. However, the growth of overdue liabilities based on domestic and foreign debt from one year to another reduces the sum of public revenues (primarily indirect taxes), to be distributed to local budgets, which, along with the fact that local levels of government among the last in the chain of distribution of most of the collected tax revenues¹⁶, increasingly reducing the possibility of real support for public utilities from local budgets. Indirectly, constant operating losses of public utilities lead to poor quality of municipal services, which again affects the increase in the cost of living (for example, through the use of alternative means of heating residential premises, increased consumption of imported bottled water, etc.), Which is in turn increases the pressure on the budgets of local governments, especially from socially disadvantaged groups. On the other hand, conscientious and economically stable users of municipal services, who regularly pay their obligations, leading to the economic disadvantage and in a position to bear most of the burden expressed illiquidity in the sphere of communal services. Poor and non-selective social policy, in turn, allows the irrational use of resources that are managed by public utilities, in particular by stronger economic strata of the population. The last time this issue comes to the fore in the management of certain public goods such as drinking water from the river watercourses. Thus, one of the main motives for changes in the management of public utilities is a need to increase their efficiency. As issues of particular importance for the efficiency and effectiveness of the management system, including the management of municipal infrastructure, it is particularly important to allocate those associated with rights and obligations in relation to investment in construction, renovation, reconstruction and investment maintenance of real estate, machinery, etc., claims management, public utilities, and revenues earned by providing utility services,

¹⁶ For example, in the system of distribution of the collected indirect taxes (VAT, excise, etc.) In BiH priority in the distribution have international credit and other liabilities, followed by the financing of the common institutions of government at the state level, and after that the distribution of the remaining amount of indirect taxes to the entities and Brčko District. Part indirect taxes that belongs to the local government units shall be determined only after you determine the amount of financing commitments that have the entity levels of government

institutional framework and responsibility to provide quality municipal services, including planning of their scope and dynamics, ensuring other sources of financing business activities of public utility companies, especially investment, etc. A specific regulatory framework governing the public services, we have seen, leads to distortions of unity in the management of municipal infrastructure, so that the care of the individual parts of the system primarily led the party through which they secured the sources of financing of certain manufacturing and other facilities. Thus, for example, in some cases, utility asset representing technological whole for the production and distribution of potable water is recorded on the basis of source of financing, but partially within the business records of the respective public utility companies, and partially in the context of the local self-government in whose territory the company operates. In other cases, municipal immovable property and related production facilities were recorded on both sides¹⁷, and some are not even on one (The supreme office for the Republic of Srpska public sector auditing, 2015). All this inevitably affects the inefficiency in the management of municipal infrastructure and, consequently, the quality of the municipal services. Studies have shown that the receivables management of public utilities also very complex and reflects the expressed problems of a systemic nature¹⁸. The performance management system claims influenced how management bodies in enterprises, as well as the majority owner of capital (local self-governments), where it was noted that information on the status, structure and level of debt collection in public utility companies are not comprehensive enough usable in the process business decision-making, problem-structured, and they are not made available to all interested parties. A significant number of measures taken and additional resources involved in the collection of receivables not resulted in significant improvement in the level of collection of receivables with public utility companies, with control over the management of the receivables is not adequate, given that the consideration and adoption of various acts by the decision makers in the public utilities and through the creation of additional measures are not clearly identified the causes of the current situation, nor were accordingly taken place the necessary changes.

Although high technical-technological and financial losses are one of the factors especially

¹⁷ Where at least one of them, typically the public utility, the essential material property is classified as a non-material

¹⁸ For example, performance audit "Receivables management of public companies" by The supreme office for the Republic of Srpska public sector auditing spent in 2016; seen at: www.gsr-rs.org

expressed unfavorable financial situation in which there are public utility companies in the Republic of Srpska, managers of these companies are, as expected, is not considered to be particularly responsible for the current situation, and seek justification in the system:

- Legislature, precisely because of inefficient and unclear regulatory framework,
- the executive, of which financial support is largely dependent on the minimum level of sustainability and functionality of public utilities, and that without it becoming increasingly exposed to different budgetary constraints and risks, as well as
- Judicial branch, specifically in the inefficiency of the system of legal protection of economic interests of legitimate public utilities.

In this way, their own responsibility, which is clearly part of an objective, quite marginalized and all this with a "common" political influence in the management of public entities and public resources, the entire control system in the field of municipal activities seem inefficient expected.

Increasing the effectiveness of the management of municipal infrastructure and public utilities in general it would be achieved through a well-designed program of various short-term and long-term measures and activities. This primarily entails efficient resolution of property rights and disposal of municipal property, which is closely linked to the issues of investment maintenance, capital investment in infrastructure, financing, etc. In this context, it seems to be most appropriate to carry out the transfer of the entire real estate and other municipal property at the disposal and management of public utilities, instead of the other way around, as is currently done. This would, at the same time, allow the clear determination of the balance belonging to the property. More specifically, at the time when the public utility companies organized as a capital company (joint stock companies), complete infrastructure, as well as the sources of funds (credit, etc.), which financed the construction and maintenance of the property, should be included in the balance of public utilities respectively, in terms of reporting, should enable the economic unity of the assets, liabilities, revenues and expenses associated with the performance of public utility services. The alternative to this would be a (full or partial) privatization of capital belonging to public bodies¹⁹ or break down the corporatization of public utilities that currently, among other things,

is not possible in accordance with the existing legislation. It is also necessary, clearly define and delineate of mutual rights and obligations in terms of improving the utility of the system in a specific territory through the agreements, contracts or other appropriate means, as well as the establishment of criteria and the basis for the priorities in building and reconstruction of utility networks and associated infrastructure facilities. The establishment of the system of management of public utility companies and municipal service system based on performance would undoubtedly have a positive impact on improving their financial position, performance and economic sustainability in general. In this case, the process management would be based on monitoring and analysis of performance indicators and achievement of determined business objectives, and in accordance with the defined measures and activities, but also on effective business decisions, including decisions about the prices of utility services, exclusively on based on previously conducted economic analysis and pricing policies and other conditions for the provision of municipal services, including debt collection policy, the equally and economically sustainable criteria, regardless of the category of consumers. It is clear, however, that this approach is not possible to advocate, if previously is not provided an efficient and effective system of subsidizing of certain social categories of consumers (pensioners, veterans' population, the unemployed and others.), for which local levels of governments are generally not ready. However, regardless of the legal form and management of municipal infrastructure and system utilities, quality and timely business intelligence (as according to the management structures within the public utilities, and to the founders and owners of those companies), are unavoidable and a good basis for the creation of high-quality management decisions. In that case, an effective system of monitoring the actual level of utilization of municipal infrastructure and public resources that are subject to exploitation, including natural and security monitoring all (excused and unexcused) loss of these resources in the system, in order to create conditions for establishing the actual production cost of utilities, it is not possible without quality bookkeeping and accounting system, particularly managerial. In this regard, it would be necessary to identify the operating segments (cost, profit and investment centers), in order to separate the basic and non-core activities (e.g., the production and delivery of drinking water of the service acceptance and wastewater), and establishing a system of managing accounting in which it is possible to track the cost per place of origin, carriers, activities etc. Also, it is necessary to establish and support efficient and effective

¹⁹ For which there are examples of utilities which by their functional characteristics do not significantly differ from public utility companies

system of internal controls, including internal audit function whenever it is legally required or economically justified. Operation of public utilities may be partially improved under the current regulations, provided that the municipal authorities seize the opportunities of the modern organization (through the policy of municipal taxes, zoning – actually, categorize consumers according to certain criteria – op.aut., Infrastructure subsidies, “one-stop shop” and supporting change) and then indirectly improve the management of public utilities. Improvements of this kind are still limited, because basically remains the same incentive structure, which causes limited results (Prokopijević, 2007). However, current developments in public finances and the economy in general, both at local and at regional and international level, will inevitably lead to the conclusion that in the forthcoming period it is necessary to consider other possible directions for improving the system of communal activities, including the concession method of disposal of municipal infrastructure of by private operators, the possibility of implementation of public-private partnerships in the construction and management of municipal infrastructure and, in general, reliance on other forms of previously unused ways of financing and cooperation between the public and private sectors. As already mentioned, alternative ways of improving the system or certain entities in the system could include the potential ways of partial or complete privatization of public utilities

5. CONCLUSION

Identified characteristics of the system of communal activities and management of utility infrastructure are not favorable. Among other problems, observed outdated infrastructure, and deterioration of the communal system, irregular and inadequate maintenance and investment of municipal facilities, high technical losses, and a high level of uncollectible by utilities, technical, financial and organizational inefficient system utilities, etc. Maintenance of public infrastructure in a satisfactory functional condition and utilities satisfactory quality and accessibility requires regular and high investments for which it is not possible to provide funds from ordinary commercial sources (revenues from utility services, transfers and subsidies from local or national budget, etc.). On the other hand, efficiency in the use of municipal infrastructure is an important precondition for overall economic development, not only the local community but also the economy as a whole. Therefore, the establishment of an efficient and effective system of public utilities, while providing high-quality

sources of funding for its operation, must be regarded as one of the top priorities in order to ensure a positive impact of urban activities on overall economic growth and development. Local self-governments units in most of the cases are in the role of the majority owner of public utilities and are legally obliged to customers to ensure the smooth and timely delivery of quality municipal services, which are currently mainly based on non-market principles of operation of public utilities, which adversely affect their financial position and performance. On the other hand, the operations of public utility companies in the area of operational losses has been driving on the financial position of local self-governments units, at the expense of their budgets in this case is necessary to provide the proper amount of subsidies and other forms of financial assistance, as users of municipal services, especially to vulnerable social categories as well as public utilities, which without external financial support can't provide the minimum sustainability of the system. However, the current status and trends in public finances, as well as in the national economy in general clearly indicate that this system is a long-term unsustainable and that the authorities will sooner or later be forced to come up with an adequate regulatory framework for the reorganization and restructuring of the system utilities, to ensure its smooth functioning and development in the future.

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