



# **Republic of Kosovo**

## **Public Expenditure and Financial Accountability (PEFA)**

### **Public Financial Management Assessment**

#### **LOCAL GOVERNMENT LEVEL**

**May 2011**

## Exchange Rates, Calendar Information and Abbreviations

### CURRENCY AND EXCHANGE RATES

Currency unit = Euro (€)

€ 1 = US\$ 1.4385 (As of May 31, 2011)

**Government Fiscal Year (FY):** January 1 – December 31

### Acronyms

<b>AC</b>	Audit Committees
<b>AGA</b>	Autonomous Government Agencies
<b>BO</b>	Budget Organizations
<b>CFA</b>	Central Fiscal Authority
<b>CHU</b>	Central Harmonization Unit
<b>CIAHU</b>	Central Internal Audit Harmonization Unit
<b>COFOG</b>	Classification of the Functions of Government
<b>DB</b>	Database
<b>DCFDM</b>	Division of Cash Flow and Debt Management
<b>DIA</b>	Department of Internal Audit
<b>DMU</b>	Debt Management Unit
<b>EC</b>	European Commission
<b>GDP</b>	Gross Domestic Product
<b>GFS</b>	Government Finance Statistics
<b>GFSI</b>	USAID Growth and Fiscal Stability Initiative
<b>HQ</b>	Headquarters
<b>IA</b>	Internal Audit
<b>IAU</b>	Internal Audit Unit
<b>IFAU</b>	Internal Financial Audit Unit
<b>IMF</b>	International Monetary Fund
<b>IPA</b>	Instrument of Pre-Accession
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>IRB</b>	Independent Review Board
<b>ISPPIA</b>	International Standards for the Professional Practice of Internal Auditing
<b>KCB</b>	Kosovo Consolidated Budget
<b>KEK</b>	Kosovo Energy Corporation
<b>KFMIS</b>	Kosovo Financial Management Information System
<b>KPA</b>	Kosovo Privatization Agency
<b>LLGF</b>	Law on Local Government Finances
<b>MDA</b>	Ministries, Departments and Agencies
<b>MEF</b>	Ministry of Economy and Finance (synonymous with MFE)

<b>MFE</b>	Ministry of Finance and Economy (synonymous with MEF)
<b>MIT</b>	Ministry of Industry and Trade
<b>MOSR</b>	Municipal Own Source Revenue
<b>MPS</b>	Ministry of Public Services
<b>MTEF</b>	Medium Term Expenditure Framework
<b>MYR</b>	Mid-Year Review
<b>OAG</b>	Office of the Auditor General
<b>PE</b>	Public Enterprises
<b>PFIC</b>	Public Financial Internal Control
<b>PIP</b>	Public Investment Program
<b>PISG</b>	Provisional Institutions of Self-Government
<b>POE</b>	Publicly Owned Enterprise
<b>PPA</b>	Public Procurement Agency
<b>PPL</b>	Public Procurement Law
<b>PPRC</b>	Public Procurement Regulatory Commission
<b>PRB</b>	Procurement Review Body
<b>PTK</b>	Post Telekom I Kosoves
<b>RTK</b>	Radio and Television of Kosovo
<b>SN</b>	Sub National
<b>SOE</b>	Socially Owned Enterprise
<b>SRSG</b>	Special Representative of the Secretary-General
<b>STA</b>	Single Treasury Account
<b>TAK</b>	Tax Administration of Kosovo
<b>ULT</b>	Unit for Large Taxpayers
<b>UNIREF</b>	Unified Reference Payment Code
<b>UNMIK</b>	United Nations Interim Mission in Kosovo
<b>VAT</b>	Value Added Tax

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## Preface and Acknowledgements

The Kosovo Government has demonstrated a strong commitment to public financial management (PFM) reform. First, the Government embarked on a wide review of PFM by conducting a Public Expenditure Financial Accountability (PEFA) assessment, which was carried out in the first quarter of 2009. Subsequently, a PFM Reform Action Plan was formulated, which established the basis for strengthening practices across the Government PFM systems based on the PEFA diagnostics.

The Government also recognized that the engagement of Local Government would be crucial for the success of this overarching PFM reform initiative. A similar PEFA assessment on the Kosovo Municipalities was initiated with the ultimate goal of formulating a comprehensive PFM Reform Program geared to the specific needs of Local Government institutions, complementing that of the Central Government. The donor community responded to this initiative with technical assistance provided jointly by USAID and DFID for which the Government greatly appreciates. Overall, it is expected that the Local Government PEFA process will contribute to improvements in fiscal stewardship in Kosovo's municipalities through improved public financial management with enhanced capability in providing autonomously managed and efficiently delivered public services that can, in turn, stimulate local economic development.

The Local Government PEFA was carried out in five Kosovo Municipalities under the auspices of the Minister of Finance, Bedri Hamza, the Minister of Local Government Administration, Slobodan Petrovic, and the Association of Kosovo Municipalities, represented by the Head of Budget Collegium, Aferdita Grapci. Special thanks are due to the Head of Kosovo PEFA Secretariat Azem Reqica, from whose experience and expertise the Local Government PEFA process greatly benefited.

The Municipalities of Pristina (Capital City), Podujevo, Vushtri, Mamusha, and Sterpce were involved in the PEFA process, led by the Municipal Mayors and with the strong commitment and excellent participation from municipal administration staff. Particular acknowledgements for leadership and outstanding contributions go to the members of the five dedicated PEFA Municipal Teams who implemented the assessment tasks:

- **Pristina:** Finance Officer, Erol Raskova, Budget and Finance Officer, Hyre Muharremi, Revenue Officer, Arton Osmani, and Procurement Officer, Xhevat Sminica. The Team received support throughout the process from the Pristina Mayor, Isa Mustafa and the Chief Financial Officer, Xhelil Bektshi.
- **Podujevo:** Budget Manager, Kadrie Ajvazi, Head of Finance Unit, Sabit Sylja, Property Tax Officer, Ajshe Vokri, and Chief Financial Officer, Isuf Latifi. The Team gained from the leadership of Podujevo, Mayor Agim Veliu.
- **Vushtri:** Budget and Finance Director, Isuf Jashari, Chief of Budget, Mexhid Percuku, Procurement Officer, Xhafer Islami, and Internal Audit Director, Bedredin Mulaku. The Team's work benefited from the support of Vushtri Mayor, Bajram Mulaku.
- **Mamusha:** Budget and Finance Director, Yahya Mazreku, Procurement Manager, Gazmend Gashi, Finance Officer, Aziz Elshani, and Deputy Mayor, Abdulhadi Krasnic. The Team was supported by Mamusha Mayor Arif Butuc.
- **Sterpce:** Budget and Finance Director, Sinan Ymeri, Procurement Officer, Shaban Tafa, and Property Tax Manager, Danijell Vuksanovic. The Team was supported by Sterpce Mayor Bratislav Nikolic.

The Local Government PEFA process was facilitated and supported with technical expertise in PFM matters by a team comprising Magdalena Tomczynska, Fortuna Haxhikadrija, Ramadan Matarova (all USAID/Growth and Fiscal Stability Initiative (GFSI) implemented by Deloitte) and John Short (DFID/REPIM). Specialist advice and training contribution were also provided by Matthew Smith and Kris Kauffmann (both USAID/GFSI). Valentina Imeraj and Laura Hasani (GFSI Project Office) provided excellent assistance and logistical support. Azra Bajramlic, Gordana

Blanusha, Valon Novosella and Fatos Katanolli made possible for this report and meetings to be translated in all three local official languages.

The Local Government PEFA was based on an assisted self-assessment approach and was carried out between October 2010 and May 2011. The successful implementation benefited from a specially designed process, which brought together key stakeholders and ensured a unique mix of continued engagement and support from the Central Government authorities, municipal executive leaders, municipal administration, and donors. Capacity building and professional education were particularly addressed to the PFM practitioners from municipal administration and has represented an important by-product and benefit of this PEFA exercise.

### Overview of the indicator set<sup>1</sup>

A. PFM-OUT-TURNS: Credibility of the budget		Mean	Mode
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	B
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	D
PI-3	Aggregate revenue out-turn compared to original approved budget	B+	A
PI-4	Stock and monitoring of expenditure payment arrears	B	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	B	B
PI-7	Extent of unreported government operations	A	A
PI-8	Transparency of inter-governmental fiscal relations	N/A	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C	N/A
PI-10	Public access to key fiscal information	A	A
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	A	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A	A
PI-17	Recording and management of cash balances, debt and guarantees	A	A
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Competition, value for money and controls in procurement	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	B+	B+
PI-21	Effectiveness of internal audit	C	B+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B+	B+
PI-23	Availability of information on resources received by service delivery units	B	B
PI-24	Quality and timeliness of in-year budget reports	B+	A
PI-25	Quality and timeliness of annual financial statements	C	D+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	C	D+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	D	D+
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	N/A	N/A
D-2	Financial information provided by donors for budgeting and reporting on aid	B	A
D-3	Proportion of aid that is managed by use of national procedures	B	A
HLG-1	Predictability of Transfers from Higher Level of Government	B+	A

<sup>1</sup> Mean calculation based on A=4; B+ =3.5; B=3; C+=2.5; C=2; D+=1.5; D=1 and No Score = 0. Where more than one score could be mode, one nearest the mean has been chosen

## Summary Assessment

This Report provides an assessment of the status of the Public Financial Management (PFM) systems and processes of Kosovo's Municipalities as of April 2011. The Report has been produced in accordance with the Public Expenditure Financial Accountability (PEFA) methodology.

The World Bank led an assessment of PFM in Kosovo along with the Government of Kosovo using the PEFA methodology in 2007. The Government itself followed the 2007 PEFA with a second PFM assessment in early 2009. This assessment complements the 2009 assessment but focuses primarily on the performance of PFM processes at the municipality level of Government in Kosovo. It was conducted in five Kosovo Municipalities, on the basis of Self-Assessment performed by municipal administration, with the joint technical assistance provided by USAID/Growth and Fiscal Stability Initiative and DFID.

### *(i) Integrated assessment of PFM performance*

#### **Credibility of the budget**

This group of indicators (PI-1 to PI-4) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue, and whether unpaid/undisclosed bills distort actual reported expenditure. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

The relationship between the expenditure outturn and budget has shown that aggregate outturn expenditure has not been consistent with that budgeted in the period from 2008 to 2010 with both overspending and under spending being experienced between years and between municipalities. Much of the overspending has been on the capital account where additional in year transfers from central government have been made in some years in some municipalities. There has also been under-spending in some years emanating from over budgeting. The over and under spending budget has been distributed relatively evenly among all departments in some municipalities but not in all the sample municipalities. Unavailability of funds has not been the reason for under-spending as both own source revenue and transfers from central government have generally been in excess of initial estimates. Inadequate forecasting and budget planning has generally been a factor in explaining unpredictability. Levels of variance in expenditure composition recorded for each of the last three years are primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations. While the original budget does not incorporate expenditure plan against unspent MOSR carried forward from the past years; MOSR spending is recorded as actual expenditure. MOSR, which are carried forward are reconciled and re-appropriated by the Treasury/MFE in the KFMIS system only during the first quarter. This results in a considerable difference between budget plan and actual expenditure for a number of budget programs, in particular related to substantial capital investments.

The verified end-of-year financial statements of budget organisations show that the level of arrears as a share of total expenditure is negligible.



## **Comprehensiveness and transparency**

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of the Government reflect the totality of public finances. It examines the extent to which Government makes information available, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible.

The Municipal Budget, constituting a part of the Kosovo Consolidated Budget (KCB), is comprehensive in its coverage of expenditure and revenues and there are no extra budgetary funds at the municipality level and at the central government level. The Chart of Accounts is COFOG and GFS 2001 compliant.

There is a good use of web-based dissemination of information to the public at large, though information could be made available in a summarised format for administrative and functional classifications as well as an explanation of the fiscal impact of policy changes.

## **Policy-based budgeting**

Indicators PI-11 and PI-12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation, and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to “stopping and starting” of projects and lack of complementarities between different categories of expenditure.

The budget calendar template provides sufficient time for budget preparation and deliberation by the Municipal Assembly and is respected. The consolidated 2011 budget was not ratified until well into the fiscal year due to central government elections and delays in forming an administration, but the municipal assemblies had passed their own budgets on time as stipulated in the calendar and required by the applicable law.

The MTEF document is led by the centre and presents a mission statement and description of the existing situation, and goals for sectors, but these are not uniform in quality or clarity. Its application at the municipality level is variable with few municipalities taking a multi-year perspective. Some of the municipalities have produced a development strategy but of varying quality and coverage. The lack of sectoral ministry strategies for some devolved functions (but where a ministry has a policy and quality role and the municipality has an execution role) does not assist the municipalities in the development of such strategies for their own municipality. This reflects a weakness in the sector ministries in planning and budget preparation which the 2009 Central Government PEFA has recognised. The capacity to formulate budgets linking policy to plans and plans to budget formulation is still underdeveloped and this is evident in the municipalities. Kosovo has a Public Investment Programme under which investment projects are assessed as to potential viability. The PIP applies to municipalities as well as central government ministries. In practise, the recurrent cost implications are not factored into subsequent budgets and the lack of a coherent sector strategy means that projects are developed in isolation, usually on ad hoc and annual basis only. The PIP is not integrated into the municipal MTEF and is in effect a list of projects.

## **Predictability and control in budget execution**

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates

vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time nor applied in the right way.

The relevant (and only tax) at the municipality level is the property tax. The administration of the tax in terms of design, billing, appeals process and payment reconciliation is good, but the growing arrears of tax liabilities are sufficiently high to be of concern.

Budget execution is controlled through the setting of allocation limits, which are based on forecasts of available resources (from grants) and the individual needs of the municipalities, with due regard to seasonality of revenues and expenditures. Own source revenue and the resulting expenditure are allocated and spent once this revenue has been actually collected. The Treasury manages allocations through the year and controls budget execution and cash management based on the cash plan submitted by the municipalities themselves. The effective use of a Financial Management Information System is an important tool in managing and executing the budget, although one municipality by-passed commitment controls on some of its capital projects.

In general, internal control procedures are well understood and modern internal audit is being developed, though with varying degrees of success in some municipalities. The Government is implementing a Public Internal Financial Control (PIFC) regime with the goal of moving to a modern system, which harmonizes the control and audit of public resources in accordance with best international practice. This applies in the municipalities as well as in central government and is led at the Central Harmonisation Unit in the Ministry of Finance.

Kosovo currently has a payroll system but the payroll is not integrated with a personnel database, but nonetheless provides effective controls and a payroll that is suitable at the municipality level. The municipality payroll system is part of the overall government system and is administered by the Treasury and Ministry of Public Services. Municipalities update the payroll monthly, prior to the execution of the payroll, and changes are made on a timely basis.

A Public Procurement Law was enacted in 2004 and amended in 2010. It brings public procurement in line with international standards and practices and applies to the municipalities as it does to central government budget organisations. Data shows that over 90% of contracts by value were procured through competitive open bidding with justification for non competitive procurement documented.

## **Accounting, recording and reporting**

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

The Treasury is serviced through the Single Treasury Account (STA) with the Central Bank of Kosovo (CBK), through which all Government revenues and expenditures are recorded, including that of the municipalities. The STA can be accessed in real-time through on-line access to municipality sub-account at the CBK. Reconciliations between Bank and Treasury records are performed on a daily basis. The financial information is inputted into the Financial Management Information System, which produces reports. Records and information are produced, maintained, and disseminated to meet decision-making control, management, and reporting purposes, as needed.

Budget execution reports are by structure of the budget and present fund balance commitment on a monthly and quarterly basis though one municipality did not produce such information for its own management purposes.

Although the fiscal reports present all financial data in a timely manner, municipalities' annual financial statements generally are not at the requisite international standards level.

### **External scrutiny and audit**

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the Budget Organizations' administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

The Office of the Auditor General has benefited from continuous audit training and providing knowledge on international audit standards, and is responsible for the conduct of annual audit reports in the municipalities either from its own office or by contracting out to audit companies. These are carried out in a timely manner. While some municipal assemblies receive the Audit Reports, this is not so in others and are received at the mayor's office. As a result some municipal assemblies review and discuss the audit reports, others do not. These reports are not scrutinized in-depth, as the capacity of various Assembly members to examine and utilize reports is not all that strong. The Chief Finance Officer is present to assist when they are debated. Recommendations usually mirror those in the Audit Report and follow up is not consistently carried out.

With respect to the Budget, the Assembly delegates its review of the draft budget to the Policy and Finance Committee and the draft is then debated in the full Assembly. Procedures for the deliberations on the budget by the Policy and Finance Committee and the overall Assembly are well established and respected.

### **Donor practices and Higher Level Governmental Transfers**

Indicators D1 – D3 and HLG-1 show how well donors and Central Government integrate their support into the Municipality budget process so that it reflects all available resources in a timely manner as well as the extent to which donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

None of the municipalities received direct budget support and there is some project support where the information flows from donors is mixed but does use national procedures where the information flows are good.

Predictability of transfers to municipalities from central government is good thus allowing good management and budget execution.

### ***(ii) Assessment of PFM strengths***

The system of municipal PFM in Kosovo is fully compatible and integrated with the PFM system that operates in central government. The strength of the existing PFM system is centred on the successful roll out of the Financial Management Information System to the Municipalities through training and certifying staff in its application. This has ensured that commitment control is applied in budget execution and that reporting on budget execution is timely and meets the need of management for effective decision-making. Other strengths are found in the emerging areas of internal audit and control and external audit where the process is in place and capacity is being built up for effective implementation.

Although it is more difficult factor to quantify, there are additional important strengths, which are that all of the basic ingredients necessary for a national PFM system are in place and are integrated with the above. This includes:

- Basic legislation which is modern, compliant with a good practice, and updated as needed
- Annual budget legislation which provides each year's appropriations
- An established annual budget process which includes all the necessary ingredients and which works on a familiar schedule
- Specific units and staff in each Municipalities who have the designated responsibility for budget formulation and execution

### ***(iii) Assessment of the impact of PFM weaknesses***

Weaknesses can be summarized as:

- Budget Planning
  - The need to improve planning and budget formulation in the municipalities. Specific attention needs to be directed at improving the overall capacity to develop strategies and integrate the planning of the investment cycle into these strategies. However, this weakness is across the whole of the Kosovo Government – both at Central and Local levels. Addressing the problem at the municipal level without addressing it at the central level will be insufficient to rectify the weakness at the municipal level.
  - The linkage between the MTEF and the annual budget are not as defined as they could be with the annual budget and the first year of the MTEF not the same. This issue is also at the whole of Kosovo Government level.
  - There is only a small proportion of a municipality's budget that is under the discretion of the municipality as the majority of the budget is determined by earmarked grants and specific budget parameters mandated by the central government. To this extent, municipalities are budget execution agents of central government ministries where local priorities may not be fully articulated in the municipality's budget.
- Budget Execution
  - The weaknesses in addressing tax arrears and bringing payments up-to-date undermines a property tax system that otherwise is well designed and well administered.
- Budget Accounting and Controls
  - While commitment control procedures are good, the ability to by-pass them indicates a weakness
  - Annual Financial Statements do not meet recognised desirable international standards
- External Scrutiny
  - The budget documentation is reviewed by the Municipal Assembly Policy and Finance Committee and the budget is debated and passed by Assembly. However, the capacity of the Assembly to analyse the budget could be improved.
  - With respect to accounts, the elected representatives do not scrutinize the audit reports in any signification way due to a lack of capacity and in some municipalities this is not done at all.

### ***(v) Assessment of the impact of PFM strengths and weaknesses on fiscal discipline, strategic allocations of funds, and operational efficiency***

Regarding fiscal discipline, the PFM system's main strength is that the budget formulation system and the budget execution/Treasury system are both robust and sufficiently well developed to provide for:

- Legal and functional frameworks, within which fiscal discipline can be defined, monitored, reported upon, and enforced.

- This is based on the existence of necessary legislation, the MTEF process followed by the annual budget formulation and execution processes, audit processes, reporting processes, and legislative oversight processes.
- This reflects in no small manner the centralised nature of the local government PFM system – the centre has established the rules for budget formation and execution (with little discretionary spending at the local level), STA, internal and external audits.
- Transparency and the availability of information to provide for sufficient scrutiny of results.

At the same time, however, there are also weaknesses in some of these areas:

- Deviations from the planned expenditure levels persist.
- There are few real disincentives for violating the concepts of fiscal discipline.

Regarding the strategic allocation of funds:

- The necessary frameworks and the necessary policy-related tools (including the MTEF) are in place, which address issues of national goals and strategies, but do not necessarily get translated into the annual budget both at the central and municipal level as they are ineffective.
- Sufficient basic information is produced by information systems, so it is possible to determine and audit the planned and actual expenditures for many programmes.
- The nature and timing of the issuance of statements of national priority does not fit in with the budget calendar, including municipal budget development calendar.
- The sectoral aspects of the MTEF are not used in the actual setting and execution of national priorities which in turn do not get fed into the municipal budgets effectively even though conditional grants are an important element of their revenues.
- Local Development Strategies are not well linked and translated into annual municipal budget formulation processes.

Operational efficiency in Kosovo's service delivery processes remain a difficult area, for several reasons

- Although the MFE's Budget Circulars request information about programme goals, objectives, and performance measures, few Budget Organizations including municipalities provide such information and the MFE does not routinely enforce the requirement.
- Closely related to this, most Budget Organizations including municipalities lack the (non financial) information and the information systems upon which to base a service-delivery assessment process.
- There is little evidence that Budget Organizations including municipalities systematically gather, monitor and evaluate, manage by, and report on service delivery – either its efficiency or effectiveness.
- Neither internal nor external audit processes have yet to be fully embraced by the management processes of many Budget Organizations including municipalities as reliable sources of information through which to routinely improve the operational efficiency or effectiveness of service delivery activities or resource allocations
- In the absence of such information, it is not surprising that priority-setting and resource allocation decisions are made on other bases.

***(vi) Prospects for reform planning and implementation***

The PEFA assessment has been produced specifically as an input into the development of a PFM reform Action Plan for Municipal PFM. This Action Plan will address the weaknesses that have been identified in the PEFA assessment. After the 2009 Central Government PEFA a PFM Action Plan was produced. Given the nature of municipal PFM in terms of strong centralised linkages, this municipal PEFA can act as a review of progress in implementing that PFM Action Plan and progress in PFM reform in general.

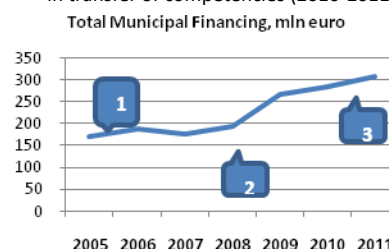
## 1. Introduction

The scale of local government in Kosovo, measured by the share of local expenditure in GDP, appears relatively low as compared with other countries in the region and Eastern Europe<sup>2</sup>. It is estimated at about 5.5% of GDP, while local expenditure net of spending on education and primary health care total only 2.5% of GDP.

In nominal terms, for many years local government has been accounting for about one quarter of consolidated government budget expenditure. However, recent developments in the decentralization and transfer of competencies, particularly resulting from the Kosovo Status Settlement, have almost doubled the size of local government expenditure during the last five years. The 2011 municipal budget is expected to exceed 300 million euro.

### Box 1: Impact of Key Decentralization Phases on the Size of Local Government

1. Phased-in administrative decentralization: Pilot Municipal Units (2005-2006); New Municipalities (2009-2010)
2. Legislative framework changes: Education reform and new Law on Local Government Financing (2008-2009)
3. Establishment of new Municipalities and advancements in transfer of competencies (2010-2011)



### 1.1 Local Government PEFA Assessment Objectives and Process

PEFA assessments evaluate public financial management (PFM) practices using an internationally recognized diagnostic framework to measure a country's PFM performance over time. This framework focuses on systems, processes, and institutions relating to PFM and can be applied to both central and local government operations. Advancements in decentralization – fiscal, administrative, and political – have resulted in the increasing importance and significance of local government in resource allocation and service provision. The need for sound, open, and orderly PFM system at the local level is essential to support aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. In recognition of such developments the PEFA Framework has been adapted for the standardized sub-national application.

Following the Kosovo assessment of central government PFM conducted in 2009<sup>3</sup>, the extension of the PFM assessment and application of PEFA Framework to the local government level is apposite, given recent progress in transfer of competencies, creation of new municipalities, increasing financial resources at the disposal of municipalities, and anticipated assumption of fiduciary responsibilities in relation to future borrowing. Kosovo's municipalities are now responsible for independent management of almost one quarter of the consolidated budget. Until recently only two municipalities – Pristina and Prizren – have been in a position to obtain unqualified external audit report on its financial statements so there is a need for consistent PFM assessment of local government PFM performance. This assessment will in turn facilitate and guide a comprehensive remedial action plan (where necessary) for local government.

Local Government in Kosovo currently consists of 37 municipalities. The conduct of PEFA assessment for all units would be time consuming and most likely inefficient in the use of resources. Given the current stance of the PFM system – single treasury account, unique financial management and control rules, and overarching PFM legislation – a lot of similarities between municipal budget organizations can be reasonably anticipated in terms of strengths and weaknesses. Thus, the PEFA Framework application was based on the selection of a representative sample in

<sup>2</sup> World Bank, Public Expenditure Review, March 2010

<sup>3</sup> PEFA Report, Republic of Kosovo, May 2009

accordance with a limited number of criteria. The following criteria have been used for the selection of municipalities to be included in the sample to which the PEFA methodology was applied:

1. Population size: high, average and low
2. Level of municipal own revenue per capita: high, average and low
3. Age of institution represented by the year of establishment: 2001 and 2005
4. Ethnic grouping: ethnic majority and minority
5. Governing political majority
6. Access to donor technical assistance

## 1.2 Municipal Self-Assessment Principle, Municipal Teams, and Donor Involvement

The Kosovo Government, represented by the Ministry of Finance (MoF) as well as the Ministry of Local Government Administration (MLGA) in cooperation with the Association of Kosovo Municipalities (AKM), is strongly committed to public finance management (PFM) reforms. The Kosovo Government carried out a Central Government PEFA in the first quarter of 2009 and subsequently produced a PFM Reform Action Plan which is being implemented. Extending this initiative to Municipalities completes the process to determine a comprehensive PFM reform program adapted to the specific needs of Local Government institutions.

The process that has been developed for this exercise was based on an assisted *Self-Assessment* approach that was promoted and facilitated to ensure Local Government ownership of PEFA implementation and future reforms. The following served as *Guiding Principles* to set the *Platform* for PFM reforms at the local level:

- **Representative sample:** PEFA assessment conducted on a basis of selected sample of local government units consulted and agreed with stakeholders;
- **Voluntary participation:** Decision to participate and undertake a PEFA assessment was taken at the municipal level with strong leadership and commitment of involved municipal authorities. All five municipalities involved in this process committed a team to work on an assisted self assessment;
- **Donor technical assistance:** Internal assessment undertaken by individual municipality's officials with technical support, training, quality and standards assurance from a team of international and local consultants;
- **Standard methodology:** Assessment process adapted to unique municipal circumstances however consistently based on PEFA Framework methodology, technical guidance, and content;
- **Individual/Consolidated PEFA Reports:** Assessment findings presented in accordance with PEFA format with individual report prepared for each entity in a sample, and a consolidated report prepared for the whole of local government level;
- **Sustainability:** Trained municipal officials understand and are capable to periodically conduct PEFA assessment to monitor progress in PFM advancements.

Based on these general criteria the municipalities of Prishtina, Podujevo, Vushtrri, Shterpce and Mamusha were selected for the PEFA assessment. The total sample represents some 40 per cent of total municipal own source revenue and a quarter of total municipal expenditure with Pristina dominating the sample.



Table 1: PEFA Sample Municipalities

	2008	2009	2010	2008	2009	2010
	in million euro			in percent of Total		
<b>TOTAL MUNICIPAL REVENUE</b>	<b>45.7</b>	<b>46.3</b>	<b>50.4</b>			
of which PEFA Sample:						
<b>Total Sample</b>	<b>18.3</b>	<b>19.4</b>	<b>19.5</b>	<b>40.0</b>	<b>42.0</b>	<b>38.7</b>
Pristina	16.2	17.3	17.3	35.4	37.3	34.3
Podujevo	1.1	1.2	1.1	2.4	2.5	2.2
Vushtrri	0.9	0.9	1.0	2.1	1.9	2.0
Mamusha	0.0	0.0	0.0	0.1	0.1	0.1
Shterpce	0.0	0.1	0.1	0.0	0.1	0.2
<b>TOTAL MUNICIPAL EXPENDITURE</b>	<b>204.8</b>	<b>267.7</b>	<b>304.7</b>			
of which PEFA Sample:						
<b>Total Sample</b>	<b>51.9</b>	<b>70.7</b>	<b>76.3</b>	<b>25.4</b>	<b>26.4</b>	<b>25.0</b>
Pristina	34.5	47.6	48.0	16.8	17.8	15.8
Podujevo	8.7	11.8	13.8	4.2	4.4	4.5
Vushtrri	7.3	8.9	10.0	3.6	3.3	3.3
Mamusha	0.5	0.7	0.8	0.2	0.3	0.3
Shterpce	1.0	1.6	3.8	0.5	0.6	1.2

Source: KFMIS Reports

The basic approach used followed the PEFA Secretariat Guidelines on Local Government PEFAs to aggregate scores for each indicator and using the narratives in the individual municipal PEFA reports (PFM-PRs) to draw conclusions on reasons for any differences in scores.

The implementation of Local Government PEFA was comprised of a series of critical and important events, which supported a phased-in approach to the conduct of the PEFA:

1. **Official Launch of Local Government PEFA Assessment (October 2010):** a high level meeting organized by USAID/GFSI with the five Mayors who expressed the interest to participate in the PEFA assessment under the auspices of MoF and MLGA. The meeting provided an opportunity to discuss the general PEFA concept and framework, past Kosovo PEFA experiences, and the proposed implementation approach for Kosovo's local governments.
2. **PEFA Technical Workshop (November 2010):** a three-day workshop for the members of PEFA Municipal Teams organized in accordance with the PEFA recommended standard introductory training. Over 20 municipal officials attended a conference where they were introduced to the PEFA Framework and learned how to conduct and implement an effective PEFA evaluation in their own municipality, by use of lectures, seminars, and interactive group exercises. Overall, this USAID-supported conference provided a comprehensive overview of the PEFA Framework including a grounding and understanding of the tools for the evaluation of PFM systems and their performance with an emphasis on self-assessment and personal responsibility.
3. **Assisted Self-Assessment Process (November 2010 – April 2011):** Each Municipal Team who completed the PEFA training was able to embark on the effective tracking of the performance of their own municipal PFM

practices in accordance with PEFA standard methodology. Through dedicated weekly meetings, each Team was supported by the GFSI/REPIM expert working with the Team on the information required to assess and score each of the PEFA Performance Indicators through the application of criteria, evidence gathering and documentation. All the Municipal Teams conducted a series of meetings with the representatives of the municipal administration in the areas such as municipal revenue collection, procurement, internal audit, as well as met with Municipal Assembly.

4. **PEFA Progress Workshop (December 2010):** The Municipal Teams gathered in Prishtina to review the assessment work on the first ten PEFA indicators assessed. The workshop served an opportunity for practitioners to raise and debate the actual challenges of the PEFA assessment process. Issues such as data collection, evidence documentation, realistic scoring methods, and the importance of argument supportive the narrative for each indicator were highlighted during this meeting. The Municipal Teams shared their own experience from the implementation of the assisted self-assessment since the commencement of the PEFA exercise. Following the workshop, the Municipal Teams together with GFSI/REPIM advisors met with Municipal Mayors to provide briefing on PEFA process progress and ensure continued support from the municipal leadership. Information for assessing the remaining indicators was then collected over the following weeks.

5. **PEFA Concluding Retreat (May 2011):** The work of Municipal Teams resulted in the preparation of the first draft of the PEFA Performance Report for each of the five Kosovo municipalities. Team Members participated in a three-day concluding retreat, which gathered the representatives of the five Municipalities, Association of Kosovo Municipalities, Kosovo PEFA Secretariat, and USAID and DFID, the donors supporting the Local Government PEFA initiative. The retreat reviewed the output of PEFA process, and there was an exchange of lessons-learned between the Municipal Teams. It also served as an opportunity to launch the debate on a reform action plan oriented towards further enhancement and strengthening of municipal PFM practices.

6. **Draft PEFA Report Workshop (June 2011):** The draft Report was submitted to the PEFA Secretariat for the review in May 2011. Upon the receipt of Secretariat's comments a dedicated workshop was organized for Municipal Teams. The workshop aimed at the discussion of PEFA Secretariat's comments, preparation of necessary amendments, and soliciting municipal ownership of final version of the Report.

7. **Local Government PEFA Report Dissemination (June 2011).**

In addition to standard the PEFA Secretariat training materials and PEFA guidance, the implementation of the Local Government PEFA assessment in Kosovo was supported by PFM capacity building efforts by GFSI and REPIM. A dedicated Technical Manual was designed, published and disseminated to the Municipal Teams by the GFSI project. The Manual provided municipal practitioners with the technical guidance on the application PEFA methodology adapted to the needs and circumstances of the Kosovo local institutions.

## 2. Country Background Information

### 2.1 Country Economic Information

As part of the Socialist Federal Republic of Yugoslavia, Kosovo developed from a predominantly agricultural economy into one based on mining and emerging industry. However, as the conflict between the Albanian majority in Kosovo and the Milošević regime accelerated in Serbia, neglect of the industrial base led to a return to a largely agrarian economy. Income per capita fell by an annual average of 13 percent during the first part of the nineties to reach less than \$400 per capita in 1995. The massive international response following the armed conflict in 1999 aided by a steady flow of remittances from abroad as well as domestic growth has now raised the average per capita income to about \$1,400 per annum.

Quality information on the economic situation of Kosovo is sparse given the newness of the country. Thus the economic statistics presented in this PEFA assessment and in the reports on which the section is based are the best possible informed judgments, save for those on the country's public finances.

The population of Kosovo is not precisely known, because a national census has not been conducted since 1981. Current estimates range from 2-2.25 million people with 65 per cent residing in rural areas. A census is in the process of implementation as of April 2011 but outcomes are not expected for some time.

Following the declaration of independence in 2008 and passing of a new constitution, Kosovo has been recognized as a country by 75 other nations and has become a full member of the International Monetary Fund, the World Bank and CEFTA.

Even in the post-Independence period, with the departure of much of the UNMIK structure and its staff, the Kosovo economy remains somewhat dependent on, and thus vulnerable to changes in the size of the international presence. To some extent, the slowdown of this engine of growth has been counterbalanced by growing local private sector activity, with new investment occurring in industry and construction as well as by increased government spending.

A sizeable Diaspora (in relative terms) continues to inject both capital and know-how, but non-Diaspora investment must take place on a larger scale in order to move Kosovo's economic development forward. Kosovo is a resource-rich country (lignite-coal, nickel and other metals), whose profitable long-term exploitation requires that residual ownership issues are resolved to generate the necessary investment.

With a 47 percent unemployment rate and a very low employment rate (29 percent), Kosovo has the weakest employment track record in Europe, and Kosovo's 53 percent labor participation rate among the working age population is substantially below the average among all transition economies (65 percent).

Kosovo's economic growth has been solid since the end of the conflict in June 1999, attributable in part to large public investments in post-conflict reconstruction as well as an increase in private investment (albeit from a low base). GDP growth, reflecting the massive donor-funded reconstruction effort and high public and private investment, averaged 4 percent since the end of the conflict and reached 5.4 percent in 2008. At the same time, the rest of the SEE countries were growing faster up to 2008, so Kosovo's income gap with the region widened. Growth reverted to about 4 percent in 2009 in the wake of the global economic crisis, a much better outcome than in the rest of Southeastern Europe, which suffered declines in output. In 2010, the economy is expected to maintain a moderate growth rate (4.6% according to the IMF). Kosovo has established the euro as the local currency, which has led to relatively low inflation. Inflation picked up in 2008, but prices began to fall again in 2009 (annual average inflation was -2.4 percent in 2009). Inflation remained positive and low throughout 2010 at 3 percent.

Kosovo is highly dependent on imports, which comprise around 50% of GDP, while exports are very low and cover only around 20% of imports. This is primarily because the production capacity of the economy is only just developing, is small, and is uncompetitive relative to the region in general. The financing of this continuing deficit is

made possible by significant inflows in the form of remittances, both measured and unidentified, donor spending and changes in net foreign financial assets (NFA) of the banking system.

Table 2 gives a summary of the main macroeconomic indicators.

Table 2: Kosovo Main Macroeconomic Indicators

	2008	2009	2010
<b>Real Growth Rates (%)</b>			
GDP	4.8	3.7	4.0
GDP per capita	3.3	2.2	7.3
Consumption	0.7	2.0	2.1
Investment	11.2	14.7	29.0
Exports	20.1	9.3	26.0
Imports	0.2	8.5	15.0
<b>Price Changes (%)</b>			
CPI, period average	9.5	-2.4	3.5
GDP Deflator	1.0	-3.3	3.0
<b>Nominal (million euro)</b>			
GDP	3,878	3,900	4,259
GDP per capita	1,848	1,831	1,982
<b>Population (million)</b>	2,098	2,129	2,149

Source: Macroeconomic Department, MFE

Real GDP growth in 2008 was 4.8% and 2009 it has fallen to 3.7% and grew to 4% in 2010. Investment and exports have been growing steadily relative to consumption.

Kosovo is one of the poorest countries in Europe. Poverty remains persistent and widespread: according to the latest available data (from 2007) 45 percent of the population is living below the national poverty line, and an estimated 17 percent are extremely poor – i.e., unable to meet basic nutritional needs. Extreme poverty is disproportionately high among children, the elderly, households with disabled members and female-headed households. However, the narrowness of the poverty gap suggests that poverty is not deep.

## 2.2 Description of Budgetary Outcomes

The tables below summarize the development of the Kosovo public finances for the past three years. These cover general government actual expenditure and revenues, including grant financed spending.

Total revenues grew in nominal terms from 2008 to 2009, but declined in 2010 but have fluctuated greatly in terms of per cent of GDP increasing to 29.4 per cent in 2009 from 24.3 per cent a year earlier, but dropping back in 2010 to 26.7 per cent of GDP, reflecting the general worldwide economic downturn.

Expenditures, however, continued to increase in both nominal terms and relative to GDP which meant that Kosovo had a primary balance of -3.7 per cent of GDP in 2010 as well as growing overall balance on the government account.

Table 3: Main Fiscal Indicators for General Government

	2008	2009	2010	2008	2009	2010
	in million euro			in percent of GDP		
<b>TOTAL BUDGET REVENUE</b>	<b>942.3</b>	<b>1,145.9</b>	<b>1,120.0</b>	<b>24.3</b>	<b>29.4</b>	<b>26.7</b>
Tax Revenue	805.3	815.8	891.0	20.8	20.9	21.3
Non-Tax Revenue	53.0	52.2	46.0	1.4	1.3	1.1
Own Source Revenue	84.0	77.9	98.0	2.2	2.0	2.3
Central OSR	35.1	35.2	53.0	0.9	0.9	1.3
Municipal OSR	48.9	42.7	45.0	1.3	1.1	1.1
Dividends	0.0	200.0	85.0	0.0	5.1	2.0
<b>TOTAL BUDGET EXPENDITURE</b>	<b>942.4</b>	<b>1,109.9</b>	<b>1,192.6</b>	<b>24.3</b>	<b>28.5</b>	<b>28.5</b>
Recurrent	595.3	709.5	736.6	15.4	18.2	17.6
Capital	347.1	400.4	456.0	9.0	10.3	10.9
<b>PRIMARY BALANCE</b>	<b>-0.1</b>	<b>36.0</b>	<b>-72.6</b>	<b>0.0</b>	<b>2.0</b>	<b>-3.7</b>
INTEREST PAYMENTS	35.0	0.7	9.8	0.9	0.0	0.2
LENDING	8.7	78.8	60.0	0.2	2.0	1.4
<b>OVERALL BALANCE</b>	<b>-8.5</b>	<b>-43.5</b>	<b>-150.7</b>	<b>-0.2</b>	<b>-1.1</b>	<b>-3.6</b>
<b>FINANCING</b>	<b>43.8</b>	<b>-86.6</b>	<b>140.0</b>	<b>1.1</b>	<b>-2.2</b>	<b>3.3</b>
External Financing	20.0	-43.1	40.0	0.5	-1.1	1.0
Internal Financing	-63.8	0.0	101.0	-1.6	0.0	2.4

Source: Macroeconomic Department, MFE

Since 2008, the share of Central Government relative to Local Government has declined annually. Wages and salaries as a share of total expenditure at both local and central level have increased as a share of total expenditure while good and services have fallen relatively. Capital spending increased as a share annually as local authority spending on projects doubled in nominal terms.

Table 4: General Government Expenditure, Economic Classification

	2008	2009	2010	2008	2009	2010
	in million euro			in percent of Total		
<b>TOTAL EXPENDITURE</b>	<b>941.7</b>	<b>1,138</b>	<b>1,192</b>			
<b>Total Central Government</b>	<b>741.2</b>	<b>874.6</b>	<b>891.4</b>	<b>78.7</b>	<b>76.9</b>	<b>74.8</b>
Recurrent	446.1	567.1	549.8	47.4	49.8	46.1
Wages and Salaries	115.0	133.8	165.0	12.2	11.8	13.8
Goods and Services	124.7	182.3	136.9	13.2	16.0	11.5
Subsidies and Transfers	206	251.0	247.9	21.9	22.1	20.8
Capital	295.1	307.5	341.6	31.3	27.0	28.7
<b>Total Local Government</b>	<b>200.5</b>	<b>263.3</b>	<b>301.2</b>	<b>21.3</b>	<b>23.1</b>	<b>25.3</b>
Recurrent	148.5	170.4	186.8	15.8	15.0	15.7
Wages and Salaries	112.1	130.5	146.4	11.9	11.5	12.3
Goods and Services	33.1	34.1	35.1	3.5	3.0	2.9
Subsidies and Transfers	3.3	5.8	5.3	0.4	0.5	0.4
Capital	52.0	92.9	114.4	5.5	8.2	9.6

Source: KFMIS

There has been an increase in both health and education spending both in nominal terms and as a share of the total with local authority spending in these services assuming greater importance (particularly in education). Spending on economic issues, general services and social protection combined accounts for over half of total expenditure.

Table 5: General Government Expenditure, Functional Classification

	2008	2009	2010	2008	2009	2010
	in million euro			in percent of Total		
<b>TOTAL EXPENDITURE</b>	<b>941.8</b>	<b>1,138</b>	<b>1,192</b>			
<b>Total Central Government</b>	<b>741.2</b>	<b>874.5</b>	<b>891.1</b>	<b>78.7</b>	<b>76.9</b>	<b>74.7</b>
General Services	128	210.8	172.1	13.6	18.5	14.4
Defense	18.4	21.2	26.2	2.0	1.9	2.2
Public Order and Safety	76	90.1	97.9	8.1	7.9	8.2
Economic Affairs	265.2	265.5	303.5	28.2	23.3	25.5
Housing and Community Amenities	8	13	11.1	0.8	1.1	0.9
Health	60.5	72.8	72.8	6.4	6.4	6.1
Recreation, Culture, and Religion	9.9	10.7	11.8	1.1	0.9	1.0
Education	33.0	32.3	37.7	3.5	2.8	3.2
Social Protection	142.2	158.1	157.9	15.1	13.9	13.2
<b>Total Local Government</b>	<b>200.6</b>	<b>263.3</b>	<b>301.4</b>	<b>21.3</b>	<b>23.1</b>	<b>25.3</b>
General Services	55.7	73	90.4	5.9	6.4	7.6
Defense	0.0	0.0	0.0	0.0	0.0	0.0
Public Order and Safety	3.5	0.4	2.8	0.4	0.0	0.2
Economic Affairs	10	26.6	23.4	1.1	2.3	2.0
Housing and Community Amenities	9.4	15.5	18.8	1.0	1.4	1.6
Health	22.2	29.3	36.3	2.4	2.6	3.0
Recreation, Culture, and Religion	2.6	3.9	4.1	0.3	0.3	0.3
Education	97.2	113.1	124.1	10.3	9.9	10.4
Social Protection	0	1.5	1.5	0.0	0.1	0.1

Source: KFMIS

### 2.3 Description of the Legal and Institutional Framework for PFM

The overall legal framework is the Constitution of Kosovo. This was adopted on the 9th April 2008 and it came into force on 15th June 2008 with the handover of all responsibilities to the Government from the UN. The responsibility for public financial management is now in the hands of the Government.

The framework for public financial management is legislated through Law No. 2003/2, the Law on Public Financial Management and Accountability and its 2008 successor (Law no 03L-221 with the same name), as well as the Law no 03/L-049 on Local Government Finance. While the LPFMA provides the overall frame for public financial management, there are other laws and regulations, which deal with specific activities, as well as the annual budget laws. The LPFMA is supported by subordinate legislation in the form of Financial Rules and administrative instructions. There are two central harmonization units: one for internal audit and the other one for Public Finances Internal Control. A PFIC Unit was established through a regulation issued in May 2006 by the Treasury. UNMIK Regulation number 1999/16 established in the second half of 2000 the Internal Financial Audit Unit (IAU) within the Central Fiscal Authority (CFA) and this operated until 2002 with the establishment of Provisional Institutions of Self-Government of Kosovo (PISG). In May 2003, the initial LPFMA was passed and article 8 established the Internal Audit Unit in MEF, which subsequently became the central department of Internal Audit in MEF with the responsibility for internal audit capacity building and conducting audits in PISG BOs. On November 16, 2006, the Assembly approved the Internal Audit Law and approved by SRSG on 6 June 2007 on internal audit. It established a Central Harmonization Unit (CHU) for settling internal audit standards, for training internal auditors and reviewing their performance (IAL, Article 6). The Office of the Auditor General (OAG) was established by the UNMIK Regulation nr. 2002/18, which defined the authorizations, responsibilities and general standards for auditing the public sector. Under a new law nr. 03/L-075 of 15th June 2008, the OAG received more power and reports directly to Kosovo Assembly.

Law No 2010-03/L-241 covers Public Procurement in Kosovo and provides for the Public Procurement Regulatory Commission (PPRC), a body under the Assembly of Kosovo and the Public Procurement Agency (PPA), an executive body under the Office of the Prime Minister. Public Procurement Review Body (PPRB) is mandated under section 96 of the Law on Public Procurement in Kosovo to review complaints related to the public procurement process, is established by the Assembly of Kosovo on 31 July 2008.

Tax revenue is collected by the Tax Administration of Kosovo (TAK). There are three main tax types each covered by a separate law, namely Personal Income Tax (No. 03/L-161), Corporate Income Tax (No. 03/L-162) and VAT (No. 03/L-146) with the VAT law being based on the EU 6th Directive. The Kosovo Customs Service assists in the administration of the VAT law by collecting VAT on imports. There is also a Law on Tax Administration and Procedures (No. 03/L-222) which not only formally authorizes TAK and its operations but also contains provisions common to the other tax laws (e.g. appeals processes, penalties). The Tax Administration of Kosovo also collects mandatory pension contributions from employers and the self-employed on behalf of the Kosovo Pension Savings Trust, and administers licenses for the gambling industry. The Kosovo Customs Service also collects customs and excise duties (including internal excises) under the Kosovo Customs Code. The Law on Local Government Finance gives municipalities the power to levy a Tax on Property (Property Tax) and collect a range of other non-tax fees and charges. Property tax is regulated by the Property Tax Law No. 03/L-204, which entered into force on January 1, 2011.

The Ministry of Economy and Finance continued with expenditure management decentralization. In March 2009 MEF issued Administrative Instruction on Delegation of Expenditure Management from Treasury to Budget Organizations. Based on the Administrative Instruction, Treasury trained, tested and certified municipal financial officers on expenditure management functions. Financial officers were trained to record in Kosovo Financial Management Information System (KFMIS) for receiving of the goods and to record expenditures and to certify them. By the end of April 2011 there were 34 municipalities certified with live access in KFMIS which included four newly established municipalities based on the Ahtisari plan. The process of decentralization of expenditure management is anticipated to continue with three additional municipalities from the north of Kosovo.

The new Public Debt Law (PDL) requires municipalities to receive unqualified audit opinions for two consecutive years to access borrowing. Such opinions cannot be secured without proper financial statements in line with the LPFMA.

## **2.4 Local Government Operations**

### **Decentralization Process and Its Genesis**

Fiscal decentralization in Kosovo has been, and remains, an overarching political priority. Inspired by the Comprehensive Settlement Proposal (CSP)<sup>4</sup>, a significant body of legislation was enacted in 2008 to provide municipalities with wide-ranging autonomy in a number of areas, while allowing Serb-majority municipalities a high degree of control over their own affairs through asymmetric arrangements. At the same time, central transfers to municipalities increased by one third in 2009, the first year of implementation of the new legislation. Driven by the political agenda, the territorial reorganization of municipalities has proceeded fast and currently there are 37 municipalities<sup>5</sup>.

Municipality functions are prescribed in law and are broadly compatible with main principles of decentralization. The criteria for the horizontal distribution of general, health, and education grants are straightforward, and since 2005 the

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<sup>4</sup> Since the end of the conflict in 1999, various attempts have been made to secure agreement with Serbia. While the —Comprehensive Proposal for the Kosovo Status Settlement (presented to the United Nations' Security Council by Special Envoy Marti Ahtisaari in March 2007) failed to gain consensus and was subsequently withdrawn from the UN Security Council due to a veto threat by Russia in the summer 2007, it has remained the linchpin of Kosovo's political strategy. The Kosovo government unilaterally declared independence in February 2008.

<sup>5</sup> IMF FAD, Next Steps in Fiscal Decentralization, March 2010

actual distribution of transfers closely matches the formula-based distribution, indicating an improvement in transparency and predictability. In addition, budget execution is tightly controlled through the Treasury Single Account, and earmarking for education and health expenditure is enforced effectively<sup>6</sup>.

## Overall Framework

The Law on Local Self-Government (Law Nr. 03/L-040) defines general principles of competencies, finances, organization and functioning of the municipal bodies. Municipalities are responsible to manage their own budgets and finances to fund their competencies (as defined by the Law on Self-Government). However, municipal budgets rely on two main sources of revenues which include own source revenues and central government to local government transfers. Municipalities are mainly funded through transfers from the Central Government and are dependent on intergovernmental transfers from the Kosovo Consolidated Budget. The own-source revenues they are able to raise are insufficient to meet their funding needs relative to the delivery of their statutory services to their citizens. Municipalities have the authority to set rates and exemptions for local taxes, fees, tariffs and fines although central authorities may set ranges within which the local authority sets their individual rate.

The criteria that determine allocation of grants to municipalities is set by law<sup>7</sup> and grant calculation includes some measures to mitigate disparities among municipalities. A mandatory and consistent format for municipal budgets is also established in the law<sup>8</sup>. Kosovo municipalities have the right to borrow in internal and external capital markets in conformity with the law on Public Financial Management and Accountability which sets the qualifying criteria. Up to now there has not been any borrowing by a municipality.

The Law on Local Self Government (LLSG) promulgated in 2008 assigned municipalities three types of competencies<sup>9</sup> to municipalities:

Own competencies: All municipalities have responsibility for education at the pre-primary, primary, and secondary levels; public primary health care; local economic development; urban and rural planning; public housing; naming of roads, streets and other public places; and the provision of public services and utilities.

Delegated Competencies: Delegated by the central authority such as cadastral records; civil registries; voter registration; business registration and licensing; distribution of social assistance payments (excluding pensions); and forestry protection on the municipal territory within the authority, including the granting of licenses for the felling of trees on the basis of rules adopted by the Government;

Enhanced Competencies: are applicable to newly established municipalities Mitrovica North, Shterpce and Municipality of Gracanica who have their own competencies enhanced in the areas of health (provision of secondary health care and authority over hospital), education (provision of higher education/university in Serbian language), the protection and promotion of cultural and religious affairs and the right in appointing local Police Station Commanders.

## Institutional Overview

Decision-making authority at the municipal level is divided between legislative branch as represented by the Municipal Assembly, executive branch represented by the Mayor and his appointed Head of Departments, and the Judiciary represented by the Municipal Courts and District courts where applicable. The highest representative body is the Municipal Assembly<sup>10</sup> elected every four years with direct votes with proportional number of municipal assembly members, dependent upon the number of citizens in the Municipality. The Assembly has the responsibility for approving municipal regulations, rules and procedures for activities such as the budget, investment plans and other financial matters; the level of fees and charges; the creation and use, in accordance with applicable legislation, of

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<sup>6</sup> USAID, The World Bank, Kosovo: Selected Issues in fiscal Decentralization, November 2007

<sup>7</sup> Law on Local Government Finance, Law Nr. 2008/03-L049

<sup>8</sup> Ibid

<sup>9</sup> Refer to the Article 17-23, Law Nr. 03/L-040

<sup>10</sup> Law on Local Self-Government, Law Nr. 03/L-040



municipal symbols, decorations and honorary titles; naming and renaming of roads, streets and other public places etc. The Municipal Assembly is led by an elected chairperson with the same term in the office as other assembly members and a deputy chairperson for communities (representing a particular community if at least 10% of the citizens belong to Communities not in the majority in relevant municipalities). There are two permanent committees one on policy and finance related issues<sup>11</sup> and a second on community related issues<sup>12</sup>. The executive branch is represented by the Municipal Mayor elected directly by citizens every four years with one or two deputy mayors<sup>13</sup>. The municipal administration is organized into directorates, managed by directors appointed and responsible to the Mayor.

## **Institutional Framework for PFM**

The principles of municipal funding and participation of municipal budgets into the overall Budget of the Republic of Kosovo (i.e., governmental transfers for municipalities) have been structured in line with the Law on Local Government Funding (LLGF). The institutional framework for LG PFM is based on the Law on Public Finance Management and Accountability (LPFMA) of 2008. Over the years, there has been an increased level of fiscal decentralization and transparency of municipal budget including formulation, accounting and reporting. These Institutional arrangements have been developed based on underlying legal requirements, ensuring harmonization of parent municipalities with the new municipalities created from an existing one including Memoranda of Understanding, but also in consultation with line ministries such as secondary health care as an added competence, and in cooperation with the international partners.

## **Local Government Financing Arrangements**

Currently, the following elements constitute the main sources of municipal financing:

1. Close-end unconditional General Grant determined as 10% of central government revenue;
2. Two Open-end Specific Purpose Grants for education and health sectors respectively;
3. Specific Purpose Grants to fund enhanced competencies foreseen for Serbian-majority municipalities;
4. A wide range of municipal own source revenues (MOSR)<sup>14</sup> regulated by municipal assembly with the view to strengthen municipal financing capacity, including the following types: (a) *municipal taxes* in the form of property taxation; (b) *municipal fees* including business license fees, motor vehicle fees, administrative fees, fees for issuing certificates and official documents, permit fees for construction and demolition of buildings; (c) *municipal charges* including regulatory charges for infrastructure development and preservation, traffic fines, fines for offences against municipal regulations, rental income, education and health co-payments.

The LLGF introduced some considerable changes with respect to the criteria governing determination and allocation of central government grants to municipalities<sup>15</sup>.

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<sup>11</sup> Established to review all the policy, fiscal and financial documents, plans, and initiatives including strategic planning documents, the annual Medium Term Budget Framework, the annual procurement plan, the annual regulation on taxes, fees and charges, the annual internal audit work plan, the annual medium term budget and any changes to the budget during a fiscal year as well as reports from the Mayor and submit recommendations for action to the Municipal Assembly. its composition shall reflect the representation of the political entities in the Municipal Assembly

<sup>12</sup> Established to review compliance of the municipal authorities with the applicable law and review all municipal policies, practices and activities related with the aim to ensure that rights and interests of the Communities are fully respected. The representatives of communities shall comprise the majority of the Communities Committee.

<sup>13</sup> In each municipality, the Mayor shall have one Deputy Mayor. There shall be a Deputy Mayor for Communities in those municipalities where at least 10% of the citizens belong to non-majority communities.

<sup>14</sup> Law on Local Government Finances, June 2008

<sup>15</sup> USAID Economic Management for Stability and Growth, System of Intergovernmental Transfers in 2009: Assessment and Recommendations, October 2009

Table 6: Government Grants Distribution Criteria

	Past Criteria	LLGF Criteria (2010)
	<b>GENERAL GRANT</b>	
Aggregate Amount	Residual after netting out funding for Education and Health Grants from Total Grants amounting to 22.5% of projected central budget revenues	10% of projected central budget revenues
Allocation Principles	Fixed amount of 100,000 euro per municipality Per capita	(a) Fixed amount of (140,000 euro – 1 euro x per capita) per municipality  (b) 89% - Per capita (c) 3% - Minority Population (d) 2% - Minority Communities (e) 6% - Size of Territory
	<b>EDUCATION GRANT</b>	
Aggregate	Aggregate amount fixed in nominal terms; in practice aggregate amount incrementally increased over recent years	Open-ended grant resulting from standards provided by the MEST
Allocation Principles	Proportional, primarily driven by the students enrolment related indicators	(a) Wage component determined based on a normative number of teachers, normative number of support staff, and average wage established in accordance to the structure of pay grades in actual payroll for each individual municipality
		(b) fixed amount of 1500 euro per primary school
		(c) fixed amount of 3250 euro per secondary school
		(d) fixed amount of 23 euro per majority student
		(e) fixed amount of 25 euro per minority student
		(f) fixed amount of 7euro per student (g) adjustment component for normative number of teachers in mountainous locations
	<b>HEALTH GRANT</b>	
Aggregate	Aggregate amount fixed in nominal terms; in practice aggregate amount incrementally increased over recent years	Open-ended grant resulting from standards provided by the MoH
Allocation Principles	Per capita	Capitation formula accounting for the number of average visits (2.8) per person and average cost per visit (3.9 euro) Per capita

The general grant is limited at ten percent of projected central budget revenues and the previous per capita allocation was enhanced by several additional parameters, primarily to reflect ethnic and territorial diversity of municipalities. The education grant became open-ended and based on the standard minimum cost of service delivery. As a result, after the implementation of the LLGF the grant increased by more than 14% as compared with 2008. The determination of the open-ended health grant was based on the concept of simplified capitation method. The model underpinning distribution of the health grant envisaged such factors as the age and gender structure of population, average number of registered visits, and average cost of services representative for each Municipality. However, due to the lack of demographic and health care related statistics at the level of municipality modeling efforts in practice had to be limited to the application of simple per capita allocation of a total amount determined in accordance with the estimated number of visits and estimated cost per visit observed across Kosovo. In addition, financing arrangements – in a form of a specific purpose grants – for some transferred delegated and enhanced competencies commenced in a rudimentary form in 2010.

Municipalities also benefit from a considerable capital formation financing, in particular in education, health, and transport sectors, undertaken in a form of funding and/or co-funding of specific projects in the area of municipal competencies by central ministries. The desired integration of such discretionary financing arrangements into the common grants system overseen by the Grants Commission is still pending.

Table 7: Medium Term Municipal Financing, 2008-2013, million euro<sup>16</sup>

	2008	2009	2010	2011	2012	2013
	Actual	Actual	MYBR	Budget Plan	Estimate	
<b>1. Grants for Own Competencies</b>	<b>147.2</b>	<b>207.7</b>	<b>233.0</b>	<b>248.5</b>	<b>259.6</b>	<b>268.4</b>
General Grant	44.5	85.0	94.3	105.6	113.1	118.6
Specific Health Grant	18.0	23.0	27.4	31.1	32.3	33.3
Specific Education Grant	84.7	98.2	109.0	110.5	112.8	115.2
Base	84.7	98.2	109.0	109.8	112.8	115.2
New Policies 2011:				0.7		
Specific Social Services Grant		1.5	1.9	1.0	1.0	1.0
Specific Culture Grant			0.4	0.4	0.4	0.4
<b>2. Grants for Enhanced Competencies</b>	<b>0.0</b>	<b>0.0</b>	<b>0.9</b>	<b>2.4</b>	<b>3.0</b>	<b>2.9</b>
Secondary Health Care			0.9	2.4	3.0	2.9
<b>3. Municipal Own Source Revenues</b>	<b>37.2</b>	<b>37.2</b>	<b>50.4</b>	<b>51.9</b>	<b>53.3</b>	<b>55.6</b>
<b>4. Contingency Funding for Decentralization</b>	<b>0.0</b>	<b>3.2</b>	<b>3.2</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>
<b>5. 2010 Mid-Year Adjustments/Transfers</b>	<b>0.0</b>	<b>0.0</b>	<b>10.1</b>	<b>6.2</b>	<b>0.0</b>	<b>0.0</b>
<b>6. TOTAL MUNICIPAL FINANCING</b>	<b>184.4</b>	<b>248.1</b>	<b>297.6</b>	<b>310.5</b>	<b>315.9</b>	<b>327.0</b>

From the legal stand point, municipalities acquired access to external financing in the form of borrowing – both short and long term - at the beginning of 2010, when the Law on Public Debt entered into force. However, in practice this form of financing has not been utilized yet due to access restrictions, namely the requirement of two consecutive unqualified audit reports of municipal financial statements.

Municipalities may incur long-term debt to finance a capital improvement or issue guarantees within the limits established in the Law on Public Debt and subject to Municipal Assembly authorization. Municipal long-term debt is also subject to the prior written approval of the Ministry limited to the validation of compliance with the procedural requirements and debt limitations. The approval by the Ministry does not constitute a guarantee, implicit or otherwise, or in any way establish any liability of the Republic of Kosovo for the payment of the municipal debt; while there can be no assumption of municipal debt by the State without a two-thirds vote of the State Assembly. The total stock of short-and long-term debt, including guarantees, may not at any time exceed more than 40% of collected own source revenues and general grants (excluding any of such revenues that are non-current) for the fiscal year immediately preceding the issuance of debt.

## Reporting Requirements

In general, requirements on public finance management reporting by municipalities, consistent with any other budget organization in Kosovo, are set out in the Law on Public Financial Management and Accountability (LPFMA) and include reporting to the Minister of Finance, Director of Treasury, Auditor General, and Municipal Assembly:

*Maintenance of records:* the Chief Financial Officer is responsible for recording transactions and maintaining accounting records in accordance with the FMC Rules.

<sup>16</sup> Kosovo Medium Term Expenditure Framework 2011 – 2013, MFE, June 2010

*Financial statements:* within thirty days after the conclusion of each fiscal year, a municipality is obliged to provide to the General Director of Treasury the unaudited financial statements and a confirmation in writing that such financial statements represent a true and fair presentation of the finances and financial transactions. By March 31, financial statements submitted by all budget organizations are then reconciled by the Treasury with fiscal accounts and cash balances and provided to the Auditor General for auditing.

*Annual Report:* a municipality is responsible for the submission to the Minister of Finance of an annual report for the previous fiscal year. Such report should be submitted within one month after receipt by the municipality of its audited financial statements for such fiscal year. The Minister shall then present a consolidated report on each budget organization to the Assembly and the Government within thirty days after the receipt of such report from budget organization.

*Quarterly Budget Report:* the mayor of a municipality is obliged to prepare and submit to the municipal assembly quarterly budget execution reports, including the status of all capital expenditure projects, covering the fiscal year through the end of the quarter just concluded. Such reports shall be submitted by the mayor to the municipal assembly, and a copy thereof submitted to the Minister, within thirty days from the end of each quarter and then published by the mayor on the municipality's website.

*Final Budget Reconciliation Report:* no later than March 31 of each calendar year, the mayor of a municipality is responsible to prepare and submit to the municipal assembly a final budget reconciliation report for the previous fiscal year and the two prior two fiscal years that contains the information on: (a) revenue and expenditure details; (b) investments and liabilities; (c) financial statements; (d) report on actions taken and proposed to be taken to address findings and recommendations contained in the Annual Audit Report of the financial statements. A copy of such report shall be submitted to the Minister and published by the mayor on the municipality's website.

Each municipality is subject to external audits performed by a central autonomous authority – Auditor General Office - on annual basis; while each auditor's report and the replies of municipal authorities are supposed to be made public.

While the municipal mayor holds executive responsibilities in the area of municipal financial administration (including development of proposed annual budget, regulatory and investment plans, execution of adopted budget, and reporting on economic-financial situation), the municipal assembly represents the ultimate legislative authority for the approval of municipal financial matters.

Municipalities are also subject to a regular administrative review by the supervisory authority, namely the Ministry of Local Government Administration or relevant central government ministries responsible for the oversight of delegated competencies. While administrative review should not limit the right of local authorities to manage the affairs within the scope of their powers, it should have the following objectives: (a) to strengthen the ability of the local self-government bodies to fulfill their responsibilities through advice, support, and assistance; (b) to ensure the lawfulness of the activities of local self-government bodies; (c) to ensure that the rights and interest of citizens are respected.

### 3. Reform Agenda

After nine years as an UN-administered territory, Kosovo declared independence in February 2008. In recent years, Kosovo has made progress toward establishing functioning institutions of government, but still faces enormous challenges. The current government institutions of Kosovo began life as the Provisional Institutions of Self-Government (PISG) since 2002 and progressively assumed key functions transferred from UNMIK following the adoption of the UN Standards for Kosovo in late 2003. Despite visible success in a number of institutions, many of Kosovo's governmental organizations are still inexperienced and under-resourced.

Various diagnostics have pointed out that with limited revenue sources and increasing demand for public spending on human and infrastructure development, efficiency and transparency of public financial management is key to the economic stabilization and development in Kosovo. While the fiscal balance and sustainability has been re-established in 2005, achieving strategic resource allocation and efficiency and accountability of public spending needs to overcome many challenges, many of which are related to institutions and capacity building primarily in the line ministries.

Responding to this high priority of public financial management reform, the Government has taken several reform initiatives, supported by a number of international development partners, including DFID, EAR, USAID, and the World Bank. The 2007 PEFA assessment has shown that the Kosovo authorities have made noticeable progress in improving the public financial management system in recent years. The 2009 PEFA demonstrated that the progress in PFM reform had continued with the computerized treasury system capable of producing detailed spending reports using internationally compatible classifications in a timely manner and that public procurement, payroll management, and internal and external control have been improved so that efficiency and fiduciary control were better than that which existed at the time of the 2007 PEFA. The 2009 PEFA also found that budget formulation in terms of linking policies to plans to budgets and the treatment of investment in both the annual budget and the MTEF was weak.

As a result of the 2009 PEFA, the Government of Kosovo adopted a PFM Action Plan which was designed to address weaknesses in the system and also maintain its strengths. This PFM Action Plan is being implemented under the direction of the Minister of Finance and is monitored on a quarterly basis.

In addition, the new Government in 2011 that was formed after the election has initiated a Public Expenditure Review process to

- to identify savings and better match expenditure to current priorities;
- formulate budget priorities that are sufficiently specific to enable the Cabinet to choose between proposed new expenditure initiatives (that pass initial cost/benefit analysis);
- bring performance information into the budget; and
- refocus on the Public Financial Management Action Plan.

The output of the PERs is to inform the MTEF and annual budget and address identifiable weaknesses in the PFM system, which have been highlighted in the sequence of PEFAs that the Government of Kosovo has carried out.

#### 4. Pristina Municipality PEFA Performance Report

##### Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	C
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	B+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A
D-2	Financial information provided by donors	A
D-3	Proportion of aid that is managed by use of national procedures	A
HLG-1	Predictability of Transfers from Higher Level of Government	B+

## Municipality Background Information<sup>17</sup>

Pristina is the capital of Kosovo.<sup>18</sup> Since 1990s, the City has experienced a considerable population growth from around 200,000 inhabitants two decades ago. The strategic importance of Pristina as the administrative, economic, and cultural centre of Kosovo has developed and it now hosts around half of national economic activities.

Over 13,000 businesses operate within the Municipality. Based on Ministry of Trade and Industry data, about 54% of those businesses are involved in trade and catering services, 15% in transport, 8% in real-estate but only 4% in production activities giving a structure of business operations skewed to the service sector. In addition, as the seat of the national government and the biggest Kosovo municipality, the economy of Pristina is dominated by the service sector.

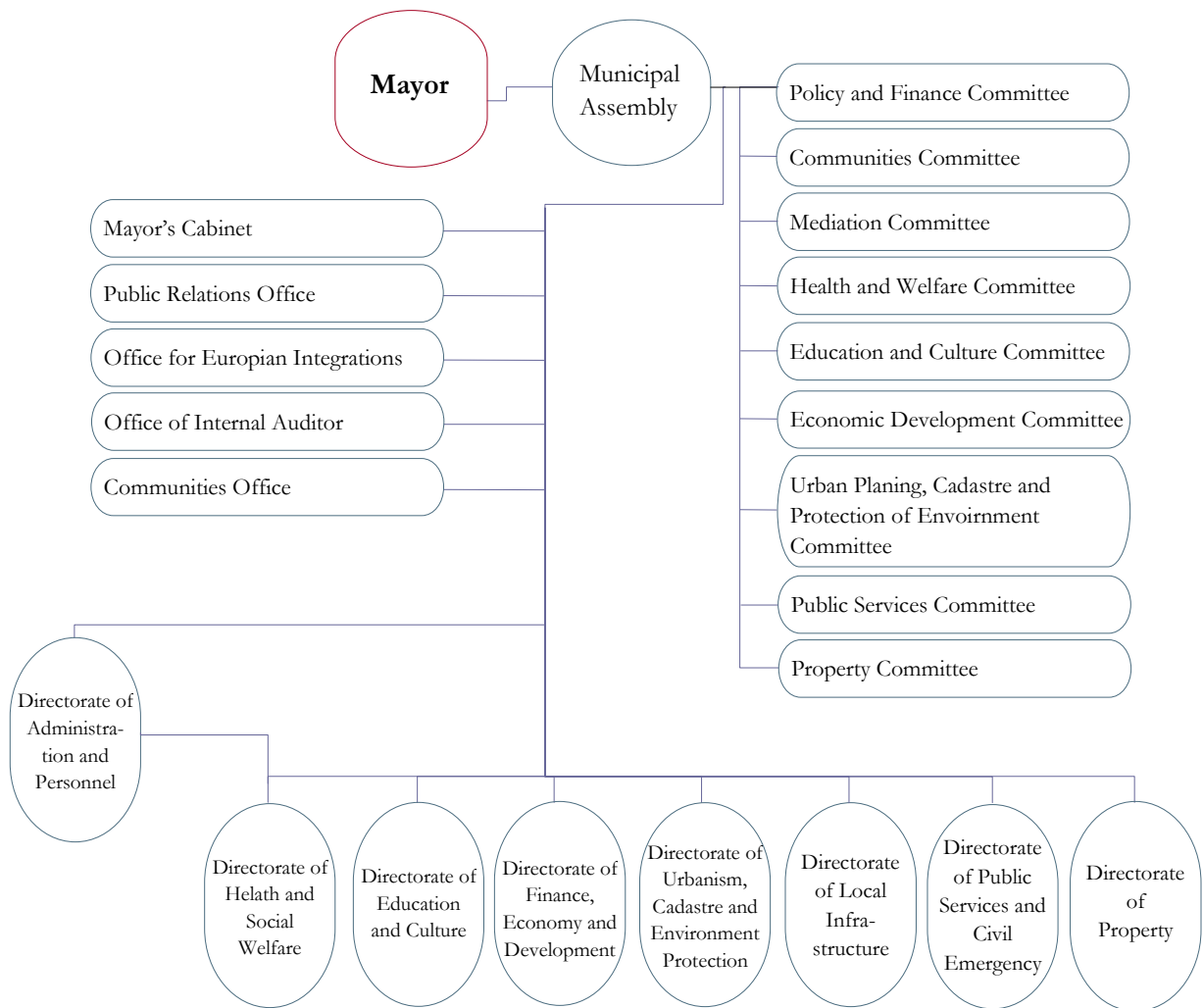
The administration of Municipality of Pristina is organized around a Head Quarter and 33 local offices providing services at the community level, of which 15 are located within the city boundary and 18 in rural areas that cover 48 villages. Considerable institutional reforms at the municipality level resulted from the Law on Local Self Government promulgated in 2008 and changes to the electoral system. The Mayor is now directly elected, while the Assembly members are elected through a proportional voting system based on open election lists. The organizational structure of the Municipality is shown below.

The 2011 Municipal Budget is in excess of 50 million euro and Pristina is the single biggest municipal budget organization in Kosovo amounting to 17.8% of all municipality budgets. Nevertheless, resources are considered to be insufficient to be able to address the immediate social, infrastructural and public services challenges of a growing capital city.

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<sup>17</sup> Based on Pristina Mid-Term Development Strategy 2008-2011, Pristina Municipality, May 2008

<sup>18</sup> The Constitution of the Republic of Kosovo





## Assessment of the PFM systems, processes and institutions

### 4.1 Budget Credibility

#### 4.1.1 PI-1 Aggregate Expenditure Out-Turn

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

The actual out-turn deviated from the original plan by 1.0% in 2008, 11.8% in 2009, and 6.7% in 2010 with an under-spend in each of the three years. Score B

Table 1: Pristina Municipality Budget Plan and Outturn, 2008-2010

	2008	2009	2010
Original Budget Plan (euro)	34,754,832	42,516,333	51,394,363
Actual Budget Outcome (euro)	34,423,389	47,520,811	47,957,320
Difference (euro)	-331,442	-5,494,989	-3,437,042
Difference (%)	1.0	11.8	6.7

Source: KFMIS

PI-1	Explanation	Score – M1
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	<b>Score B</b> (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure	<b>B</b>

#### 4.1.2 PI-2 Composition of Expenditure Out-Turn

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years

This indicator measures the extent to which reallocations between budget lines/programs have contributed to variance<sup>19</sup> in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.

Relatively high level of variance in expenditure composition relating to administrative categories (see annex) was recorded for each of the last three years and is primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations. Reallocations do exist, however, and their impact appears minor. While the original budget does not incorporate expenditures funded by unspent MOSR carried forward, such expenditure is recorded in the outturn. This practice results in a considerable difference between

<sup>19</sup> The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure, calculated as a percent of budgeted expenditure for the main budget programs envisaged on municipality budget plan.

budget plan and actual expenditure for a number of budget programs, in particular related to capital spending in Public Services, Economic Development, and Urban Planning.

Table 2: Total Deviation and Expenditures Deviation, 2008 - 2010

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2008	1.0%	21.8%	20.8%
2009	11.8%	15.2%	3.5%
2010	6.7%	25.6%	18.9%

Source: KFMIS

Score D

PI-2	Explanation	Score – M1
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	<b>Score D</b> (i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.	<b>D</b>

Table 3: Total Deviation and Expenditure Deviation, Main Budget Programs, 2008-2010

Data for year = 2008					
functional head	budget	actual	difference	absolute	percent
Office of Mayor	46,620	45,646	-974	974	2.1%
Procurement	16,923	16,611	-312	312	1.8%
Administration	3,534,358	3,343,583	-190,775	190,775	5.4%
Budget and finance	3,391,219	3,953,835	562,616	562,616	16.6%
Inspectorate	301,877	269,123	-32,754	32,754	10.8%
Public relations	8,211	6,429	-1,782	1,782	21.7%
Public services	4,186,251	6,349,710	2,163,459	2,163,459	51.7%
CEO	48,913	48,181	-732	732	1.5%
Local community office	295,756	290,263	-5,493	5,493	1.9%
Office of returns and communities	6,185	5,185	-1,000	1,000	16.2%
Firefighters	1,351,000	825,422	-525,578	525,578	38.9%
Civil protection and emergency	207,754	98,362	-109,392	109,392	52.7%
Agriculture, forestry, rural develop	1,504,942	1,175,509	-329,433	329,433	21.9%
Economy	91,690	26,840	-64,850	64,850	70.7%
Environment	11,009	8,907	-2,102	2,102	19.1%
Geodesy, cadastre, property	67,573	111,437	43,864	43,864	64.9%
Urbanism	2,004,480	991,326	-1,013,154	1,013,154	50.5%
Property, legal	18,339	16,700	-1,639	1,639	8.9%
Health, social welfare	4,163,104	3,615,507	-547,597	547,597	13.2%
Culture, youth, sports	1,530,029	405,010	-1,125,019	1,125,019	73.5%
Education and science	11,968,599	12,819,802	851,203	851,203	7.1%
total expenditure	34,754,832	34,423,389	-331,443	331,443	1.0%
variance in composition	34,754,832	34,423,389		7,573,727	21.8%

Data for year = 2009					
functional head	budget	actual	difference	absolute	percent
Mayor and municipal assembly	236,862	203,813	-33,049	33,049	14.0%
Administration and personnel	4,839,517	5,436,922	597,405	597,405	12.3%
Inspectorate	134,877	145,661	10,784	10,784	8.0%
Procurement	16,923	18,065	1,142	1,142	6.8%
Budget and finance	208,218	205,560	-2,658	2,658	1.3%
Civil protection and emergency	12,838,234	15,359,955	2,521,721	2,521,721	19.6%
Community Office	491,159	490,511	-648	648	0.1%
Agriculture, forestry, rural develo	249,942	96,951	-152,991	152,991	61.2%
Economic development	104,690	579,938	475,248	475,248	454.0%
Cadastre and geodesy	436,573	140,583	-295,990	295,990	67.8%
Urban planning and environment	2,201,480	1,947,660	-253,820	253,820	11.5%
Primary health care	4,363,210	5,324,823	961,613	961,613	22.0%
Performance payment in health	195,807	195,807	0	0	0.0%
Culture, youth and sports	990,029	1,626,509	636,480	636,480	64.3%
Education and science	15,208,812	15,748,055	539,243	539,243	3.5%
total expenditure deviation	42,516,333	47,520,812	5,004,479	5,004,479	11.8%
variance in composition	42,516,333	47,520,812		6,482,795	15.2%

Data for year = 2010					
functional head	budget	actual	difference	absolute	percent
Office of Mayor	34,000	34,145	145	145	0.4%
Municipal Assembly	205,211	154,982	-50,229	50,229	24.5%
Administration and personnel	4,046,680	4,832,852	786,172	786,172	19.4%
Inspectorate	146,768	177,455	30,687	30,687	20.9%
Procurement	18,399	22,234	3,835	3,835	20.8%
Budget and finance	223,394	235,999	12,605	12,605	5.6%
Civil protection and emergency	19,371,278	14,357,158	-5,014,120	5,014,120	25.9%
Community Office	569,965	546,842	-23,123	23,123	4.1%
Agriculture, forestry, rural develo	336,990	103,548	-233,442	233,442	69.3%
Economic development	209,311	42,858	-166,453	166,453	79.5%
Cadastre and geodesy	1,193,899	116,091	-1,077,808	1,077,808	90.3%
Urban planning and environment	2,028,898	733,392	-1,295,506	1,295,506	63.9%
Health, social welfare	5,559,789	6,193,762	633,973	633,973	11.4%
Performance payment in health	205,214		-205,214	205,214	100.0%
Culture, youth and sports	1,516,473	1,275,936	-240,537	240,537	15.9%
Education and science	15,728,094	19,130,064	3,401,970	3,401,970	21.6%
total expenditure deviation	51,394,363	47,957,321	-3,437,042	3,437,042	6.7%
variance in composition	51,394,363	47,957,321		13,175,819	25.6%

Source: KFMIS

### 4.1.3 PI-3 Aggregate Revenue Out-Turn

#### (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

Municipal revenue data are presented below, broken down by source. Actual revenue collection was higher than budget forecast for 2008 and 2009. Some main revenue categories exceeded the budget plan. Property tax, constituting about 25% of the total – primarily contributed to outcomes exceeding plan by more than 20 percent in 2008 and 2009. However, collections in 2010 were lower than originally planned, with property tax revenue falling considerably short of the forecast.

The following factors have affected the property tax collection outcome in 2010:

1. Municipality suspended service conditioning (see PI-14 (i)) for selected taxpayers and issued about 8,000 permits for big taxpayers without enforcing property tax payment;

1. Municipality legalized 6,000 buildings that had been built without building permit without enforcing and collecting property tax payment as required by the regulation;

2. Upon the establishment of a new Municipality Gracanica, Pristina lost more than 2,000 properties/taxpayers from its territory, for which property tax assessment was included in the original 2010 revenue plan;

3. Staff changes in Pristina Municipality Property Tax Office (manager, director, and selected employees) temporarily affected the effectiveness of the enforcement of collection.

Actual revenue performance was better than forecast for two years, and amounted to 94% of the plan in the third year, which warrants an A score. The PEFA scoring methodology used does not recognize underestimation in revenue forecasts<sup>20</sup>. There is a tendency of revenue underestimation – both at the central and municipal level – which points to a weakness in revenue forecasting.

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<sup>20</sup> This PEFA was started before the changes in scoring was initiated dated 29 Jan 2011

Table 4: MOSR Budget Plan and Actual Out-Turn, 2008-2010, thousand euro

	2008			2009			2010		
	Budget	Actual	Differ.	Budget	Actual	Differ.	Budget	Actual	Differ.
Administration	170.0	179.2	105%	160.0	195.1	122%	160.0	336.8	211%
Revenue from cadastre	610.0	541.8	89%	600.0	431.0	72%	600.0	417.0	70%
Revenue from inspectorate	140.0	88.4	63%	145.0	102.8	71%	145.0	115.0	79%
Use of public areas	800.0	648.9	81%	600.0	825.5	138%	600.0	799.9	133%
Property transactions	700.0	836.4	119%	730.0	700.4	96%	730.0	677.1	93%
Business licenses	1,200.0	542.4	45%	700.0	538.7	77%	700.0	745.5	106%
Revenue from construction permits	6,000.0	7,626.4	127%	5,655.0	8,754.3	155%	8,432.6	8,564.4	102%
Property tax	3,020.0	4,094.3	136%	3,100.0	4,209.1	136%	5,877.6	3,776.2	64%
Education co-payments				800.0	837.8	105%	800.0	1,129.0	141%
Health co-payments	400.0	1,095.8	274%	200.0	200.0	100%	200.0	193.9	97%
Road tax				300.0	408.4	136%	300.0	398.7	133%
Revenue from Horticulture								163.8	
Other revenue	60.0	65.3	109%	60.0	60.9	102%	60.0	95.5	159%
<b>Total</b>	<b>13,100.0</b>	<b>15,718.7</b>	<b>120%</b>	<b>13,050.0</b>	<b>17,263.9</b>	<b>132%</b>	<b>18,605.1</b>	<b>17,412.8</b>	<b>94%</b>

Source: KFMIS

PI-3	Explanation	Score – M1
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	<b>Score A</b> (i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	<b>A</b>

#### 4.1.4 PI-4 Payment Arrears

**(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock**

In accordance with the Treasury rules all claims for payment that are received by the municipality should be paid within 30 days after the receipt of an invoice. The obligations outstanding at the end of a fiscal year are required to be: (a) reported to the Treasury and Budget Departments in MFE; (b) reported in financial reports; and (c) reflected as a commitment in the KFMIS.

Assessment for 2009 is based on the analysis of the information in Table 5 below:

1. List of outstanding obligations (i.e., older than 30 days) at the end of year presented in the 2009 Financial Statement;
2. List of invoices dated before December 1, 2009 and included as expenditure transactions recorded in the KFMIS during 2010, with the comparison of invoice date and payment date;
3. List of invoices dated before December 1, 2009 and included as expenditure transactions recorded in the KFMIS during 2010 excluding payments against court orders related to cases originating from the period 2007 – 2009

which were judged by courts during 2010. The delays in the settlement of these payments were subject to courts' determination and beyond direct Municipality control. Thus, although they constituted almost 70% of total amount of recorded arrears (see item 2) it is proposed to exclude them from the assessment.

Table 5: Assessment of Expenditure Arrears, 2009

Item	Data Source	Total Budget Expenditure (euro)	Total Arrears (euro)	Total Arrears as percent of Total Expenditure (%)
1	2009 Financial Statement	47,520,812	41,702	0.08
2	2010 KFMIS		607,898	1.27
3	2010 KFMIS, excluding court orders transactions		184,521	0.38

Source: KFMIS

In 2009, following the decentralization of the expenditure function to the local government the municipality became fully responsible for the processing of expenditure, with document control, approval, and payment authority. Although overall arrears existing at the end of 2009 appear relatively minor, but the analysis of information recorded in the KFMIS during the following year suggests considerable delays in the recording and payment of invoices dated in 2009, with average delay amounting to about 8 months.

Also, despite the payment of a majority of outstanding obligations by the end of year, some delays in settling individual due invoices occur during the course of year. The age profile of due invoices in 2009 is presented below and suggests that about 10% of municipal expenditure entered into arrears (i.e., not paid within the required time period). These were mainly utilities and maintenance expenses, such as water, electricity, heating oil of primary spending units (schools and health houses) as well as some capital investment contracts.

Given that cash liquidity is not a problem in Kosovo, this points out to weaknesses in documents/transactions flow between the levels of municipal administration and the lack of regular monitoring of due payments although it is clear that arrears at the end of the accounting period is not a serious problem.

Table 6: Age Profile of Expenditure Arrears, 2009

2009 Payment delays of:	More than 30 days	More than 60 days	More than 120 days
Total Budget Expenditure (euro)	47,520,812		
Value of delayed invoices (euro)	4,980,227	1,969,689	991,975
Delayed invoiced as % of Total Budget Expenditure	10.48%	4.14%	2.09%

Source: KFMIS

Based on arrears as reported by Pristina Municipality, the percentage in relation to expenditure is less than 2%. An A Score is justified in terms of the PEFA methodology but the quality of the score could be improved by addressing the issues highlighted above.

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

In 2007, the purchasing module was implemented in the KFMIS to facilitate follow-up and execution of payments by inputting data from purchase requests and purchase-order forms. Implementation of the purchasing module has allowed the entering of the date of invoice, date of invoice recording, and date of payment. Since 2009 more emphasis has been placed by Treasury on strengthening the compliance by budget organizations with requirement to record date information timely.

This allows the timeline for when the payment was executed to be assessed and enables monitoring of the payments and expenditure calculations relating to procurement. However, in practice the requirement to enter invoice dates in the KFMIS and/or to record invoices at the time of their receipt is not always complied with, which undermines the effectiveness of monitoring and measuring arrears.<sup>21</sup>

The discrepancy – amounting to about 93% - between the value of arrears identified in Pristina Municipality's Financial Statements (see item 1 in table 5 above) and actual arrears evidenced in the KFMIS (see item 2 and 3 in table 5 above) suggests considerable delays that Pristina Municipality encountered in recording its invoices in the KFMIS.

Overall, data on the stock of arrears is generated by Pristina Municipality through routine procedures at the end of each fiscal year and reported in the Financial Statements; however the completeness of this information raises some concerns. The information could be made even better by ensuring that the date of the invoices is consistently entered into KFMIS.

Score B

PI-4	Explanation	Score – M1
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	<b>Score A</b> (i) The stock of arrears is low (i.e. Below 2% of total expenditure.	<b>B+</b>
(ii) Availability of data for monitoring of stock of expenditure payment arrears	<b>Score B</b> (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	

<sup>21</sup> Excel spreadsheets are used as an informal way of keeping records on arrears, but in reality the KFMIS should be solely used for recording invoices. The use of spreadsheets is not a good practice when the KFMIS is available.

## 4.2 Comprehensiveness and Transparency

### 4.2.1 PI-5 Classification of the Budget

#### (i) The classification system used for formulation, execution and reporting of the central government's budget

The Budget Classification/Chart of Account is based upon Government Financial Statistics (GFS) 2001 and is COFOG compliant. The classification system is administered by Treasury /Ministry of Economy and Finance using KFMIS. Municipal budget planning, execution, and reporting is by:

- Functional classification (6 main functions and related sub-functions) compared to 10 groups at level 1 and sub functions for central government;
- Economic classification (5 main codes);
- Administrative classification (16 main codes).

A municipality may only request – with the consent of Treasury - some adjustments to the system in use which is provided by the Treasury on the basis of specific administrative requirements they have, but it has no control over the design or structure of the system. Municipal budget documentation is compiled in a consistent manner for these classifications:

1. Budget formulation: detailed budget plans are based on administrative and economic codes. Budget documentation does not explicitly present the functional classification, however it can be produced as functional codes are linked to the administrative classifications and are available in the budget documentation.
2. Budget execution: actual outturn, including authorization for expenditure, allocations, commitments, and daily expenditure, are all recorded by the three classifications.
3. Budget reporting: Reports may be generated electronically based on the three classifications, enabling comparison between original budget plan and outturn; these reports are routinely generated by economic and administrative classifications for the purposes of budget execution reports and financial statements.

Score: A

PI-5	Description	Score – M1
The classification system used for formulation, execution and reporting of the local government's budget.	<b>Score A</b> Budget formulation and execution is based on functional, economic and administrative classifications according to GFS/COFOG standards	<b>A</b>

### 4.2.2 PI-6 Comprehensiveness of Information Included in Budget Documentation

#### (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)

Budget documentation used for the purpose of this assessment includes the 2011-2013 Municipal MTEF and the 2011 Municipal Budget produced during the most recent budget development cycle and approved by the Pristina's Municipal Assembly in September 2010.

The following elements were included in the 2011 budget documentation:



Table 7: Scope of Budget Documentation, 2011

	Actually Used	Comments
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation as representative for Kosovo	No	Main macroeconomic indicators are available in the national MTEF document; Municipal Budget Circular issued by MFE instructs the use and presentation of economic and budgetary fiscal assumptions for the purpose of municipal MTEF.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	Yes	Fiscal balance - defined as total revenue less total expenditure - is presented on budget schedules submitted to the Municipal Assembly.
3. Deficit financing, describing anticipated composition	Yes	The budget is presented as “balanced”; MOSR unspent balances are not included in the budget schedules – either on expenditure or retained earnings side - but are automatically carried forward in accordance with the Budget Law.
4. Debt stock, including details at least for the beginning of the current year	Yes	Municipality does not currently have any debt; the Law on Public Debt – allowing for municipal borrowing - entered into force only in 2009.
5. Financial Assets including details at least for the beginning of the current year	No	The statement of Financial Assets is not included in budget documentation; however it is contained in the annual Financial Statement. Also, resulting the Treasury procedures on carry forward of unspent balances of MOSR, these funds are incorporated and envisaged on the current year budget information.
6. Prior year’s budget outturn, presented in the same format as the budget proposal	Yes	Information is included in budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
7. Current year’s budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Information on current year budget – as resulting from mid-year budget review – is included on budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	Summarized budget data, presented on a separate budget schedule, includes information on the main categories of revenues and expenditure aggregates by economic classification. However, summary budget data by administrative and functional classifications are not produced and presented in budget document.
9. Explanation of budget implications of new policy initiatives (respectively by central and municipal level), with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	Budget documents submitted to the Municipal Assembly do not include explanatory narrative.

Source: Pristina Municipality Budget Proposal Submission, September 2010

The 2011 Municipal Budget documents marked significant improvements in the quality of content, coverage, and presentation format as compared with the budget schedules produced for years 2009 and 2010. The level of budgetary details improved transparency and Municipal Assembly's access to budget information.

Part IV Preparation and Contents of the Proposed Kosovo Consolidated Budget and Part XI Chapter 2 Development of a Municipality's Proposed Budget and Appropriations Request contained in the Law on Public Financial Management and Accountability imposes a much more demanding set of requirements than contained in this PEFA indicator. However, meeting these requirements is yet to be fully achieved and will also be dependent on MFE further strengthening and adjusting municipal developing procedures, including mandated budget presentation format, instructed to municipalities.

Score B

PI-6	Explanation	Score – M1
(i) Share of the above listed information in the budget documentation most recently issued by the local government	<b>Score B</b> Recent budget documentation fulfils 5-6 of the 9 information benchmarks.	<b>B</b>

#### 4.2.3 PI-7 Unreported Government Operations

**(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports**

The Government of Kosovo has implemented the Single Treasury Account and has no extra-budgetary activities. The Law on Public Financial Management and Accountability requires that all public money that is collected by all Budget Organizations – Central and Local - be deposited in the STA and cannot be spent until it is appropriated. There is no evidence of violation of this legal requirement by Municipalities, including Pristina Municipality.

Score A

**(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports**

All donor funds received by the Kosovo Government – both Central and Local Governments - from donors in cash is channeled through the Treasury/MFE STA accounts at the Central Bank and accounted for through the KFMIS. There are no bank accounts operated outside of the STA by Project Implementation Units or Budget Organizations for the implementation of donor-funded projects. All Designated Donor Grants are appropriated as they are received from donors in the Treasury accounts and resulting expenditures are included in the regular in-year execution reports and year-end fiscal reports.

Pristina Municipality was a recipient of donor funds in 2009 and 2010. Donor Grants funding as compared with municipality's total budget expenditure was insignificant (i.e., below 1% of total expenditure) in both years and respective statistics are detailed below. There have been no donor loan financing provided to the Municipality. Complete information by economic and functional classifications, constituted part of Municipality's financial statement issued for 2009.

Pristina Municipality was also a recipient of internal “donor” financing in a form of citizens’ participation and contributions. Projection of receipts from this source of financing constituted part of MOSR in the 2009 and 2010 budgets and actual expenditure funded by this source was recorded and reported in the in-year and end-year budget execution/fiscal reports.

Table 8: Designated Donor Grants, 2009-2010

	2009	2010
Designated Donor Grants Received (euro)	141,204	215,000
Designated Donor Grants Expended (euro)	90,982	3,281
Total Budget Expenditure (euro)	47,520,811	47,957,320
Designated Donor Grants Expended as percent of Total Budget Expenditure (%)	0.19%	0.006%

Source: Pristina Municipality Financial Statements

Score A

PI-7	Explanation	Score – M1
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	<b>Score A</b> (i) The level of unreported extra budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	<b>A</b>
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	<b>Score A</b> (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	

#### 4.2.4 PI-8 Intergovernmental Fiscal Relations

(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)

Not applicable to the Municipality

(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year

Not applicable to the Municipality

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories**

Not applicable to the Municipality

PI-8	Explanation	Score-M2
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	Not applicable	<b>Not applicable</b>
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	Not applicable	
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	Not applicable	

#### 4.2.5 PI-9 Fiscal Risk

**(i) Extent of SN government monitoring of AGAs and PEs**

Under the 2008 Law on Publicly Owned Enterprises (POEs), which entered into force in 2008 Pristina Municipality owns four POEs:

1. District Heating Company Termokos J.S.C.
2. Public Housing Enterprise
3. Regional Waste Company Pastrimi
4. Sport Marketing Company

The POEs Law has clarified and identified Pristina's ownership rights to those POEs, which until 2008 were under the management of Kosovo Trust Agency (UNMIK administration). However, Central Government still continues to support them with subsidies and capital grants. Total support to all Locally Owned POEs amounted to 4 million euro in 2009, of which Pristina's POEs (i.e., Termokos and Pastrimi) were the recipients of 2.4 million euro in subsidies paid out from the central budget<sup>22</sup>. The 2010 budget envisaged a halving of these amounts. In principle, POEs remain economically not viable undertakings – due to poor bill collection and payments enforcement. For example, in addition to a direct subsidy from the central government Pristina Municipality subsidized Termokos with 0.5 million euro from its own budget in 2010.

The Law specifies the legislative and institutional framework for the ownership of local POEs. The Municipality exercises its shareholder rights through a Municipal Shareholder Committee, which consists of: (i) a member appointed by the mayor and (ii) two other members appointed by the Municipal Assembly. The Municipality, as a shareholder, should oversee the conduct of the Boards of Directors and Audit Committees, including the POE's performance. Each Municipal Shareholder Committee is accountable to and reports to the Municipal Assembly on the performance of its responsibilities and on the achievement of the objectives specified in the ownership policy.

In general, each POE is obliged to comply with financial reporting requirements and accounting principles established for joint stock companies by the law on business organizations as well as with administrative instructions issued by the Treasury for the purpose of preparing financial reports required by the Law on Public Financial Management and

<sup>22</sup> POE Sector Annual Report 2009, MFE, Draft June 2010

Accountability. POE's Board of Directors is responsible for the preparation of quarterly and annual reports describing performance, including financial results, and their submission to Municipal Shareholder Committee. POE's annual financial statements are required be subject to external audit review. In addition, the central POE Policy and Monitoring Unit of MFE has a mandate to prepare and publish a consolidated annual financial statement for all POEs (Central and Local).

The oversight of Pristina Municipality over its POEs commenced in 2009. POEs prepared and submitted their financial statements for 2009. The Municipal Assembly reviewed, debated, and approved the 2009 financial statements during two sessions in September 2010. In addition, the 2009 financial statement of District Heating Company Termokos J.S.C. was audited by the Office of Auditor General and is available on its web-site. While essentially Pristina Municipality is in a possession of annual financial information from its individual POEs, the consolidation of such information into a dedicated report has not yet been produced.

It is worth mentioning that the POE Policy and Monitoring Unit of MFE produced and submitted to the Government a first Annual Report consolidating the 2009 financial and performance information for POEs sector. However, although the Government has provided financial support to some of locally owned POEs (including those of Pristina), they remained the exclusive responsibility of their respective municipalities and were not included in this consolidated sectoral Report.

Score C

#### **(ii) Extent of SN government monitoring of SN governments' fiscal position**

Not applicable to the Municipality

PI-9	Explanation	Score – M1
(i) Extent of SN government monitoring of Autonomous Government Agencies (AGAs) and Public Enterprises (PEs)	<b>Score C</b> (i) Most major AGAs/PEs submit fiscal reports to their SN governments at least annually, but a consolidated overview is missing or significantly incomplete.	<b>C</b>
(i) Extent of SN government monitoring of lower level SN governments' fiscal position	<b>Not applicable</b>	

#### **4.2.6 PI-10 Access to Fiscal Information**

**(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)**

Public access to key fiscal information introduced directly by Pristina Municipality is also supplemented and made available from other sources administered by central government institutions. This indicator is assessed using all sources of information though it is recognized that Pristina's own efforts to ensure public access to its key fiscal documents could be strengthened. Public access to key fiscal information is assessed as follows:

Table 9: Availability of Fiscal Information

Key Fiscal Information	Availability	Comments
1. Annual Budget Documentation (complete set as listed under PI-6, to the extent information exists)	Yes	Annual Municipal Budget documents, including budget schedules and Municipal Assembly Decision on budget approval, are available on Pristina Municipality website: <a href="http://kk.rks-gov.net/prishtina/Projects/Buxheti-(1).aspx">http://kk.rks-gov.net/prishtina/Projects/Buxheti-(1).aspx</a> . Further, municipal budget - including existing set of information as listed under PI-6 – is presented in the 2010 Kosovo Consolidated Budget Book available on the MFE website: <a href="http://www.mef-rks.org/download/kosovo-consolidated-budget/2255-2010?lang=en">http://www.mef-rks.org/download/kosovo-consolidated-budget/2255-2010?lang=en</a>
2. In-Year budget execution reports (made available within one month of completion)	Yes	Although required by the LPFMA, in-year budget execution reports are not produced by municipal administration. However, regular Quarterly Budget Reports produced by the Treasury Department of MFE include data on municipal budget execution progress, including: actual revenue collection, actual budget expenditure out-turn compared to original budget by economic classification, execution of municipal capital projects, and municipal employment status. Quarterly Budget Reports are available on MFE website: <a href="http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq">http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq</a>
3. Year-end financial statements (made available within six months of completion or completed audit)	Yes	Municipality produces financial statements by the end of January of each fiscal year and submits them to the Treasury Department of MFE and Auditor General Office. The 2009 Financial Statement is dated February 10, 2010. Although Financial Statement is not made publicly accessible it is available upon request.
4. External audit reports (made available within six months of completed audit)	Yes	The 2009 Audit report is dated June 30, 2010. Although the Municipality have not made them publicly accessible, all Auditor General Reports on Municipality's financial statements are officially published on Auditor Office website: <a href="http://www.ks-gov.net/oag/english/raportet%20financiare.htm">http://www.ks-gov.net/oag/english/raportet%20financiare.htm</a>
5. Contract awards (above 10,000 euro value; published quarterly)	Yes	Contract notifications and contract awards are published on the PPRC website: <a href="http://www.ks-gov.net/krpp">www.ks-gov.net/krpp</a> . They are also published in at least one daily newspaper and on Municipality's website: <a href="http://kk.rks-gov.net/prishtina/Sherbime/Prokurimi/Njofitim-per-kontrate-(gazete)-(1).aspx">http://kk.rks-gov.net/prishtina/Sherbime/Prokurimi/Njofitim-per-kontrate-(gazete)-(1).aspx</a>
6. Resources available to primary service units (available on request)	Yes	Devolution of budget process to the level of schools in 2009 contributed to the improvements in key information on budget parameters. Budgets are now prepared and executed at the level of individual schools. Information on resources available to individual schools can be obtained on request from municipal administration Department of Education. Similarly, information on resources available to primary providers in health sector can be obtained on request from Department of Health.
7. Information on Municipal Fees and Charges (rates and coverage)	Yes	Information on municipal fees and charges is published on Municipality website. The regulation outlining types and structure of fees and charges for 2009 is available from: <a href="http://kk.rks-gov.net/prishtina/Municipality/Assembly/Regulations/2009.aspx">http://kk.rks-gov.net/prishtina/Municipality/Assembly/Regulations/2009.aspx</a> . The regulation was amended for the application in 2010 by the following Municipal Assembly decision: <a href="http://kk.rks-gov.net/prishtina/getattachment/Municipality/Assembly/Decisions/2010/VENDIM-PER-NDRYSHIMET-DHE-PLOTESIMET-E--RREGULLORES-PER-TARIFA,-NGARKESA-DHE-GJOBA-KOMUNALE-e-lektorume.pdf.aspx">http://kk.rks-gov.net/prishtina/getattachment/Municipality/Assembly/Decisions/2010/VENDIM-PER-NDRYSHIMET-DHE-PLOTESIMET-E--RREGULLORES-PER-TARIFA,-NGARKESA-DHE-GJOBA-KOMUNALE-e-lektorume.pdf.aspx</a> .

Source: Pristina Municipality  
Score A

PI-10	Explanation	Score – M1
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	<b>Score A</b> (i)The Government makes available to the public 6-7 of the 7 listed types of information	<b>A</b>

## 4.3 Policy-Based Budgeting

### 4.3.1 PI-11 Orderliness and Participation in Budget Process

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

The Municipal budget process is regulated by the requirements of the LPFMA and MFE instructions issued through an annual municipal budget circular. These provide the budget procedures, main information on grants for the next three years (annually), key budget stages and main statutory deadlines. In accordance with the LPFMA, the issuance of the first municipal budget circular by MFE officially commences the budget process and determines two legally binding dates that municipalities are obliged to observe: (1) Mayor's submission of draft municipal budget to Municipal Assembly not later than September 1 and (2) approval of municipal budget by Municipal Assembly and its transmission to MFE not later than September 30. Within these parameters, the timetable and management of the internal budget process is left to the discretion of the municipality's administration.

A general budget calendar has been now instituted for at least three years and municipal budget organizations are well familiar with the process. The MFE Municipal Budget Circular for the preparation of the 2011 Municipal Budget included process stages and associated deadlines<sup>23</sup>:

1. Establishment of Municipal Medium Term Budget Framework – by June 30, 2010
2. Issuance of First Internal Municipal Budget Circular: Municipality Programs Priority Review
3. Issuance of Second Internal Municipal Budget Circular: Program Specific Initial Budget Ceilings and Budget Calendar – by July 1, 2010
4. Budget Proposal Submissions by Programs
5. Issuance of Third Internal Municipal Budget Circular: Calendar and Instructions for Internal Budget Hearings
6. Preparation of Budget Proposal Documentation
7. Submission of Budget Proposal to Municipal Assembly – by September 1, 2010
8. Budget Proposal Approval by Municipal Assembly and Transmission to MFE – by September 30, 2010

Although the 2011 Budget process in Pristina Municipality did not have an officially issued internal budget circular, the process was managed in an orderly and timely manner following the MFE guidelines. The process was overseen by the Director for Finance and Property with respective communication on budget parameters and instructions disseminated to all Heads of Departments, key budget development stages completed, internal budget hearings and debates, Mayor's engagement, and including citizens' consultations and participation.

The following table presents the overview of Pristina Municipality adherence to the budget development stages and actual dates during the preparation of the 2011 Municipal Budget proposal.

<sup>23</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

Table 10: Pristina Municipality Budget Development Process, 2011

Key Municipal Budget Development Steps	2011 Budget Calendar – Actual Dates
1. Receipt of information on central government grants issued by MFE	MFE Budget Circular dated May 5, 2010
2. Submission of Municipal MTEF to Municipal Assembly	06.09.2010
3. Discussion of budget process requirements and budget parameters with the Heads of Departments	01.06.2010
4. Preparation of budget requests by the Heads of Departments	21.06. 2010
5. Consolidation of budget requests and internal budget hearings in order to bring requests within provided expenditure ceilings	21.06.-30.06.2010
6. Citizens meetings and budget debates	20-22.07.2010
7. Budget proposal review by Mayor and finalization of consolidated draft Municipal Budget Proposal	20.08.2010
8. Submission of draft Municipal Budget Proposal to the Policy and Finance Committee of Municipal Assembly	17.09.2010
9. Submission of draft Municipal Budget Proposal to the Municipal Assembly	24.09.2010
10. Approval by Municipal Assembly	29.09.2010
11. Transmission of approved Municipal Budget Proposal to MFE	29.09.2010

Source: Pristina Municipality

It can be concluded that annual budget calendar exists, is communicated to and understood by the key participants of the internal municipal budget process, and is generally adhered to with municipal Departments allowed 4 weeks to complete and consolidate budget requests. The 2011 Municipal Budget Proposal was approved within the statutory deadline mandated by the LPFMA.

Score B

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

As indicated above, the internal municipal budget process in Pristina Municipality was not governed by a formal internal timetable and guidance provided to individual Heads of Departments. Although an official internal budget circular was not prepared and disseminated, the key participants were informed by the Director for Finance and Property about preliminary and indicative budget ceilings underpinning the formulation of the 2011 Municipal Budget for individual Departments, including provision of a copy of MFE Circular. Discussion of budget process instructions and requirements took place with the Heads of Departments during a dedicated retreat. The Mayor of Pristina Municipality – in accordance with the LLSG responsible for the development of Municipal Budget – was involved in the determination and approval of preliminary budget ceilings, review of draft budget proposals from the major Departments, the reconciliation of Departmental funding envelopes with aggregate financing resources, and the determination of final budget submission.

Although less formalized internal budget process might have proved to satisfy Municipality's needs and resulted in the production of timely budget submission, the lack of officially disseminated clear guidance on budget formulation process should be recognized as a concern. In particular, it might appear as a weakness given the size and relevance of Pristina Municipality administration and budget. Pristina is the biggest Kosovo municipality, with budget amounting to more than 50 million euro or 17.8% of total Local Government Budget.

Score B



### (iii) Timely budget approval by the legislature

The LPFMA determines a statutory deadline for a next year's budget approval by Municipal Assembly – by September 30. Pristina Municipality complied with this requirement. The following table indicates the actual dates of budget proposal approval by Municipal Assembly during the last three budget cycles.

Table 11: Budget Approval Calendar, 2009-2011

	Date of Approval by Municipal Assembly
2011 Budget	29.09.2010
2010 Budget	04.09.2009
2009 Budget	26.09.2008

Source: Pristina Municipal Assembly

Score A

PI-11	Explanation	Score – M2
(i) Existence of and adherence to a fixed budget calendar	<b>Score B</b> (i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (and at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time	<b>B+</b>
(ii) Guidance on the preparation of budget submissions	<b>Score B</b> (ii) A comprehensive and clear budget circular is issued to MDAs, which reflect ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission	
(iii) Timely budget approval by the legislature	<b>Score A</b> (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year	

### 4.3.2 PI-12 Multi-Year Perspective

#### (i) Preparation of multi -year fiscal forecasts and functional allocations

There have been efforts to institutionalize a multi-year approach in the municipal budget process since 2007 budget cycle. The Municipal budget instructions through budget circulars issued by MFE envisage a municipal Medium Term Budget Framework (MTBF) and the preparation of multi-year forward estimates for the main budget aggregates as a part of the annual municipal budget process<sup>24</sup>.

<sup>24</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

Notwithstanding this, the 2011 Budget produced by Pristina Municipality presents only a *two* year forecast of municipal revenue and expenditure (by the main administrative, economic and functional classifications). This is not on a rolling basis where the forward year becomes the budget base in due time. The capital investment program included in the budget documentation provides the details of capital project allocations for the current only; however in principle the PIP system – facilitating the management of capital planning - was set-up to accept multi-year projects and multi-year ceilings. At the same time, information on municipal financing from central government grant transfers contained in MFE budget circular and underpinning municipal budget process provided only grants estimates for 2011 (i.e., no information on grants' forward estimates was officially provided by MFE to the Municipality) and this undermined the feasibility of multi-year budget planning as government grants account for about 60-65% of total municipal budget.

While Pristina Municipality produced the 2011-2013 Municipal MTBF approved by the Municipal Assembly as a part of budget documentation, in practice it contained information on the main annual budget parameters only (i.e., covered the 2011 budget aggregates only). Essentially, the MTBF resembled more a budget overview or summary than a medium term strategic document. Pristina Municipality's application of multi-year budget planning practices is relatively weak.

Score D

## **(ii) Scope and frequency of debt sustainability analysis (where applicable)**

Pristina Municipality has not entered into any debt financing arrangements.

This dimension is not applicable.

## **(iii) Existence of costed sector strategies (or development plans)**

In February 2008, Pristina Municipality embarked on *The Medium Term Development Strategy for Pristina 2008-2011*<sup>25</sup> to achieve social cohesion and sustainable economic development through establishing a more friendly and attractive environment for business development and increase the quality of life. This strategic document provides the Municipality's Vision for a sustainable and balanced economic and social development. It identifies nine Goals (including 40 Objectives) across the main areas of municipal competencies, including: economic development, spatial, social, education, culture, physical infrastructure and rural development.

For each Goal area, the Development Strategy identifies a list of specific capital investment projects to ensure that goals and objectives are met; in total 232 projects with a cost amounting to 429.4 million euro. For each project, total cost has been estimated (thought capital and recurrent cost, and recurrent cost implications have not been indicated), the implementing partners have been identified, and a timeframe for the implementation has been determined. Out of all projects, the Strategy has indicated 29 projects that could possibly be implemented through concession or public private partnerships, with the value of 242 million euro (more than a half of total cost of the Strategy).

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<sup>25</sup> Pristina Mid-Term Development Strategy 2008-2011, Pristina Municipality, May 2008

The Development Strategy contains an overview of historical trends in the main budgetary parameters, including the structure of municipal revenues and expenditure by the main competencies/functions. However, the document does not identify fiscal forecast and mid-term aggregate resource envelop available for the implementation of the Strategy consistent with the affordable fiscal targets.

Score C

#### (iv) Linkages between investment budgets and forward expenditure estimates

Kosovo has a Public Investment Program (PIP) which central and municipal budget organizations must use to assess potential viability and prioritisation of capital projects. In principle, the system is designed to facilitate for each investment priority to be analyzed as to its financial requirements and available funding over the construction phase as well as the recurrent cost.

In practice, the recurrent cost implications are rarely factored into subsequent budgets (as noted above), with some estimates and numerical assumptions entered into the system but without real relation to future budgetary implications and compliance.

It is generally considered that the PIP system and procedures are understood by municipal stakeholders following know-how transfer and training of municipal officers<sup>26</sup>. Despite this claim, the understanding of the PIP, its purpose and utilization to benefit budget planning is not clear and is consequentially deficient in its application. There are deficiencies in the timely and orderly application of the system during the course of budget process, which undermines its usefulness for the investment prioritization and its full integration into budget plan. Currently, the PIP system appears to serve as a recording tool rather than a mechanism for budgetary decision making process.

Score D

PI-12	Explanation	Score – M2
(i) Multi-year fiscal forecasts and functional allocations	<b>Score D</b> (i) No forward estimates of fiscal aggregates are undertaken	<b>D+</b>
(ii) Scope and frequency of debt sustainability analysis (where applicable)	<b>N/A</b>	
(iii) Existence of costed sector strategies (or development plans)	<b>Score C</b> (iii) Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts	
(iv) Linkages between investment budgets and forward expenditure estimates	<b>Score D</b> (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	

<sup>26</sup> Interview with EU-PIP “EU Support to improving the quality of public investments in Kosovo and preparing the ground for EU funds” project experts on the application of the PIP system by municipal budget organizations during the 2011 budget development process, MFE, January 19, 2011

## **4.4 Predictability and Control in Budget Execution**

### **4.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities**

#### **(i) Clarity and comprehensiveness of tax liabilities**

Property tax is the only local tax administered and collected by Pristina Municipality. In 2010, property tax revenues amounted to 3.7 million euro (or 89% of annual tax assessment as compared with 95% in 2009) and constituted 28% of total collections in Kosovo municipalities<sup>27</sup>. Pristina Municipality has the biggest potential for property tax collection due to its status of the Capital City, centre of business activity, and the largest population.

Property taxation is now regulated by the Property Tax Law No. 03/L-204, which entered into force on January 1, 2011. It essentially replaced (and amended) the Property Tax Regulation No. 2003/29, which has been in place since 2003. The Law (and previously Regulation) establishes a tax on immovable property and sets forth the standards and procedures that all municipalities must follow in administering the tax, including the following key aspects of the system:

- definition of the taxpayer;
- tax base determined as a market value of the property established in accordance with the standards set in the law;
- tax rates range set on an annual basis between 0.05% and 1% of the market value of the property;
- tax exemptions;
- property registration obligations;
- municipal functions and responsibilities in administering property taxation (including property tax information management and data entry, property valuation, bills' delivery, collection and enforcement, and administrative appeals);
- system of penalties and appeals procedures.

The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. The possibility for any discretionary administrative decisions in the application of taxation is limited. In addition, property tax rates are set on annual basis and specified in the Decision of Municipal Assembly in accordance with city zones and buildings' categories, which combined determine the valuation and tax obligation.

Score A

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

Information on property tax is disseminated annually and is reflects the Decision of Municipal Assembly and is made available on the Municipality website: <http://kk.rks-gov.net/prishtina/Municipality/Assembly/Decisions/2009.aspx> for 2010. In addition, up to date key information (including definition of property tax obligation, payment due dates, procedure for payment of the tax bill; and review and appeals rights and procedures) is summarized and published on property tax bills distributed to taxpayers by March 31 each year. The Municipality produced Property Tax Brochure in 2009, while during 2010 information flyers providing educational material were disseminated through post offices and payment kiosks.

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<sup>27</sup> Data as reported by Property Tax Department, MFE, February 2010

Any revisions or amendments to the property tax system, such as changes in tax rates, are instituted through the Decision of Municipal Assembly and advertized through a local media campaign.

In addition given the centralized nature of the property tax system in Kosovo, comprehensive information on the system – including relevant legislation, regulations, procedures, downloadable forms, how revenues are spent – is accessible on the website of Property Tax Department of MFE: <http://tatimineprone-rks.org/en/DOWNLOADS>.

Score A

### (iii) Existence and functioning of a tax appeals mechanism

The legislation provides taxpayers with the right to appeal in the following situations:

- when a taxpayer claims that the assessed value is not the market value;
- when there are errors in the database upon which the bill is based; or
- the bill is deemed to be incorrect in any other way.

Until January 1, 2011 the Property Tax Regulation allowed two channels for appeals: (1) Municipal Board for Tax Complaints on Immovable Property (Municipal Board); and (2) Supreme Court when (1) does not resolve the appeal.

A request for review has to be made in writing within 30 days of receipt of the tax bill with supporting documentary evidence. For 2010 the latest day to appeal was May 31. The appeal does not suspend the obligation to pay the tax. If the decision after review is in taxpayer's favour the refund of the excess tax and accrued interest is made within 30 days from the date of decision. The Municipal Board has 60 days from the receipt of the request to notify on its decision. A taxpayer who disagrees with the decision issued by the Municipal Board may apply to a court of competent jurisdiction for review of the decision taken by the municipality.

In accordance with the Regulation, applicable during 2010, Pristina Municipality has a well established Municipal Board of Appeals, which acts independently from Municipal Property Tax Office. The Board of Appeals, including a Chairman and two members, is appointed by the Mayor and constitutes a part of the municipal administration financed from municipal annual budget. All members of the Board are required to have a law degree. The Board maintains the register of appeal cases and reports annually on the performance to the Mayor. The operation of appeals system in Pristina Municipality in 2009 and 2010 are summarized below.

Table 12: Property Tax Appeals, 2009-2010

#### 2009

Property Category/Number of Invoices	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	996	665	331
Commercial	390	267	123
Industrial	11	9	2
<b>Total</b>	<b>887</b>	<b>673</b>	<b>214</b>

#### 2010

Property Category	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	987	745	242
Commercial	280	196	84
Industrial	8	5	3
<b>Total</b>	<b>1,275</b>	<b>946</b>	<b>329</b>

Source: Pristina Municipality Board of Appeals

The MFE Annual Audit of the 2009 Property Tax System on Pristina Municipality concluded that its appeals procedures were conducted in compliance with the Regulation No. 2003/29 and the Directive on Appeals No. 2003/11. Further, most of appeals were reviewed and resolved in the first instance.

There were only 24 appeal cases, which were submitted for review by the Supreme Court in 2008 and 2009, with the majority of rulings sustaining the original decision of Municipality. On average, it takes between 1.5 to 2 years for the Supreme Court ruling. In 2009, 12 appeal cases were returned from the Supreme Court to the Municipality, of which 9 were rejected by the Supreme Court, 1 was dismissed, and 2 were sent back for additional reconsideration. In 2010, there were 41 appeal cases submitted to the Supreme Court; none of them ruled on yet.

Score A

Although it does not affect the outcome of assessment as defined by PEFA methodology, it is worth recording the following shortcomings within the property tax system observed in 2010, which would be worth considering in a future reform program:

- *Appeals Review:* Pristina Municipal Board of Appeals was charged with the review of appeals for all MOSR not only those related to property tax. This made sometimes the management of appeals difficult within the 60 day period mandated by the legislation. The board, as a usual practice and in fact in accordance with the Regulation, considered only current year appeals, not retroactively. Some taxpayers argued that they have not received tax bills and therefore were not aware of appeal statutory deadline (within 30 days from tax bill receipt).
- *Appeal Instances:* For many years property tax offices in all municipalities have been uncertain about the number of instances for appeals. Contrary to the Property Tax Regulation, the Law on Administrative Procedure promulgated in 2005 and amended in 2008 foresaw two administrative instances for appeals before the Supreme Court. This allowed the judges of the Supreme Court the opportunity to refuse to deal with property tax cases claiming that taxpayers have not exhausted all administrative instances before coming to the court. Although municipalities were applying the Regulation, with one administrative instance, the uncertainties and unclear legislative arrangement undermined the transparency of appeal mechanism from the taxpayers' point of view. This issue has been addressed in the newly promulgated Law on Property Tax No. 03/L-204 dated January 2011, which harmonized property tax appeal mechanism with the Law on Administrative Procedures and introduced the following appeal instances: (1) Municipal Board for Tax Complaints on Immovable Property; (2) competent review body in the Ministry of Economy and Finance; and (3) Supreme Court.

PI-13	Explanation	Score – M2
(i) Clarity and comprehensiveness of tax liabilities	<b>Score A</b> (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved	<b>A</b>
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	<b>Score A</b> (i) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns	
(iii) Existence and functioning of a tax appeals mechanism	<b>Score A</b> (iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	

#### **4.4.2 PI-14 Effectiveness of Measures for Taxpayer Registration and Tax Assessment**

##### **(i) Controls in the taxpayer registration system**

Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. In accordance with the Property Tax Regulation No. 2003/29, all persons owning, using or occupying immovable property are liable to register that property in the property tax database, and supply the relevant municipality with updated property information not later than 1 March of each tax period (fiscal year).

Each municipality is obliged to manage the entry of property tax information within the database, with all property tax information including, the addresses of property, the addresses of property owners and users, data on the land and the buildings, property values, tax rates, tax bills, and records of tax payments. The market valuation of each property should be reviewed and updated by the municipality every three to five years. The property tax database is based on the information from the property tax rights register and the land cadastre. Further, the link (although not physical one) is established with the Treasury KFMIS for the purpose of payment reconciliation.

There were 55,164 (or 13.8% of total Kosovo) property tax objects registered in Pristina Municipality database in 2010, with a total tax assessment amounting to 4.2 million euro. The properties re-survey is to take place in 2011, and this has been outsourced to a private provider with municipal personnel participation.

Pristina Municipality - similarly to the other municipalities – has established a range of enforcement measures with the objective to improve registration and the effectiveness of property tax collection. The Municipality introduced conditioning of some municipal services upon proving property tax payment. The conditioning takes place with respect to a cadastral-related services and vehicle registration. Although there is no hard statistical evidence on their effectiveness, municipal authorities estimate that even more than 50% of tax collection and therefore registration might be attributed to these enforcement measures.

Score A

##### **(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. Municipalities do not have the discretion to set penalty rates and interests, while the penalty application is automatically administered in the system in the Property Tax Department in MFE. The penalties are applied for:

- a failure to apply for the registration of the immovable property or a failure to supply the municipality with an annual property tax information update - loss of the right to appeal the tax bill; not applied in practice;
- a failure to pay the property tax on or before the last date prescribed for payment - a penalty in an amount equal to 5% of the tax liability;
- a failure to pay the property tax within 60 days after the last date prescribed for payment - an additional penalty in an amount equal to 10% of the tax liability;
- a monthly interest of one per cent of outstanding arrears.

In addition, delinquent tax payers can be subject to the blockage of bank account and confiscation of the property. However, the use of these measures is problematic and not applied mostly because municipalities did not fulfill implementation requirements of commercial banks.

The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes.

Pristina Municipality collected 26,210 euro (or 0.6% of total collection) in 2009 and 31,697 euro (or 0.8% of total collection) in 2010 worth of interest and penalty payments.

Score B

### **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Based on current property tax legislation, every 3-5 years municipalities should plan for a resurvey of all properties within their jurisdiction. This means that municipalities should have a plan for inspection of 1/3 of properties within their jurisdiction, each year.

Annual reports on inspections of local tax offices as compiled by the Property Tax Department in MEF, generally underline the fact that municipalities are faced with a lack of capacity for the implementation of property audits/inspections (as provided for by law) on an annual basis. MFE believes that at a country level, there is a considerable number of facilities which remain outside tax base in different municipalities, and inspection of properties that are already registered in the tax base is poor. Thus, it is considered that at Kosovo level properties are understated by about 20% of their market value. This was confirmed by municipal officials.

As a result, the Property Tax Department in MFE, given the centralized nature (in some aspects) of this tax, initiated in 2009 a re-survey of all properties in all municipalities of Kosovo which is being conducted (data collection on the ground, door to door) by external contractors in cooperation with the municipalities. Main objective is to update existing data and modify property assessment model which would result in adjustments of actual values of properties with market value. Modified values of properties are scheduled to be implemented in fiscal year 2012. Whereas municipalities are expected in the future to continue updating their databases based on individual audit/inspection plans in each municipality.

Property Tax Office in Pristina Municipality has an established program of tax audits and investigations. There currently are 16 field officers, organized in 8 teams of 2 persons, acting as inspectors engaged in the re-evaluation, monitoring, and registering activities, including investigation of new properties. The program assigns city zone and a schedule of daily visits to each inspector and oversight is by the Director of Property Tax Office. In addition, inspection operations are assisted by 15 office support staff. In accordance with the MFE Audit of Property Tax Office, out of 55,164 property tax objects registered in Pristina Municipality only 1,517 were re-surveyed and re-registered in the system during 2010 (i.e., only 2.7% of total objects). This is far less than the legal requirement of 1/3 of properties resurveyed on an annual basis.

Score C



PI-14	Explanation	Score – M2
(i) Controls in the taxpayer registration system	<b>Score A</b> (i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations	<b>B</b>
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	<b>Score B</b> (i) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	
(iii) Planning and monitoring of tax audit programs	<b>Score C</b> (iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria	

#### 4.4.3 PI-15 Effectiveness in Collection of Tax Payments

**(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)**

Although Municipality makes a steady effort to collect past years' arrears (about 2 million euro per year), the ability to collect current taxes assessed averages to around 38% only.

Total property tax arrears were estimated at around 10.4 million euro at the end of 2008<sup>28</sup>. Current arrears accumulated during 2008 - 2010 amounted to 53-60% of total collection each year respectively. Based on data for the last two years, the stock of arrears at the end of 2010 increased by at least additional 4.6 million euro and well exceeded average annual tax assessment; accurate information on the actual stock of arrears from years prior to 2009 is not available. Despite the issues with past arrears, arrears are increasing on an annual basis. However it may be that these current arrears are by taxpayers who have past arrears which they do not wish to legitimise. Further, the accumulation of past arrears is believed to be associated with the non-payment by Socially Owned Enterprises (SOEs) before their privatization and/or liquidation process. However, over the time this factor appears to lose its significance. The 2010 SOEs tax assessment amounted to about 11% (or 586,846 euro) of total tax assessment; while current arrears generated by SOEs in 2010 contributed to 8% (or 276,408 euro) of total arrears.

<sup>28</sup> According to statistics from Property Tax Department, MFE, May 2011

Table 13: Property Tax Collection Statistics, 2008-2010

	Euro	2008	2009	2010
<b>Tax Assessment</b>	<b>(A)</b>	<b>5,404,886</b>	<b>4,220,649</b>	<b>4,220,361</b>
<b>Total Tax Collection</b>	<b>(B)</b>	<b>4,094,511</b>	<b>4,014,907</b>	<b>3,776,197</b>
of which:				
Current year collection	(C=D+E+F)	2,036,767	1,634,614	1,713,515
Tax assessment	(D)	1,914,181	1,608,404	1,681,817
Interests	(E)	55,190	19,620	24,165
Penalties	(F)	67,396	6,590	7,532
Past years arrears	(G=B-C)	2,057,744	2,380,292	2,062,681
Current Arrears	(H=B-D)	2,180,330	2,406,503	2,094,379
<b>Current Arrears as % of Total Collection</b>	<b>(I=H/B)</b>	<b>53%</b>	<b>60%</b>	<b>55%</b>
Stock of Arrears	(J=sumH-G)			4,618,531
<b>Stock of Arrears as % of Total Collection</b>	<b>(K=J/B)</b>			<b>122%</b>

Source: Preliminary data from Property Tax System Database, Property Tax Department, MFE, May 2010

Table 14: Property Tax Debt Collection Ratio, 2009-2010

	2009	2010	Average
Arrears (beginning of year)	10.4	10.4	10.4
Arrears Collected (during year)	2.4	2.1	2.2
<b>Annual Debt Collection Ratio</b>	<b>22.9</b>	<b>19.8</b>	<b>21.3</b>

Total amount of property tax arrears in Pristina Municipality is significant, while average debt collection ratio for the last two years amounted to 21%.

Score D

#### (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Property Tax bills are issued with a unique code – UniRef Code – which allows the identification of municipality, tax category, and tax payer. Payments by taxpayers are paid into commercial banks and consequently reported to the Central Bank. Based on UniRef, they are later transferred to the municipality's sub-account in the Treasury. Commercial banks are required to transfer tax receipts to the Central Bank within 24 hours. Property Tax Department in MFE receives daily reports from the Treasury revenue module.

Score A

#### (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

Reconciliation of revenues from commercial banks is done on a daily basis. A daily revenue report from the KFMIS is provided to the Property Tax Department, which with the use of specially designed software selects and identifies payments against property tax obligations. These are then reconciled against property tax database.

Score A

PI-15	Explanation	Score – M1
(i) Collection ratio for gross tax arrears	<b>Score D</b> (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e., more than 2% of total annual collections)	<b>D+</b>
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	<b>Score A</b> (i) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	<b>Score A</b> (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month	

#### 4.4.4 P-16 Predictability in the Availability of Funds for Commitment of Expenditures

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

At the beginning of each fiscal year, the Treasury issues an Administrative Directive to guide all budget organizations in preparing their cash flow plan and to set a deadline for the submission of the plan to the Treasury.

Pristina Municipality – as a general practice for all municipalities and following the Treasury procedures – prepares annual cash flow forecast in January of the fiscal year. This forecast is built on and complies with the total municipal budget appropriations as approved in the Budget Law. Cash flow plan is prepared separately for the following sources of financing:

- (a) government grants; and
- (b) municipal own source revenues (based on the availability of funds in accordance with the actual collection trends). MOSR are appropriated upon their receipt and deposited in the STA in accordance with the approved budget expenditure plan for this source of funding. In the event that during the fiscal year, municipality's own source revenue amounts, which have been deposited and recorded in KFMIS, exceed the budgeted revenue amounts, an automatic appropriation is authorized for such excess revenue based on a budget adjustment approved by the Municipal Assembly. Subsequently, a cash flow plan is prepared and submitted to the Treasury with the request for allocation of additional MOSR amounts. MOSR, which were carried forward from the past fiscal years are automatically re-appropriated at the beginning of a fiscal year and cash flow plan is prepared accordingly.

Cash flow plan takes account for the main economic categories of expenditure across municipal programs/Departments and is updated in accordance with the following schedule:

- 1) Wages and Salaries: default monthly forecast based on 1/12 of total budget appropriations and adjustments can be introduced in accordance with anticipated employment forecast.; However, an ongoing issue is the lack of control in preparing the payroll, where despite internal controls for changes to the personnel records and the payroll (see PI-18), the sufficiency of budget allocations is not determined until the final payroll is transmitted to the Treasury for processing. In recent years, the Treasury has regularly held back payment to specific organizations, including municipalities, until necessary adjustments were introduced to ensure that budget allocations or staff limits were not exceeded.

- 2) Goods and Services: quarterly update based on the actual trends in expenditure and funding availability.
- 3) Capital Outlays: quarterly update based on the requirements of projects' procurement and implementation plans and the actual trends in expenditure and funding availability.

Cash flow plan is also prepared for individual spending units in the education sector (i.e., schools).

Score A

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

Treasury manages allocations through the year to ensure that the Budget is executed within the available cash amount.

Cash flow forecast prepared by Pristina Municipality, including its periodic updates according to the schedule described in PI 16 (i) above, serves as the base for the allocation of funds by the Treasury. In accordance with cash flow plans submitted, Treasury allows to commit allocated amounts from government grants up to 12 months in advance within budget appropriation limits. Similarly, there is no time limit imposed by Treasury for the commitment of funds from MOSR carried forward, which can be committed for up to 12 months. Current year MOSR funds, when actually deposited and recorded in the KFMIS, can be committed in accordance with allocation limits for the remainder of fiscal year. Information on allocations and commitments is disseminated to the heads of municipal Departments and can be automatically derived and seen in the KFMIS.

Table 15: Structure of Funding Sources, 2008-2010

	Commitment Horizon	2008		2009		2010		Average
		mln euro	%	mln euro	%	mln euro	%	%
Government Grants	Up to 12 months	21.6	62.8	29.2	61.3	32.7	68.2	<b>64.1</b>
MOSR Carried Forward	Up to 12 months	5.7	16.5	9.9	20.8	8.2	17.1	<b>18.1</b>
MOSR Current	Up to 12 months subject to collection	7.1	20.7	8.5	17.9	7.0	14.7	<b>17.7</b>
<b>Total</b>		<b>34.4</b>	<b>100.0</b>	<b>47.5</b>	<b>100.0</b>	<b>48.0</b>	<b>100.0</b>	<b>100.0</b>

Source: KFMIS

Score A

## **(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs**

The Treasury, which manages budget allocations, has been making changes to budget allocations only when initiated and requested by Budget Organizations through the submission of adjustment to their cash flow plans. For municipal budget organizations, internal changes in budget allocations most often originate from in-year or mid-year review changes introduced to the original budget appropriations, which have to be conducted in accordance with internal municipal budget process procedures established in the LPFMA, including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly. Subsequently, changes to budget allocations resulting from such process have to be reflected in the adjustment to municipal cash flow forecast.

During 2010, there were six key adjustments requested by Pristina Municipality which affected budget allocations. Essentially, these were associated with the following: formal mid-year budget review, transfer of employee positions and funding from Pristina to newly established municipality Gracanica (cut out of Pristina territory), transfer of competencies from central to local level, and appropriation of excess MOSR collection.

Score A

PI-16	Explanation	Score – M1
(i) Extent to which cash flows are forecast and monitored	<b>Score A</b> (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows	<b>A</b>
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	<b>Score A</b> (i)MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgetary appropriations	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	<b>Score A</b> (iii) significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way	

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

##### (i) Quality of debt data recording and reporting

From the legal stand point, at the beginning of 2010, municipalities acquired access to external financing in the form of borrowing – both short and long term - when the Law on Public Debt entered into force. However, in practice this form of financing has not been utilized by municipalities yet due to access restrictions, namely the requirement of two consecutive unqualified audit reports of municipal financial statements.

However, it is worth stressing that Kosovo authorities has already undertaken the necessary steps to establish an adequate legal framework and system for debt management, including State debt and municipal debt. A Debt Management Unit was established in Treasury with appropriate staff in place. Debt management software (CS-DRMS) was purchased in December 2008. Training for debt management units in the Treasury and the Kosovo Central Bank has taken place. Score Not Applicable.

##### (ii) Extent of consolidation of government cash balances

The Government has created a Single Treasury Account, which is used to manage all transactions of the Government and these are consolidated on a daily basis.

Score A

### (iii) Systems for contracting loans and issuance of guarantee

In accordance with the Law on Public Debt No. 2009/03-L-175 dated December 2009, a Mayor of a Municipality may incur short-term debt, with notification to the Municipal Assembly and the MFE. A Municipality may also incur long-term debt and issue guarantees to finance capital improvements within the limits established in the law and subject to the authorization by Municipal Assembly. Upon approval by the Municipal Assembly, long-term debt shall be subject to the prior written approval of the Ministry limited to the validation of compliance with the procedural requirements and debt limitations. Pristina Municipality has not contracted any loans yet. Score Not Applicable

PI-17	Explanation	Score-M2
(i) Quality of recording and reporting of arrears data	Not Applicable	<b>A</b>
(ii) Extent of consolidation of government cash balances	<b>Score A</b> (ii) All cash balances are consolidated on daily basis.	
(iii) Loan contracting and guarantee issuance systems	Not Applicable	

#### 4.4.6 PI-18 Effectiveness of Payroll Controls

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

Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. In January 2009, new software on Personnel was developed and delivered to the MPS, however the two databases have not as yet been integrated. The link and communication between the two databases have not been established.

Each municipality manages the personnel data separately. As there is no link between human resource information held by individual municipalities and the payroll, the possibility arises of discrepancies between the two. Administrative Instruction, issued by the MPS, regulates update procedures, with the provision and reconciliation of electronic and physical copies of changes into records on monthly basis.

Pristina Municipality maintains human resource records, including information on the description of position, job description, qualifications, and salary grades. The register is kept regularly updated, with information on changes transmitted to the MPS, but the systems are not linked electronically or directly.

Score B

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

Pristina Municipality complies with general procedures for the management of changes established by the MPS. MPS collects the personnel lists from all budget organizations until the 11th of each month. By the 18th these data are processed and inputted into the payroll database. Between the 20<sup>th</sup> and 23<sup>rd</sup> of the month, the payroll is calculated and payment lists are prepared. By the 23<sup>rd</sup> Treasury is provided with the final payroll list to process salary payments. Any changes that occurred after the closer of payroll lists are accounted for during the next pay period.

However, if any changes occurred after the 23<sup>rd</sup>-27<sup>th</sup> period, budget organization may request the introduction of adjustment to already prepared payroll list. In such case the actual payment will be made in accordance with requested adjustment, while reconciliation of records takes place next month.

As budget organizations update the payroll monthly, prior to the execution of the payroll, the changes are made on a timely basis, and retroactive adjustments to the payroll are rare. In accordance with the transactions recorded in the KFMIS, total retroactive adjustments to the payroll in Pristina Municipality amounted to only 10,820 euro (or 0.06% of total wage bill payout) in 2010. These were primarily associated with the payment of overtime hours during the summer period of increased administrative work load and the payment of meal allowances in the health sector.

Score A

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

Pristina Municipality has well- functioning internal procedures for the management of changes to personnel records. Changes to personnel records (additions/deletions/amendments) are approved by the Personnel Administration Department and transmitted to the Human Resource Department for concurrence and recording. The amendments are usually processed internally within a week. Municipality maintains an archive of personnel records and data. Municipality is also responsible to timely notify and request any changes in the personnel database kept by the MPS based on a written form request – signed by the head of Personnel Administration and the Mayor – to introduce changes to the payroll.

In 2008, the MPS payroll software was upgraded. One of the features of the new software is the ability to record the audit trail of any changes, which ensures that any change to a particular record is recorded and can be traced back to its authorized originator. Access to the system requires authorization.

Score A

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

The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively. As compared with 2007, following the Auditor General's recommendations MPS achieved the following improvements:

- Downsized the number of employees who receive more than two salaries;
- Eliminated employees older than 65 years from the pension contribution scheme;
- Improved the quality of database by including all data in payroll system.

The 2008 audit highlighted the existence of the following weaknesses in the administration of payroll system for all budget organizations:

- Inaccurate reconciliation between payroll system and Treasury General Ledger leading to expenditures out of payroll list;
- Inadequate controls in the application of salary grades and respective management of payroll system;
- Lack of written procedures in regard to entering employees within the payroll system;
- Discrepancies in data in payroll system with data in the contracts for Civil Servants;

- Inadequate control of retroactive payments.

Pristina Municipality employed 4,677 (or 11% of total local government employment) staff in 2010 (data according to the Treasury Quarterly Budget Report as of the end of third quarter 2010). There has been no formal payroll audit performed in Pristina Municipality either within the internal audit activities or externally by the Auditor General during the last three years. However, the review of payroll by the internal audit found payroll procedures and controls generally adequate. In 2010, the Auditor General audited Pristina's payroll on a sample basis on the occasion of the audit of the 2009 Financial Statements. However, this was not an in-depth and only sample-based analysis focused on compliance issues in terms of staff recruitment, contracts, and legal procedures enforcement. In addition, the audit of payroll system in the MPS conducted by the Auditor General as described above did not identify any irregularities in Pristina Municipality.

Score B

PI-18	Explanation	Score – M1
(i) Degree of integration and reconciliation between personnel records and payroll data	<b>Score B</b> (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data	<b>B+</b>
(ii) Timeliness of changes to personnel records and the payroll	<b>Score A</b> (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments)	
(iii) Internal controls of changes to personnel records and the payroll	<b>Score A</b> (iii) Authority to change records and payroll is restricted and results in an audit trail	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	<b>Score B</b> (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)	

#### 4.4.7 PI-19 Competition, Value for Money and Controls on Procurement

**(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)**

The 2009 and 2010 annual procurement reports produced by Pristina Municipality provide a comprehensive database on public procurement activities, including information on the type of procurement procedure used, the value of procurement, date and value of each contract. A summary data on the use of open competition procurement method for contracts that exceeded 10,000 euro value are:



Table 16: Procurement Procedures, 2009-2010

Year	Number of Total Contracts	Number of Total Contracts > 10,000 euro	Number of Open Competition Procedure for Contracts > 10,000 euro)	Number of Open Competition Procedure as % of Total Contracts (> 10,000 euro)
2009	275	155	144	92.9%
2010	252	152	144	94.7%

Source: Pristina Municipality Annual Procurement Reports

The open competition procurement method was used for the award of more than 90% of contracts with value exceeding 10,000 euro. However a review of the annual procurement reports confirms that municipality used single source procurement method for the award of 8 contracts exceeding the value of 10,000 euro during 2010 (10 contracts in 2009 respectively). In both years these transactions represented amendment/extension of already existing contracts which had already followed the open competition procedures.

Score A

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

The conditions for the use of less competitive public procurement methods are defined in the Law on Public Procurement No. 2010/03-L-241 dated September 2010. Procurement method other than the open competition can only be utilized with the authorization of the Kosovo Public Procurement Agency.

For contracts up to 10,000 euro the following criteria have to be followed during the procurement process: (a) prequalification of suppliers; (b) minimum 3 offers qualified.

For purchases of value up to 1,000 euro an offer quotation and minimum 3 offers are required.

As pointed out in PI-19 (i), Pristina Municipality essentially ensured the utilization of open competition procurement methods for all contracts exceeding 10,000. All contracts, which used the single source procurement, represented the extension of already awarded contract. Pristina Municipality complied with the requirements of the Law on Public Procurement in terms of the selection and justification of procurement methods.

Score A

## (iii) Existence and operation of procurement complaints mechanism

The Law on Public Procurement provides for a centralized procurement complaints mechanism using the Procurement Review Body (PRB) (Title IX of the Law: Procurement Review Procedures). The PRB is an independent institution that has the mandate from the Assembly of Republic of Kosovo to address complaints relating to procurement.

The PRB is a public authority and a budget organization, which consists of a Board of Directors and a Secretariat led by Head of the Secretariat. The PRB is comprised of five members appointed for a term of five years, and may be reappointed only once. Each member of the PRB is nominated by the Government and appointed by the Assembly based on a recommendation made by an independent selection body established by the Assembly. The independent selection body shall be comprised of three duly appointed judges designated by the Kosovo Judicial Council.

The PRB organizes its work in a number of review panels. Depending on the value, size, difficulty or importance of the case, the President of PRB shall be responsible for establishing internal rules concerning the appointment of PRB members for such review panels. The review panel may consist of one, three or five members.

A complaint can be filed at any stage of procurement activity and with respect to any act concerning contracting process. If the contract has been awarded, a complaint may be filed only within the ten day period from the publication of municipal contract award.

In 2010, the PRB received and reviewed a total of 8 complaints concerning procurement cases in Pristina Municipality, which represented 5.2% of Pristina's procurement tenders of value exceeding 10,000 euro. One complaint was resolved in favour of a supplier, and seven sustained the decision of Municipality. All complains, together with decisions, are published on the website of Procurement Review Body: <http://oshp.rks-gov.net/?cid=1,71>.

Score A

PI-19	Explanation	Score – M2
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>Score A</b> (i) Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition	<b>A</b>
(ii) Justification for use of less competitive procurement methods	<b>Score A</b> (ii) Other less competitive methods when used are justified in accordance with clear regulatory requirements	
(iii) Existence and operation of a procurement complaints mechanism	<b>Score A</b> (iii) A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complains accessible to public scrutiny	

#### 4.4.8 PI-20 Effectiveness of Internal Controls for Non-salary Expenditure

##### (i) Effectiveness of expenditure commitment controls

Financial rules and consolidated guidance for the expenditure of public money by the Kosovo public sector, including municipalities, are based on the LPFMA and set in the Treasury “Financial Rule 02 – Expenditure of Public Money”. Approved budget appropriations are recorded in the KFMIS. Budget appropriations can be spent through the process of allocation as described in Pi-16 (i). The Treasury – based on cash flow forecast prepared by budget organizations – determines all allocations in order to ensure that adequate funds are available for expenditure. The LPFMA requires that all expenditure must be made from allocated appropriations. As a result, expenditure cannot be made where appropriations are not sufficient for such expenditure – commitment control. Any current or future contractual payment obligation must be reflected in a form of commitment registered by a budget organization in the KFMIS. Commitments in the current year can be legally made only against both appropriations and allocations. Funds must be committed prior to the commencement of any procurement process. However, there are reported cases when budget organizations circumvent the above described procedures and enter into obligations without a prior commitment of necessary funds. As Treasury strictly enforces expenditure control, the risk is shifted to

contractors and suppliers, while the budget is effectively protected as the resulting invoices cannot be honored without a commitment to spend being in place and funds allocated for that purpose.

Commitment controls for expenditures are in place both procedurally and technically in Pristina Municipality. Good use of commitments prohibits gathering of unpaid liabilities at the end of the year (PI-4). At the same time, existing outstanding obligations at the end of the year, although small as a percent of total expenditure, indicates an element of mismanagement. This was also the opinion expressed in the most recent audit of Pristina's 2009 financial statements, which highlighted: "Outstanding liabilities are not presented".

Score B

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

The framework for internal control procedures is established in the following legislation:

- Law on Public Financial Management and Accountability
- Law on Local Government Finances
- Law on Local Self-Government
- Law on Appropriations
- Financial Rule 01 – Public Internal Financial Control
- Financial Rule 02 – Public Money Expenditure
- Administrative Instruction No.02/2009 Delegation of Expenditure Management to the Budget Organizations
- Internal Procedures

The internal control regime is comprehensive and relevant, with harmonization achieved between the legislation, subordinate legislation and the application of the KFMIS (including procedures and manuals) through: (1) the development of Treasury rules and procedures in conjunction with KFMIS implementation and (2) through ongoing revisions to the Law on Public Financial Management and Accountability. A Central Harmonization Unit (CHU) was established through a regulation issued in May 2006 by the Treasury. It is responsible for coordinating the implementation and further development of the principles of financial management and control in all budget organizations, with emphasis on<sup>29</sup>:

- developing the legislative framework to support FMC through guidance and manuals;
- promoting the development of FMC through networking of practitioners and training program;
- monitoring and reporting on the implementation of FMC.

In 2009, Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. This brought a number of advantages to municipalities, including improvements in the efficiency in payment processing, elimination of travel expenses to the central/regional Treasury offices, higher internal control, greater autonomy and accountability of municipalities.

Pristina Municipality participated in this process in 2009 and its key public finance officers were trained and certified. Pristina Municipality is now certified as a budget organization by the Minister of Finance, which demonstrates the strength of its internal controls and compliance with standards established by MFE for the delegation of expenditure management (including successful implementation of the KFMIS; certification of Goods Receiving Officers, Expenditure Officers, Certifying/ Approval Officers; implementation and independent functioning of expenditure and

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<sup>29</sup> Treasury Financial Rule 01/2010 – Financial Management and Control

approvals functions within the management and organizational structure of municipality; establishment of dedicated archives).

Score A

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

All issues in registering of financial transactions are addressed in Treasury Financial Rule Number 02 - Spending of Public Finances.

Although compliance with financial regulations is generally satisfactory among municipal budget organizations, internal audit reports indicate that, in a minority of cases, the rules have not been properly applied, for example in the area of funds commitment or recording of invoices in the KFMIS (PI-4).

In general, Pristina Municipality operates in compliance with the set of financial rules. However, the audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management and control. The Auditor concluded that the level of financial control needs improving (Audit Report 2009, p. 4). The following areas lacked adequate management (Audit Report, Section VII):

- External reporting: the 2009 Financial Statement was presented with 10 days delay; quarterly financial reports were not submitted to the MFE
- Internal control: public procurement law and regulations were avoided in some case of the selection and signing of contracts; recording and management of fixed assets were inadequate
- Clear and transparent delegation and segregation of duties: compliance with the expenditure certification failed
- Management follow-up

Score B

PI-20	Explanation	Score – M1
(i) Effectiveness of expenditure commitment controls	<b>Score B</b> (i)Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception	<b>B+</b>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	<b>Score A</b> (ii) Other internal control rules and procedures are relevant, incorporate a comprehensive and generally cost effective set of controls, which are widely understood	
(iii) Degree of compliance with rules for processing and recording transactions	<b>Score B</b> (iii)Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification	

#### **4.4.9 PI-21 Effectiveness of Internal Audit**

##### **(i) Coverage and quality of the internal audit function**

Internal Audit is a recently established function in Pristina Municipality. The Internal Audit Unit commenced operations in 2009 and it now is staffed with three professionals (after some difficulties in recruitment). The Director of the Unit is a qualified professional and certified auditor, while the other two senior employees are trained practitioners with a university degree. Given the size of Pristina Municipality such an organization structure appears to be minimal and most likely insufficient to meet the requirement of efficient internal audit. The Unit reports to the Internal Audit Committee, consisting of three members appointed by the Mayor. It operates based on rules and procedures established by the Law on Internal Audit No. 03/L-128 dated September 2009 and standards, guidance and manuals issued by the Central Harmonization Unit on Internal Audit. The IA manual is in accordance with international standards and professional practices of internal audit (ISPPIA/SNPPAB) and the Code of Ethics of Institute of Internal Auditors.

In 2010, the Unit developed a strategic annual audit plan which was adopted by the Audit Committee. The Unit planned for the audit of Department of Health, revenue operations and regularity of activities of auto parking, management of assets, and management of procurement. However, due to extensive training and certification program the Unit only completed an internal audit report on the Department of Health which was submitted to the Audit Committee and Mayor. Overall, the activities in 2010 focused primarily on participation in training organised and conducted by CHUIA and Unit's supporting consultancy services to other departments in the Municipality, including the development of a manual on the management of assets.

The past two years witnessed the initial stages of development of the internal audit function in Pristina Municipality. The Internal Audit Unit is a relatively young body, facing challenges from insufficient number of staff, and lack of experience and skills. As a result, the primary focus of its operations was on professional development, education, and training to support the establishment of the Unit, with more limited delivery of audit activities.

Score C

##### **(ii) Frequency and distribution of reports**

The report on internal audit performed in the Department of Health as described above was submitted to the Audit Committee and the Mayor. The Internal Audit Unit also prepared Annual Report on activities completed during 2010. The report was submitted to the Audit Committee and the Mayor.

Score: Not assessed

##### **(iii) Extent of management response to internal audit findings**

In accordance with the Law on Internal Audit, senior management – in a case of a municipality that is the Mayor – is responsible for:

- ensuring that prompt and effective measures are undertaken to implement the recommendations made by the Internal Audit Unit, Internal Audit, Audit Committee and the CHUIA;
- eliminating irregularities revealed during audits and implementing measures to ensure such irregularities do not recur.

In 2010, Internal Audit Unit's reports were reviewed and discussed by the Audit Committee and the Mayor. The Mayor took a formal decision to follow up on the reports and assigned personnel responsible for the implementation of recommendations formulated by the IA. At the time of PEFA report it is too early to assess the actual implementation. The Internal Audit Unit intends to review the actions taken to implement recommendations on the occasion of the next audit review.

Score: Not assessed

PI-21	Explanation	Score- M1
(i) Coverage and quality of the internal audit function	<b>Score C</b> (i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.	<b>C</b>
(ii) Frequency and distribution of reports	Not Assessed	
(iii) Extent of management response to internal audit findings	Not Assessed	

## 4.5 Accounting, Recording, and Reporting

### 4.5.1 PI-22 Timeliness and Regularity of Accounts Reconciliation

#### (i) Regularity of bank reconciliation

Collection, saving and spending of public money are implemented through a Single Treasury Account (STA) – including sub-accounts for each budget organization - which are reconciled on a monthly basis. Municipal revenues are identified by an individual UniRef code for each category of revenue. Payments from taxpayers are made in all licensed commercial banks in Kosovo with CBK sub-account as the destination account. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting municipalities, which enables them to enter revenue collected into the KFMIS classified by revenue type, economic code, and relevant collecting department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation.

All public expenditure is made through the “main account” in the STA and this account is reconciled daily.

In addition to the daily and monthly reconciliation of bank accounts, all budget organizations are required to perform a quarterly revenue and expenditure reconciliation with Treasury in order to confirm matching between the KFMIS and CBK account.

Pristina Municipality operates within the STA arrangements and complies with the above described reconciliation procedures. However, it is important to record some weaknesses in the revenue reconciliation and record keeping pointed out by the Auditor General in the audit of the 2009 financial statements. In 2009, Municipality lacked mechanisms of control over the status of revenues for some revenue collection performed without UniRef code, which undermined the possibility and accuracy of reconciliation efforts between the accounting registers and invoicing system (Audit Report 2009, pp. 12-13). Besides property tax and business licenses, Pristina Municipality did not keep

proper records for various tax arrears. During 2009, the Municipality failed to address earlier audits' recommendation that the revenues from Germia Park should be deposited into the bank account of the Municipality. The collections of revenue from construction licenses (50.3% of total MOSR in 2009) were in many cases performed without UniRef code and failed reconciliation with source documents.

Score A

#### **(ii) Regularity of reconciliation and clearance of suspense accounts and of advance payments**

Advances, including for petty cash and official travel purposes, are managed from the budget category Goods and Services. The opening of the advance for petty cash is based on the request for petty cash expenditure needs. The advances for travel are based on official and approved travel agendas and are reconciled upon the presentation of documents from the completed travel.

At the end of fiscal year, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier and the breakdown of expenditure by economic classification is performed and recorded. In a case that the allocated advance is not fully spent the funds are returned to the consolidated fund, with supporting evidence.

Score B

PI-22	Explanation	Score – M2
(i) Regularity of bank reconciliations	<b>Score A</b> (i) Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period	<b>B+</b>
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	<b>Score B</b> (ii) Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.	

#### **4.5.2 PI-23 Availability of Information on Resources Received by Service Delivery Units**

Recent budget decentralization to the level of individual schools – supported by World Bank in 10 Kosovo Municipalities<sup>30</sup> – has contributed to the availability and scope of information on resources received by the service delivery units. Pristina Municipality joined this initiative in 2010. Information on resources is now available at the stage of budget planning and budget execution:

1. Budget Plans, including proposed expenditure allocation by economic category, are prepared by each individual school in the Municipality. Associated cash flow forecasts and updates are also prepared in order to manage the allocation of budgetary funds.
2. Actual Budget Expenditures are recorded (and can be reported) in the KFMIS in accordance with the Chart of Accounts, which provides for a separate administrative code for each spending unit in pre-primary, primary, and secondary education programs.

<sup>30</sup> The program was initiated in 2009 with three pilot municipalities, including Istog, Gjilane, and Kacanik, In 2010 it was extended to ten municipalities, including Shtime, Podujeve, Prishtine, Gjakovë, Peje, Klinë, Prizren, Suhareke, Mitrovicë, and Ferizaj.

3. Similarly, although budget plan is not explicitly broken down to the level of spending units in the primary health care sector, actual budget expenditure is recorded in accordance with the Chart of Accounts in the KFMIS, which facilitates generation of data for individual health houses.

Primary and secondary education is a municipal competency assigned by the LLSG; however the Ministry of Education still retains some part of investment and capital formation program in this sector with a part of school construction managed centrally. Details of associated capital expenditure can again be derived from the Budget documentation and the KFMIS at the central level.

Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units. Some concerns remain to what extent this data is consolidated.

While information and data on resources made available in cash to service delivery units is recorded and can be processed from the KFMIS there have been no attempts undertaken by Pristina Municipality to compile comprehensive and aggregate reports. However, the Department of Education and Department of Health respectively maintain internal reconciliation reports on resources allocated to individual spending units which constitute such a report on spending by primary service delivery units.

In principle, conditions (in particular the strengths and advantages of the KFMIS) appear in place for an A score; however reliable evidence on the consolidated annual reports is lacking thus the score is downgraded to B.

PI-23	Explanation	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and functioning of those units	<b>Score B</b> (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across the most of the SN's governance jurisdiction with information compiled into reports at least annually.	<b>B</b>

#### 4.5.3 PI-24 Quality and Timeliness of in- year Budget Reports

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

The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time. Municipalities are connected to the KFMIS, which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly. The system allows for the comparison of original budget estimates with year-to-date information on allocations, commitments, actual expenditure, budget balance, and employment in accordance with three main budget classifications, including administrative, economic, and functional.

Score A



## **(ii) Timeliness of the issue of reports**

The LPFMA requires the mayor of a municipality to prepare and submit to the municipal assembly quarterly budget execution reports, including the status of all capital expenditure projects, covering the fiscal year through the end of the quarter just concluded. Such reports shall be submitted by the mayor to the municipal assembly, with a copy to the Minister of Finance, within thirty days from the end of each quarter and then published by the mayor on the municipality's website.

In 2010, Pristina Municipality did not produce regular periodic Budget Execution Reports as required by the LPFMA. However, the municipal administration prepared and provided the Mayor with numerous ad hoc reports presenting the current status of budget performance. Further, the municipal administration in response to Municipal Assembly inquiries was in a position to promptly provide current and accurate budget information.

Independently from the Municipality, Treasury Department in MFE produces regular Quarterly Budget Reports on the execution of Consolidated Kosovo Budget. These reports are issued within 30 days from the end of each quarter and submitted to the Government and the Kosovo Assembly (also available from the MFE website). The reports provide full coverage of the key information on the status of municipal budget execution.

While it is clear that reports can and are produced by municipal administration, these are not regular and timely as required by the Law.

Score C

## **(iii) Quality of Information**

In-year budget execution information can be derived from the KFMIS and is considered to be accurate and up-to-date.

Score A

<b>PI-24</b>	<b>Explanation</b>	<b>Score-M1</b>
(i) Scope of reports in terms of coverage and compatibility with budget estimates	<b>Score A</b> (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	<b>C+</b>
(ii) Timeliness of the issue of reports	<b>Score C</b> (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter	
(iii) Information's quality	<b>Score A</b> (iii) There are no material concerns regarding data accuracy.	

#### **4.5.4 PI-25 Quality and Timeliness of Annual Financial Statements**

##### **(i) Completeness of the financial statements**

The LPFMA requires each budget organization to produce financial statements by January 31 for the past fiscal year. . Financial statements prepared by Pristina Municipality are presented in accordance with Treasury's administrative instruction for financial statements and cover all activities in the municipality and directories. The financial statements are prepared with data from the KFMIS and contain enough information about the types of revenues, payments, assets, financial liabilities, comparisons with previous years, outstanding obligations, capital investments, donations, number of employees, etc.

The review of Pristina Municipality's Financial Statements for year 2009 pointed out that the following information was included:

- statement of consolidated receipts and cash payments, including comparison for 2007, 2008, 2009;
- budget execution details for the main categories of revenue and expenditure, including comparison for 2007, 2008, 2009;
- budget execution details according to economic classification for the main categories of funding source, including government grants, MOSR, carry forward MOSR, and donor designated grants;
- budget execution details according to functional classification;
- budget revenue details for the main categories of MOSR;
- statement of outstanding obligations;
- statement of municipal employment at the beginning and end of 2009.

However, the audit of the 2009 financial statements performed by the Office of the Auditor General concluded the following shortcomings in the completeness of financial statements (Audit Report 2009, p. 4):

- The own source revenues that were carried forward, were not properly disclosed;
- Properties, premises and equipment were not disclosed; and
- Outstanding liabilities were not properly presented.

In the opinion of OAG the financial statements of Municipality of Prishtina for the year to 31 December 2009 presented a true and fair view in all material aspects of the financial position (ISSAI 400 Unqualified Opinion with an Emphasizes of matter).

The interim audit of Pristina Municipality operative activities performed by the Auditor General Office for the period January-September 2010 found progress in the implementation of past recommendations on the quality and completeness of Financial Statements. In particular, the Municipality approved and advanced the implementation of Action Plan to address issues of Financial Statements. However, the interim audit revealed persistent shortcomings in the areas of: registration and disclosure of assets; registration and disclosure of outstanding liabilities; and revenue reconciliation. Score B

##### **(ii) Timeliness of submission of the financial statements**

Pristina Municipality, in compliance with the requirements of Administrative Instruction 20/2009, has been preparing and submitting to the MFE financial statements annually. The last two financial statements are dated:

- 1) February 10, 2010 for the 2009 fiscal year
- 2) January 31, 2011 for the 2010 fiscal year

Pristina Municipality complies with the requirement of timely preparation and submission of its financial statements. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year.

Score A

**(iii) Accounting standards used**

In accordance with Administrative Instructions in place, Pristina Municipality is responsible for the preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

In 2010, the Auditor General audit report (Audit Report 2009, p. 11) concluded that the Municipality has prepared its Financial Statements in full compliance with the IPSAS requirements, although noticed non-compliance with laws and regulations, which ultimately negatively affected the accuracy and completeness of Financial Statements.

Score A

PI-25	Explanation	Score – M1
(i) Completeness of the financial statements	<b>Score B</b> (i) A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenues, expenditure and financial assets/liabilities	<b>B+</b>
(ii) Timeliness of submission of the financial statements	<b>Score A</b> (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year	
(iii) Accounting standards used	<b>Score A</b> (iii) IPSAS or corresponding national standards are applied for all statements	

## **4.6 External Scrutiny and Audit**

### **4.6.1 PI-26 Scope and Nature of Follow-up of External Audit**

**(i) Scope/nature of audit performed (incl. adherence to auditing standards)**

Pristina Municipality's financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with respect to the financial statements for the year ended 31 December 2009. The audit was carried out in accordance with international auditing standards issued by INTOSAI (Audit Report 2009, p.4) and represented a regularity audit defined as an attestation of financial accounting involving the examination and evaluation of financial statements, regularity of underlying financial transactions, and financial management including the appropriateness of internal controls and internal audit functions (Audit Report 2009, p.5). No performance audit has been performed in Pristina Municipality.

Score B

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

Financial statements are submitted to the Office of Auditor General by March 31. For the last two years, the audit reports on Pristina Municipality's financial statements were completed and submitted by the Auditor General to the Mayor within 6 months from the receipt of financial statements. In 2010, the audit report was submitted within 3 months, what represents an improvement. The following presents the actual dates of Pristina's audit reports: August

2009 for fiscal year 2008, and June 2010 for fiscal year 2009. At the time of their submission to the Mayor, Audit Reports were also published on the website and made available to the Municipal Assembly respectively.

Score A

### (iii) Evidence of follow up on audit recommendations

The assessment of this dimension is derived from annual audit reports, which outline summary information on the extent of the implementation of prior year's audit recommendations. The following is an overview from the last three audit reports:

Table 17: Status of External Audit Recommendations, 2007-2009

Audited year	Total Recommendations	Implemented	Partially Implemented	Outstanding	Outstanding as % of Total
2006	97	12	15	70	72%
2007	10	0	5	5	50%
2008	24	0	5	19	79%

Source: Auditor General Reports

The evidence suggests that there is a lack of reasonable and systematic measures to follow up on audit recommendations in Pristina Municipality. Failure to fully address audit recommendations is a concern and led to sustained repetition of similar problems across recent years.

Score C

PI-26	Explanation	Score – M1
(i) Scope/nature of audit performed (incl. Adherence to auditing standards)	<b>Score B</b> (i) SN government entities representing at least 75% of total expenditure are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. There is a clear delegation of responsibilities between audit entities.	<b>C+</b>
(ii) Timeliness of submission of audit reports to legislature	<b>Score A</b> (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office	
(iii) Evidence of follow up on audit recommendations	<b>Score C</b> (iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up	

#### **4.6.2 PI-27 Legislative Scrutiny of the Annual Budget Law**

##### **(i) Scope of the legislature's scrutiny**

Pristina's Municipal Assembly is actively engaged in the municipal budget process, including key stages of budget proposal development and approval. During the 2011 Budget process, the Assembly was involved in the following:

- The review and approval of municipal medium term budget framework, including projection of the key municipal budget parameters;
- The conduct of five budget hearings with citizens regarding budget priorities and capital program;
- The review, debate, and approval of municipal budget proposal.

According to the Chairman of Municipal Assembly, the Assembly is sufficiently informed and involved in the budget process, with the possibility to make key decisions. The process is open and transparent, with the Assembly's debates recorded and documented in publicly available minutes from meetings.

Score A

##### **(ii) Extent to which the Assembly's procedures are well-established and respected**

The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The primary responsibility for budget review rests with the Policy and Finance Committee before the budget proposal goes for the general Assembly debate. Professional input and consultations are sought from other six specialized committees, which analyze specific budget aspects in accordance with their respective expertise area.

Score A

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

The Municipal Assembly is allowed one month – since September 1<sup>st</sup> to September 30<sup>th</sup> – to conduct the review and approval of municipal budget proposal. These deadlines are provided in the legislative framework and embodied in the LPFMA.

The 2011 Budget calendar assessed in PI-11 suggests that the Municipal Assembly received budget proposal from the executive branch in mid-September 2010, which provided only two weeks for the Assembly review and approval. Subsequently, criteria for score D would be met. However, in light of an extensive Assembly's involvement during the budget process as described above in PI-27(i) a score B can be justified.

Score B

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

The LPFMA provides for rules governing in-year amendments to the municipal budget. In accordance with this legislative framework all amendments and adjustments to the budget require prior review and approval of the Municipal Assembly. Pristina Municipality fully adhered to this requirement during 2010.

Score A

PI-27	Explanation	Score-M1
(i) Scope of Assembly's scrutiny	<b>Score A</b> (i)The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue .	<b>B+</b>
(ii) Extent to which the Assembly's procedures are well-established and respected	<b>Score A</b> (ii)The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committee, and negotiation procedures.	
(iii) Adequacy of time for the Assembly to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	<b>Score B</b> (iii)The legislature has at least one month to review the budget proposals	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Assembly	<b>Score A</b> (iv)Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected	

#### 4.6.3 PI-28 Legislative Scrutiny of External Audit Reports

##### (i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)

In Pristina Municipality the review of audit reports by the Assembly coincides with the presentation of mid-year report on the status of municipal financial affairs by the Mayor. Usually, the review and debate on audit reports takes 1 – 1.5 months (at most 3 months). The audit report on the 2009 Financial Statement was debated during two Municipal Assembly sessions.

Score A

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

Pristina's Municipal Assembly conducts dedicated hearings on audit reports, including with the participation of the Mayor and inquiries session. The Assembly lacks specialized professional capacity to review, analyze, and assess audit reports, thus such hearings are usually limited to issues motivated by political debate rather than technical ones generated by the audit report. The Assembly generally relies on independent auditor's findings and opinion.

Score C

### (iii) Issuance of recommendations by the Assembly and implementation by the Government

Generally due to the lack of expertise and professional capacity Pristina's Municipal Assembly does not issue own recommendations following the review of audit reports. It rather reinforces and concurs with the recommendations issued by the Auditor General, while Mayor presents action plan for the implementation of audit report recommendations.

The Assembly does not monitor the implementation of action plan and recommendations. Evidence from audit reports for the last three years (see PI-26) suggests that follow up on audit recommendations is only partial.

Score D

PI-28	Explanation	Score-M1
(i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)	<b>Score A</b> (i)Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports	<b>D+</b>
(ii) Extent of hearings on key findings undertaken by the Assembly	<b>Score C</b> (ii)In-depth hearings on key findings take place occasionally, cover only a few audited entities, or may include with ministry of finance officials only	
(iii) Issuance of recommendations by the Assembly and implementation by the Government	<b>Score D</b> (iii)No recommendations are being issued by the legislature	

## 4.7 Donor Practices

### 4.7.1 D-1 Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)

Municipalities are not recipients of direct budget support from donors.

Score: Not Applicable

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

Score: Not Applicable

<b>D – 1</b>	<b>Explanation</b>	<b>Score- M1</b>
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	Not Applicable	<b>Not Applicable</b>
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Not Applicable	

#### **4.7.2 D-2 Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme aid**

##### **(i) Completeness and timeliness of budget estimates by donors for project support**

During 2010, Pristina Municipality entered into a bilateral cooperation agreement with one donor – United States Agency for International Development (USAID). Through its implementator, CHF International, USAID provided assistance in the provision of strategic investments in the education sector funded under the Small Infrastructure for Education in Kosovo (SIEK) program. Seven projects were identified to help meet goals of reducing school shifts and improving conditions in Pristina Municipality schools. Projects included expanding and improving of physical space within existing schools through the construction of annexes, completion of unfinished classrooms and general renovation of dilapidated infrastructure.

The project assistance consisted of USAID contribution of 505,000 euro and Pristina Municipality commitment of 848,000 euro from its own budget resources to co-finance this initiative. Memorandum of Understanding and commitment of financing took place before the beginning of 2010. Capital projects consistent with Municipality's co-funding commitment were agreed, incorporated into, and approved in the 2010 Budget.

Score A

##### **(ii) Frequency and coverage of reporting by donors on actual donor flows for project support**

USAID/CHF and Pristina Municipality entered into joint Project Management agreement. Two oversight commissions were established for the purpose of project supervision and project acceptance. Detailed technical and financial reporting on project implementation took place periodically and in accordance with reporting requirements established in the contract. Execution of Municipality's co-funding was conducted and recorded through the KFMIS.

Score A



D-2	Explanation	Score-M1
(i) Completeness and timeliness of budget estimates by donors for project support	<b>Score A</b> (i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursements of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification	<b>A</b>
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	<b>Score A</b> (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification.	

### 4.7.3 D-3 Proportion of Aid that is Managed by use of National Procedures

#### (i) Overall proportion of aid funds to central government that are managed through national procedures

Procurement and implementation of project assistance described in D-2 above was wholly conducted in accordance with the Kosovo procedures and rules.

Score A

D-3	Explanation	Score-M1
(i) Overall proportion of aid funds to SN government that are managed through national procedures.	<b>Score A</b> (i) 90% or more of aid funds to SN government are managed through national procedures	<b>A</b>

### 4.8.1 HLG-1 Predictability of Transfers from Higher Level of Government

#### (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

There are three main categories of transfers from the Kosovo Central Government to Municipalities:

- (a) Unconditional general grant that municipalities may use in the discharge of any of their municipal competencies;
- (b) Specific (earmarked) education grant to finance the cost of providing a minimum standard services in pre-primary, primary and secondary education;
- (c) Specific (earmarked) health grant to finance the cost of providing a minimum standard service in public primary healthcare.

The LLGF foresees specific additional transfers for the implementation of enhanced and delegated competencies by the selected municipalities. The intergovernmental body – Grants Commission – is responsible for the determination of aggregate amounts of government transfers and allocation criteria to individual municipalities. The allocation is determined annually and based on objective and transparent formulae, which take into account such factors as municipal population, size, ethnicity, school enrollment. Transfer estimates are then communicated to municipalities at the beginning of budget process through Budget Circular issued by MFE. Unspent appropriation of grants' amounts lapses on December 31.

During the analyzed period of 2008-2010 Pristina Municipality was a recipient of general grant, education grant, and health grant, which in total amounted to approximately 60% of municipal financing (i.e., residual funded by MOSR). During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Pristina Municipality original budget. Additional allocations of grants determined during mid-year review processes contributed to such developments.

Table 17: Annual Deviation in the Allocation of Total HLG Transfers, 2008-2010, euro

	<b>Original Grants Allocation</b>	<b>Actual Grants Used</b>	<b>Difference</b>	<b>Variance</b>
<b>2008</b>	20,087,580	21,618,200	1,530,620	<b>8%</b>
<b>2009</b>	28,516,333	29,151,363	635,030	<b>2%</b>
<b>2010</b>	31,839,236	32,721,713	882,477	<b>3%</b>

Source: KFMIS

Score A

**(ii) Annual variance between actual and estimated transfers of earmarked grants**

Deviations in earmarked grants as recorded for the last three years in Pristina Municipality are relatively small and did not exceed 5% in only one year.

Score B

Table 19: Variance in Actual and Estimated Earmarked Grants, 2008-2010

	<b>Total Grants Deviation</b>	<b>Earmarked Grants Variance</b>	<b>Variance Beyond Total Deviation</b>
<b>2008</b>	7.6%	8.0%	<b>0.4%</b>
<b>2009</b>	2.2%	7.3%	<b>5.1%</b>
<b>2010</b>	2.8%	2.9%	<b>0.1%</b>

Source: KFMIS

Table 20: Total Grants Deviation and Grants Variance for the Main Categories of HLG Transfers, 2008-2010

	<b>Original Grant Allocation (Budget Schedule)</b>	<b>Actual Grant Used (Expended Dec 31)</b>	<b>Difference</b>	<b>Asbsolute</b>	<b>Variance</b>
<b>2008</b>					
General Administration (Unconditional Grant)	7,409,110	8,317,453	908,343	908,343	12%
Education (Earmarked Education Grant)	9,458,434	10,114,516	656,082	656,082	7%
Health (Earmarked Health Grant)	3,220,036	3,186,231	-33,805	33,805	1%
<b>Total Deviation</b>	<b>20,087,580</b>	<b>21,618,200</b>	<b>1,530,620</b>	<b>1,530,620</b>	<b>8%</b>
<b>Composition Variance</b>	<b>20,087,580</b>	<b>21,618,200</b>		<b>1,598,230</b>	<b>8%</b>
<b>2009</b>					
General Administration (Unconditional Grant)	13,566,346	13,147,445	-418,901	418,901	3%
Education (Earmarked Education Grant)	10,838,020	12,201,958	1,363,938	1,363,938	13%
Health (Earmarked Health Grant)	4,111,967	3,801,960	-310,007	310,007	8%
<b>Total Deviation</b>	<b>28,516,333</b>	<b>29,151,363</b>	<b>635,030</b>	<b>635,030</b>	<b>2%</b>
<b>Composition Variance</b>	<b>28,516,333</b>	<b>29,151,363</b>		<b>2,092,846</b>	<b>7%</b>
<b>2010</b>					
General Administration (Unconditional Grant)	14,701,493	14,688,090	-13,403	13,403	0%
Education (Earmarked Education Grant)	12,448,094	12,663,647	215,553	215,553	2%
Health (Earmarked Health Grant)	4,689,649	5,369,976	680,327	680,327	15%
<b>Total Deviation</b>	<b>31,839,236</b>	<b>32,721,713</b>	<b>882,477</b>	<b>882,477</b>	<b>3%</b>
<b>Composition Variance</b>	<b>31,839,236</b>	<b>32,721,713</b>		<b>909,283</b>	<b>3%</b>

Source: KFMIS

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)**

There is no specific timetable agreed between levels of government for the in-year distribution of grant disbursements. Cash liquidity has not been a problem in Kosovo, and as a rule the allocation of funds for expenditure financed from grants is done in accordance with monthly and quarterly allocation schedule requested by a municipal budget organization in its cash flow plan submitted to the Treasury (see PI-16). Treasury in managing allocations adheres to this schedule agreed with a municipality. Given that legislative framework foresees provides for appropriations from grants to laps at the end of fiscal year (i.e., only unspent MOSR are automatically carried forward), there is a strong incentive for municipalities to spend all grants' funds in order not to lose financing allocated from the central government.

Score A

HLG-1	Explanation	Score-M1
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	<b>Score A</b> (i) In no more than one out of the last three years have HLG transfers fallen short of the estimated by more than 5%	<b>B+</b>
(ii) Annual variance between actual and estimated transfers of earmarked grants	<b>Score B</b> (ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 5 percentage points in no more than one of the last three years.	
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	<b>Score A</b> (iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years	

## 5. Podujevo Municipality PEFA Performance Report

### Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	N/A
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	D
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	A
PI-25	Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	N/A
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A
D-2	Financial information provided by donors	A
D-3	Proportion of aid that is managed by use of national procedures	A
HLG-1	Predictability of Transfers from Higher Level of Government	A

## **Municipality Background Information**

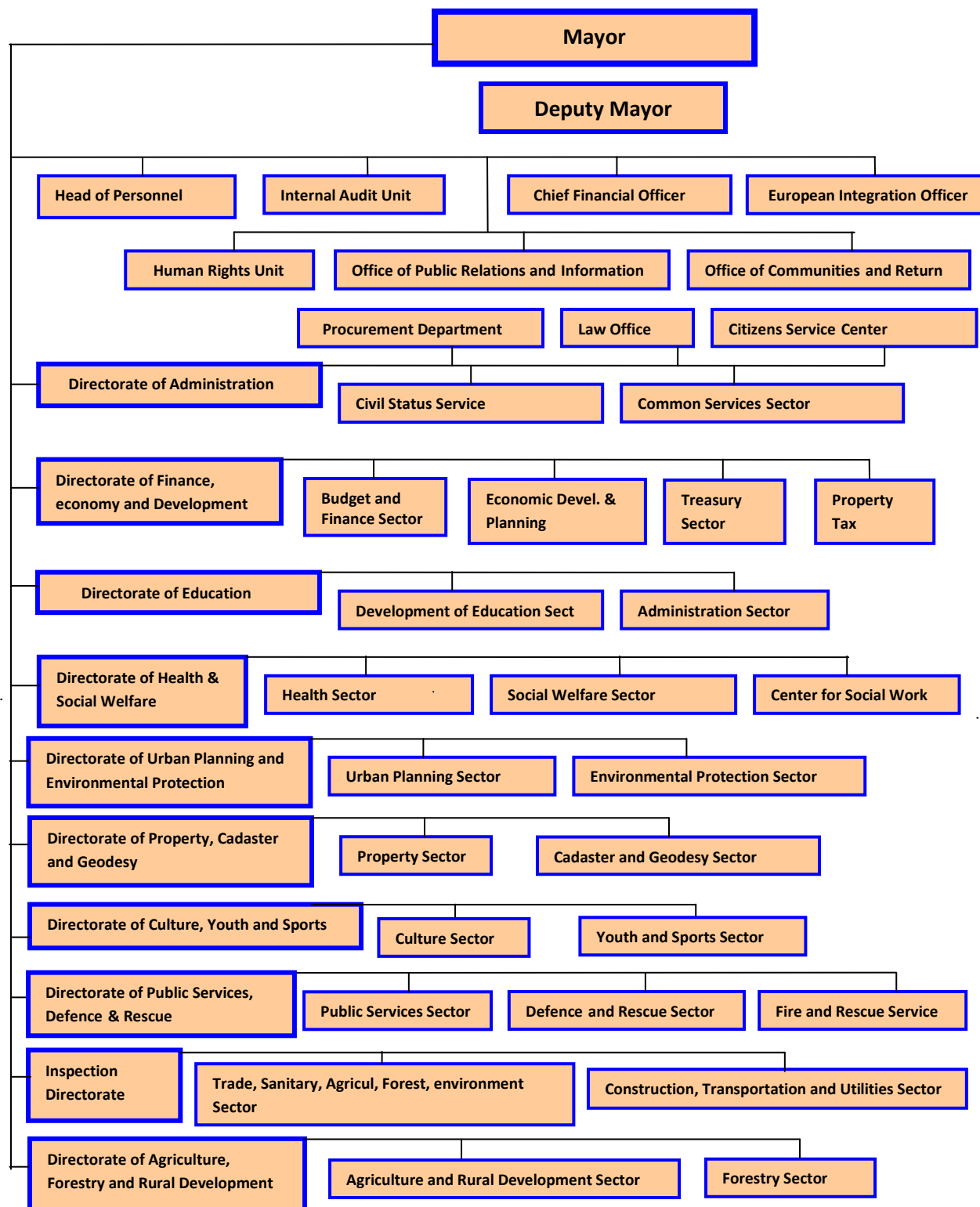
The municipality of Podujevo has a population of some 130,000 and comprises 77 villages and the main town of Podujevo. It is situated in the northeast of Kosovo with a landmass measuring 633 square kilometres with mountainous features to the west and east of Kosovo featuring the Lab hollow and the Albanikut eastern mountains. The municipality contains a significant transverse through which passes a highway connecting Kosovo with other parts of the Balkan Peninsula.

Podujevo is primarily an agricultural area, with 34,214 ha of agricultural land. The protection of agricultural land against illegal construction is a priority. Podujevo offers great potential and opportunity for the development of ecotourism. Batllava Lake is the largest lake in Kosovo and attracts many visitors.. It supplies drinking water for three municipalities, including Pristina, and has been proposed to become a national park.

The Municipality of Podujevo consists of 17 local community offices, of which 3 are located in the main town itself and 14 are located in rural areas that cover 77 villages. The changes made to the electoral system and promulgation of the Law on Local Self Government in 2008 resulted in a considerable institutional reforms at the municipality level. The Mayor is now directly elected, while the Assembly members are elected through a proportional system based on open election lists. There is currently 1,965 Municipality staff (in 2010 there was 1,948). The organizational structure of the Municipality is shown below.



Figure 1. The organizational structure of the Podujeva Municipality



## Assessment of the PFM systems, processes and institutions

### 5.1 Budget Credibility

#### 5.1.1 PI-1 Aggregate Expenditure Out-Turn

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

The actual out-turn deviated from the original plan by 2.4% in 2008, 3.8% in 2009, and 4.9% in 2010 with an under-spend in each of the three years.

Table 1: Podujevo Municipality Budget Outturn, 2008-2010

	2008	2009	2010
Original Budget Plan (euro)	8,294,832.00	11,151,357.00	12,990,190.00
Actual Budget Outcome (euro)	8,494,471.43	11,573,315.70	13,628,274.01
Difference (euro)	-199,693.43	-421,958.70	-638,084.01
<b>Difference (%)</b>	<b>2.4</b>	<b>3.8</b>	<b>4.9</b>

Source: KFMIS

Score A

PI-1	Explanation	Score – M1
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	<b>Score A</b> (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure	<b>A</b>

#### 5.1.2 PI-2 Composition of Expenditure Out-Turn

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years

This indicator measures the extent to which reallocations between budget lines/programs have contributed to variance<sup>31</sup> in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.

Relatively low level of variance in expenditure composition relating to administrative categories (see annex) was recorded for each of the last three years and is primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations. Reallocations do exist, however, and their impact appears crucial. While the original budget does not incorporate expenditures funded by unspent MOSR carried forward, such expenditure is recorded in the outturn. This practice results in a considerable difference between budget plan and actual expenditure for a number of budget programs, in particular related to capital spending in Public Services, Economic Development, and Urban Planning.

<sup>31</sup> The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure, calculated as a percent of budgeted expenditure for the main budget programs envisaged on municipality budget plan.



Table 2: Total Deviation and Expenditures Deviation, 2008 - 2010

Year	Total expenditure deviation (PI-1)	Overall expenditure deviation	Variance beyond overall deviation (PI-2)
2008	2.4%	4.4%	2.0%
2009	3.8%	3.9%	0.1%
2010	4.9%	6.5%	1.6%

Source: KFMIS

Score A

PI-2	Explanation	Score – M1
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	<b>Score A</b> Variance beyond total deviation has not exceeded the level of 5% in any of the last 3 years.	<b>A</b>

Table 3: Total Deviation and Expenditure Deviation, Main Budget Programs, 2008-2010

2008					
functional head	budget	actual	difference	absolute	percent
Office of the Mayor	108,519.00	125,954.32	17435.32	17435.32	16.1%
Municipal Administration	283,972.00	299,563.99	15591.99	15591.99	5.5%
Budget, Finance	83,995.00	89,477.80	5482.8	5482.8	6.5%
Inspection	51,224.00	51,277.10	53.1	53.1	0.1%
Community and Public Relation, demo.	15,432.00	15,206.94	-225.06	225.06	1.5%
Office of the Chief Exc.	52,229.00	51,696.64	-532.36	532.36	1.0%
Office to the Community	6,004.00	5,829.80	-174.2	174.2	2.9%
Public services, civil protection, emer.	97,494.00	86,772.26	-10721.74	10721.74	11.0%
Agriculture, Forestry, Rural Development	17,939.00	16,782.14	-1156.86	1156.86	6.4%
Economy	32,619.00	30,280.00	-2339	2339	7.2%
Geodesy, Cadastre, Property	49,487.00	47,101.84	-2385.16	2385.16	4.8%
Urbanism	2,229,038.00	2,222,295.15	-6742.85	6742.85	0.3%
Health, Social Welfare	1,112,860.00	1,055,207.06	-57652.94	57652.94	5.2%
Culture, Youth, Sports	59,370.00	57,957.88	-1412.12	1412.12	2.4%
Education and Science	4,094,650.00	4,339,068.51	244418.51	244418.51	6.0%
<b>total expenditure deviation</b>	<b>8,294,832.00</b>	<b>8,494,471.43</b>	<b>199,639.4</b>	<b>199,639.43</b>	<b>2.4%</b>
<b>composition variance</b>	<b>8,294,832.00</b>	<b>8,494,471.43</b>	<b>3</b>	<b>366,324.01</b>	<b>4.4%</b>

<b>2009</b>					
<b>functional head</b>	<b>budget</b>	<b>actual</b>	<b>difference</b>	<b>absolute</b>	<b>percent</b>
Office of the Mayor	122,202.00	176,813.49	54611.49	54611.49	44.7%
Administration and Personnel	282,738.00	352,844.16	70106.16	70106.16	24.8%
Inspection	48,390.00	51,356.81	2966.81	2966.81	6.1%
Budget, Finance	134,459.00	169,010.79	34551.79	34551.79	25.7%
Community Office	5,832.00	5,700.24	-131.76	131.76	2.3%
Agriculture Forestry. Rural Development	21,765.00	19,625.54	-2139.46	2139.46	9.8%
Geodesy, Cadastre	52,083.00	57,454.16	5371.16	5371.16	10.3%
Urban Planning and Environment	4,033,621.00	4,167,194.78	133573.78	133573.78	3.3%
Primary Health Care	1,261,503.00	1,313,193.54	51690.54	51690.54	4.1%
Payment for Health Perform.	57,284.00	54,013.40	-3270.6	3270.6	5.7%
Culture, Youth, Sports	61,209.00	68,123.97	6914.97	6914.97	11.3%
Education and Science	5,070,271.00	5,137,984.82	67713.82	67713.82	1.3%
<b>total expenditure deviation</b>	<b>11,151,357.00</b>	<b>11,573,315.70</b>	<b>421,958.70</b>	<b>421,958.70</b>	<b>3.8%</b>
<b>composition variance</b>	<b>11,151,357.00</b>	<b>11,573,315.70</b>		<b>433,042.34</b>	<b>3.9%</b>

<b>2010</b>					
<b>functional head</b>	<b>budget</b>	<b>actual</b>	<b>difference</b>	<b>absolute</b>	<b>percent</b>
Office of the Mayor	99,369.00	98,599.86	-769.14	769.14	0.8%
Administration and Personnel	298,735.00	381,847.94	83112.94	83112.94	27.8%
Inspection	50,215.00	52,277.79	2062.79	2062.79	4.1%
Office of the Municipal Assembly	132,990.00	107,804.28	-25185.72	25185.72	18.9%
Budget, Finance	4,617,035.00	4,842,333.51	225298.51	225298.51	4.9%
Community Office	6,590.00	3,743.76	-2846.24	2846.24	43.2%
Agriculture Forestry. Rural Development	22,592.00	62,460.72	39868.72	39868.72	176.5%
Geodesy, Cadastre	62,000.00	62,724.35	724.35	724.35	1.2%
Urban Planning and Environment	310,866.00	325,948.20	15082.2	15082.2	4.9%
Primary Health Care	1,540,943.00	1,691,774.36	150831.36	150831.36	9.8%
Payment for Health Perform.	61,792.00		-61792	61792	100.0%
Culture, Youth, Sports	106,234.00	91,962.80	-14271.2	14271.2	13.4%
Education and Science	5,680,829.00	5,906,796.44	225967.44	225967.44	4.0%
<b>total expenditure deviation</b>	<b>12,990,190.00</b>	<b>13,628,274.01</b>	<b>638,084.01</b>	<b>638,084.01</b>	<b>4.9%</b>
<b>composition variance</b>	<b>12,990,190.00</b>	<b>13,628,274.01</b>		<b>847,812.61</b>	<b>6.5%</b>

Source: KFMIS

### 5.1.3 PI-3 Aggregate Revenue Out-Turn

#### (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

Municipal revenue data are presented below, broken down by source. Actual revenue collection was lower than budget forecast for 2008 and 2010. In 2009 actual revenue collection was higher than budget forecast. Property Tax and Construction Permits for the large businesses are two main sources of the revenue collection which are around 50% of the total revenue.

Table 4: MOSR Budget Plan and Actual Out-Turn, 2008-2010, euro

	2008			2009			2010		
	Budget	Actual	Differ.	Budget	Actual	Differ.	Budget	Actual	Differ.
Administration Fees	105,000	118,718	113%	105,000	118,647	113%	110,000	104,486	95%
Revenue from cadastre	45,000	10,780	24%	45,000	12,060	26%			
Revenue from inspectorate	5,000			5,000	390	7%			
Use of public areas	53,000	50,300	95%	53,000	28,116	53%	70,000	36,665	52%
Property transactions	15,200	1,154	7%	15,200	1,385	9%			
Business licenses	85,000	191,228	225%	80,000	107,570	134%	90,000	120,902	134%
Revenue from construction permits	135,800	114,748	84%	133,800	333,050	249%	255,556	218,535	85%
Property tax	197,365	299,187	151%	197,000	207,475	105%	200,000	256,954	128%
Education co-payments	25,000	17,093	68%	25,000	21,295	85%	305,000	48,779	16%
Health co-payments	75,000	49,135	65%	75,000	35,306	47%	75,000	39,310	52%
Road tax		47,706			76,036				
Other revenue	258,635	74,385	28%	170,964	142,296	83%	175,000	176,912	101%
<b>Total</b>	<b>1,000,000</b>	<b>974,756</b>	<b>97%</b>	<b>981,000</b>	<b>1,007,590</b>	<b>103%</b>	<b>1,280,556</b>	<b>1,002,543</b>	<b>78%</b>

Source: KFMIS

Score A

PI-3	Explanation	Score – M1
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	<b>Score A</b> (i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	<b>A</b>

### 5.1.4 PI-4 Payment Arrears

#### (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

In accordance with the Treasury rules all claims for payment that are received by the municipality should be paid within 30 days after the receipt of an invoice. The obligations outstanding at the end of a fiscal year are required to be: (a) reported to the Treasury and Budget Departments in MFE; (b) reported in financial reports; and (c) reflected as a commitment in the KFMIS.

Assessment for 2009 is based on the analysis of the information in Table 5 below:

1. List of outstanding obligations (i.e., older than 30 days) at the end of year presented in the 2009 Financial Statement;
2. List of invoices dated before December 1, 2009 and included as expenditure transactions recorded in the KFMIS during 2010, with the comparison of invoice date and payment date;
3. List of invoices dated before December 1, 2009 and included as expenditure transactions recorded in the KFMIS during 2010 excluding payments against court orders related to cases originating from the period 2007 – 2009 which were judged by courts during 2010. The delays in the settlement of these payments were subject to courts' determination and beyond direct Municipality control. Thus, although they constituted only 10% of total amount of recorded arrears (see item 2) it is proposed to exclude them from the assessment.

Table 5: Assessment of Expenditure Arrears, 2009

Item	Data Source	Total Budget Expenditure (euro)	Total Arrears (euro)	Total Arrears as percent of Total Expenditure (%)
1	2009 Financial Statement	11,573,315	164,830	1.42
2	2010 KFMIS		235,304	2.03
3	2010 KFMIS, excluding court orders transactions		211,497	1.82

Source: KFMIS

In 2009, following the decentralization of the expenditure function to the local government the municipality became fully responsible for the processing of expenditure, with document control, approval, and payment authority. Although overall arrears existing at the end of 2009 appear relatively minor, but the analysis of information recorded in the KFMIS during the following year suggests considerable delays in the recording and payment of invoices dated in 2009.

Also, despite the payment of a majority of outstanding obligations by the end of year, some delays in settling individual due invoices occur during the course of year. The age profile of due invoices in 2009 is presented below and suggests that about 6% of municipal expenditure entered into arrears (i.e. not paid within the required time period). These were mainly utilities and maintenance expenses, such as water, electricity, heating oil of primary spending units (schools and health houses) as well as some capital investment contracts.

Given that cash liquidity is not a problem in Kosovo, this points out to weaknesses in documents/transactions flow between the levels of municipal administration and the lack of regular monitoring of due payments although it is clear that arrears at the end of the accounting period is not a serious problem.

Table 6: Age Profile of Expenditure Arrears, 2009

	Older than 30 days	Older than 60 days	Older than 120 days
Total budget expenditure (euro)	11,573,316		
Value of overdue bills (euro)	682,057	513,297	302,344
<b>Overdue bills as % of total budget expenditure</b>	<b>5.89%</b>	<b>4.44%</b>	<b>2.61%</b>

Source: KFMIS

Score C

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

In 2007, the purchasing module was implemented in the KFMIS to facilitate follow-up and execution of payments by inputting data from purchase requests and purchase-order forms. Implementation of the purchasing module has allowed the entering of the date of invoice, date of invoice recording, and date of payment. Since 2009 more emphasis has been placed by Treasury on strengthening the compliance by budget organizations with requirement to record date information timely.

This allows the timeline for when the payment was executed to be assessed and enables monitoring of the payments and expenditure calculations relating to procurement. However, in practice the requirement to enter invoice dates in the KFMIS and/or to record invoices at the time of their receipt is not always complied with, which undermines the effectiveness of monitoring and measuring arrears.<sup>32</sup>

The discrepancy – amounting to about 30% - between the value of arrears identified in Podujevo Municipality's Financial Statements (see item 1 in table 5 above) and actual arrears evidenced in the KFMIS (see item 2 and 3 in table 5 above) suggests considerable delays that Podujevo Municipality encountered in recording its invoices in the KFMIS.

Overall, data on the stock of arrears is generated by Podujevo Municipality through routine procedures at the end of each fiscal year and reported in the Financial Statements; however the completeness of this information raises some concerns. The information could be made better by ensuring that the date of the invoices is consistently entered into KFMIS.

Score B

PI-4	Explanation	Score – M1
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	<b>Score C</b> (i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years.	<b>C+</b>
(ii) Availability of data for monitoring of stock of expenditure payment arrears	<b>Score B</b> (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	

<sup>32</sup> Excel spread sheets are used as an informal way of keeping records on arrears, but in reality the KFMIS should be solely used for recording invoices. The use of spread sheets is not a good practice when the KFMIS is available.

## 5.2 Comprehensiveness and Transparency

### 5.2.1 PI-5 Classification of the Budget

#### (i) The classification system used for formulation, execution and reporting of the central government's budget

The Budget Classification/Chart of Account is based upon Government Financial Statistics (GFS) 2001 and is COFOG compliant. The classification system is administered by Treasury /Ministry of Economy and Finance using KFMIS. Municipal budget planning, execution, and reporting are by:

- Functional classification (6 main functions and related sub-functions) compared to 10 groups at level 1 and sub functions for central government;
- Economic classification (5 main codes);
- Administrative classification (16 main codes).

A municipality may only request – with the consent of Treasury - some adjustments to the system in use which is provided by the Treasury on the basis of specific administrative requirements they have, but it has no control over the design or structure of the system. Municipal budget documentation is compiled in a consistent manner for these classifications:

1. Budget formulation: detailed budget plans are based on administrative and economic codes. Budget documentation does not explicitly present the functional classification, however it can be produced as functional codes are linked to the administrative classifications and are available in the budget documentation.
2. Budget execution: actual outturn, including authorization for expenditure, allocations, commitments, and daily expenditure, are all recorded by the three classifications.
3. Budget reporting: Reports may be generated electronically based on the three classifications, enabling comparison between original budget plan and outturn; these reports are routinely generated by economic and administrative classifications for the purposes of budget execution reports and financial statements.

Score: A

PI-5	Explanation	Score – M1
The classification system used for formulation, execution and reporting of the local government's budget.	<b>Score A</b> Budget formulation and execution is based on functional, economic and administrative classifications according to GFS/COFOG standards	<b>A</b>

### 5.2.2 PI-6 Comprehensiveness of Information Included in Budget Documentation

#### (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)

Budget documentation used for the purpose of this assessment includes the 2011-2013 Municipal MTEF and the 2011 Municipal Budget produced during the most recent budget development cycle and approved by the Podujevo's Municipal Assembly in September 2010.

The following elements were included in the 2011 budget documentation:

Table 7: Scope of Budget Documentation, 2011

	Actually Used	Comments
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation as representative for Kosovo	No	Main macroeconomic indicators are available in the national MTEF document; Municipal Budget Circular issued by MFE instructs the use and presentation of economic and budgetary fiscal assumptions for the purpose of municipal MTEF.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	Yes	Fiscal balance - defined as total revenue less total expenditure - is presented on budget schedules submitted to the Municipal Assembly.
3. Deficit financing, describing anticipated composition	Yes	The budget is presented as “balanced”; MOSR unspent balances are not included in the budget schedules – either on expenditure or retained earnings side - but are automatically carried forward in accordance with the Budget Law.
4. Debt stock, including details at least for the beginning of the current year	Yes	Municipality does not currently have any debt; the Law on Public Debt – allowing for municipal borrowing - entered into force only in 2009.
5. Financial Assets including details at least for the beginning of the current year	No	The statement of Financial Assets is not included in budget documentation; however it is contained in the annual Financial Statement. Also, resulting the Treasury procedures on carry forward of unspent balances of MOSR, these funds are incorporated and envisaged on the current year budget information.
6. Prior year’s budget outturn, presented in the same format as the budget proposal	Yes	Information is included in budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
7. Current year’s budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Information on current year budget – as resulting from mid-year budget review – is included on budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	Summarized budget data, presented on a separate budget schedule, includes information on the main categories of revenues and expenditure aggregates by economic classification. However, summary budget data by administrative and functional classifications are not produced and presented in budget document.
9. Explanation of budget implications of new policy initiatives (respectively by central and municipal level), with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	Budget documents submitted to the Municipal Assembly do not include explanatory narrative.

Source: Podujevo Municipality Budget Proposal Submission, September 2010

Score: B

PI-6	Explanation	Score – M1
(i) Share of below listed information in the budget documentation most recently issued by the local government.	<b>Score B</b> Recently issued budget documentation meets 5-6 out of 9 information benchmarks	<b>B</b>

### 5.2.3 PI-7 Unreported Government Operations

#### (i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports

The Government of Kosovo has implemented the Single Treasury Account and has no extra-budgetary activities. The Law on Public Financial Management and Accountability requires that all public money that is collected by all Budget Organizations – Central and Local - be deposited in the STA and cannot be spent until it is appropriated. There is no evidence of violation of this legal requirement by Municipalities, including Podujevo.

Score A

#### (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

All donor funds received by the Kosovo Government – both Central and Local Governments - from donors in cash is channeled through the Treasury/MFE STA accounts at the Central Bank and accounted for through the KFMIS. There are no bank accounts operated outside of the STA by Project Implementation Units or Budget Organizations for the implementation of donor-funded projects.

All Designated Donor Grants are appropriated as they are received from donors in the Treasury accounts and resulting expenditures are included in the regular in-year execution reports and year-end fiscal reports.

During 2009, Podujevo Municipality received one donor grants from World Bank in total amount of 13.200 Euros. Internal donations from citizen's participations were around 332.140 euros. In 2010, citizen's participations were around 141.179 euros and municipality received a donor grant from German Agency GTZ on school renovation in total amount of 40.000 Euros.

All the information's regarding donor grants was included in the Municipal Financial Statements. Donor Grants funding as compared with municipality's total budget expenditure was insignificant in both years and respective statistics are detailed below.

Table 8: Podujevo Designated Donor Grants, 2009-2010

	2009	2010
Donor received funds (euro)	345,339	181,178
Expenditure of donor funds (euro)	211,144	181,178
Total budget expenditure (euro)	11,573,316	13,769,470
<b>Expenditure of donor funds as a percentage of total budget expenditure (%)</b>	<b>1.82%</b>	<b>1.31%</b>

Source: Podujevo Municipality Financial Statements



Score A

PI-7	Explanation	Score – M1
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	<b>Score A</b> (i) The level of unreported extra budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	<b>A</b>
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	<b>Score A</b> (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	

#### 5.2.4 PI-8 Intergovernmental Fiscal Relations

**(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)**

Not applicable to the Municipality

**(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year**

Not applicable to the Municipality

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories**

Not applicable to the Municipality

PI-8	Explanation	Score-M2
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	Not applicable	<b>Not applicable</b>
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	Not applicable	
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	Not applicable	

### 5.2.5 PI-9 Fiscal Risk

#### (i) Extent of SN government monitoring of AGAs and PEs

Not applicable to the Municipality

#### (ii) Extent of SN government monitoring of SN governments' fiscal position

Not applicable to the Municipality

PI-9	Explanation	Score-M1
(i) Extent of central government monitoring of AGAs and PEs.	Not applicable	Not applicable
(ii) Extent of central government monitoring of SN governments' fiscal position.	Not applicable	

### 5.2.6 PI-10 Access to Fiscal Information

#### (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)

This indicator assesses whether information is accessible to the general public and to assess the quality of information made available.

When information is available from other sources, such as those administered by central government institutions, it is assumed that the requirement of public access is met. It has to be noted though that the Municipality of Podujevo's own efforts to ensure public access to its key fiscal documents could be strengthened. Public access to key fiscal information is assessed as follows

Table 9: Availability of Fiscal Information

Key fiscal information	Available	Comments
1. Annual Budget Documentation (complete set as listed under PI-6, to the extent information exists)	Yes	Annual Municipal Budget documents, including budget schedules and Municipal Assembly Decision on budget approval, are available on Podujevo Municipality website: <a href="http://kk.rks-gov.net/podujeve/Projects/Budget.aspx">http://kk.rks-gov.net/podujeve/Projects/Budget.aspx</a>
2. In-year budget execution reports (made available within one month of completion)	Yes	As required by the LPFMA, in-year budget execution reports are produced by municipal administration but they are not published in the municipal website. Regular Quarterly Budget Reports produced by the Treasury Department of MFE include data on municipal budget execution progress, including: actual revenue collection, actual budget expenditure out-turn compared to original budget by economic classification, execution of municipal capital projects, and municipal employment status. Quarterly Budget Reports are available on MFE website: <a href="http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq">http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq</a>
3. Year-end financial statements (made available within six months of completion or completed audit)	Yes	Municipality produces financial statements by the end of January of each fiscal year and submits them to the Treasury Department of MFE and Auditor General Office. The 2009 Financial Statement is dated January 29, 2010. Although Financial Statement is not made publicly accessible it is available upon request.
4. External audit reports (made available within six months of completed audit)	Yes	The 2009 Audit report is dated May 14, 2010. Municipality made no effort to publish Audit report on their own web-site, however report is available and published on Auditor General Office website: <a href="http://www.ks-gov.net/oag/Raportet%20shqip/2009/komunat2009/Podujevo%202009%20ALB.pdf">http://www.ks-gov.net/oag/Raportet%20shqip/2009/komunat2009/Podujevo%202009%20ALB.pdf</a>
5. Contract awards (above 10,000 euro value; published quarterly)	Yes	Contract notifications and contract awards are published on the PPRC website: <a href="http://www.ks-gov.net/krpp">www.ks-gov.net/krpp</a> . and <a href="http://kk.rks-gov.net/podujeve/Prokurimi/Njoftim-per-dhenjen-e-kontrates.aspx">http://kk.rks-gov.net/podujeve/Prokurimi/Njoftim-per-dhenjen-e-kontrates.aspx</a>
6. Resources available to primary service units	Yes	Devolution of budget process to the level of schools in 2009 contributed to the improvements in key information on budget parameters. Budgets are now prepared and executed at the level of individual schools. Information on resources available to individual schools can be obtained on request from municipal administration Department of Education. Similarly, information on resources available to primary providers in health sector can be obtained on request from Department of Health.
7. Information on Municipal Fees and Charges (rates and coverage)	Yes	Information on municipal fees and charges, including Property Tax regulation and rates, is published on Municipality website: <a href="http://kk.rks-gov.net/podujeve/Shpalljet/Rregulloret.aspx">http://kk.rks-gov.net/podujeve/Shpalljet/Rregulloret.aspx</a> 2010 Property Tax Regulation is available, and also the Regulation on Fees and Charges. There is also a leaflet on property taxes

Source: Podujevo Municipality

Score A

PI-10	Explanation	Score – M1
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	<b>Score A</b> (i) The Government makes available to the public 6-7 of the 7 listed types of information	<b>A</b>

### 5.3 Policy-Based Budgeting

#### 5.3.1 PI-11 Orderliness and Participation in Budget Process

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

The Municipal budget process is regulated by the requirements of the LPFMA and MFE instructions issued through an annual municipal budget circular. These provide the budget procedures, main information on grants for the next three years (annually), key budget stages and main statutory deadlines. In accordance with the LPFMA, the issuance of the first municipal budget circular by MFE officially commences the budget process and determines two legally binding dates that municipalities are obliged to observe: (1) Mayor's submission of draft municipal budget to Municipal Assembly not later than September 1 and (2) approval of municipal budget by Municipal Assembly and its transmission to MFE not later than September 30. Within these parameters, the timetable and management of the internal budget process is left to the discretion of the municipality's administration.

A general budget calendar has been now instituted for at least three years and municipal budget organizations are well familiar with the process. The MFE Municipal Budget Circular for the preparation of the 2011 Municipal Budget included process stages and associated deadlines<sup>33</sup>:

1. Establishment of Municipal Medium Term Budget Framework – by June 30, 2010
2. Issuance of First Internal Municipal Budget Circular: Municipality Programs Priority Review
3. Issuance of Second Internal Municipal Budget Circular: Program Specific Initial Budget Ceilings and Budget Calendar – by July 1, 2010
4. Budget Proposal Submissions by Programs
5. Issuance of Third Internal Municipal Budget Circular: Calendar and Instructions for Internal Budget Hearings
6. Preparation of Budget Proposal Documentation
7. Submission of Budget Proposal to Municipal Assembly – by September 1, 2010
8. Budget Proposal Approval by Municipal Assembly and Transmission to MFE – by September 30, 2010

The Municipality of Podujevo has followed the deadlines set out in budget circulars on the indicative timetable, and initial funding ceilings for the preparation of proposed municipal budget. Budget deadline for submission was 30 of September 2010.

The Municipality has a clear budget calendar that enables program directors to have exact information and sufficient time for proper completion of proposals/budget requests.

The following table presents the overview of Podujevo Municipality adherence to the budget development stages and actual dates during the preparation of the 2011 Municipal Budget proposal.

<sup>33</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

Table 10: Podujevo Municipality Budget Development Process, 2011

Key Municipal Budget Development Steps	2011 Budget Calendar – Actual Dates
1. Receipt of information on central government grants issued by MFE	MFE Budget Circular dated May 5, 2010
2. Submission of Municipal MTEF to Municipal Assembly	04.09.2010
3. Discussion of budget process requirements and budget parameters with the Heads of Departments	01.06.2010
4. Preparation of budget requests by the Heads of Departments	24.06.2010
5. Consolidation of budget requests and internal budget hearings in order to bring requests within provided expenditure ceilings	10.06.-25.06.2010
6. Citizens meetings and budget debates	15-25.06.2010
7. Budget proposal review by Mayor and finalization of consolidated draft Municipal Budget Proposal	27.08.2010
8. Submission of draft Municipal Budget Proposal to the Policy and Finance Committee of Municipal Assembly	14.09.2010
9. Submission of draft Municipal Budget Proposal to the Municipal Assembly	24.09.2010
10. Approval by Municipal Assembly	28.09.2010
11. Transmission of approved Municipal Budget Proposal to MFE	30.09.2010

Source: Podujevo Municipality

It can be concluded that annual budget calendar exists, is communicated to and understood by the key participants of the internal municipal budget process, and is generally adhered to with municipal Departments allowed over 3 weeks to complete and consolidate budget requests. The 2011 Municipal Budget Proposal was approved within the statutory deadline mandated by the LPFMA. Although the strict application of PEFA Framework criteria for this dimension would suggest a score C, the size of an annual budget and well established internal budget development procedures appear to allow sufficient time to budget departments thus justifying a score B.

Score B

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

Podujevo Municipality has a well formulated internal budget circular that enables program directors to have the necessary information on budget ceilings. The Mayor and Chief Financial Officer, and all directors of municipal departments are involved in determining and approving budget ceilings. All directors were provided the information about their budget ceilings before the preparation of budget requests started.

Score A

**(iii) Timely budget approval by the legislature or by another body with similar authority (during last three years)**

Podujevo municipal budget for the past three years (2009, 2010, and 2011) was approved in the municipal assembly within the timeframe established in the Law on Public Financial Management and Accountability. The following table indicates the actual dates of budget proposal approval by Municipal Assembly during the last three budget cycles.

Score A

Table 11: Budget Approval Calendar, 2009-2011

Budget	Date of approval by the Municipal Assembly
2009	30.10.2008
2010	29.09.2009
2011	28.09.2010

Source: Podujevo Municipality

PI-11	Explanation	Score-M2
(i) Existence of and adherence to a fixed budget calendar;	<b>Score B</b> (i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (and at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time	<b>A</b>
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	<b>Score A</b> A comprehensive and clear budget circular is issued to MDAs reflecting Cabinet (or equivalent) approved ceilings before distribution of circular to MDAs	
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	<b>Score A</b> The legislature has, during the last three years, approved the budget before the start of the fiscal year.	

### 5.3.2 PI-12 Multi-Year Perspective

#### (ii) Preparation of multi -year fiscal forecasts and functional allocations

During the process of preparing the strategic document MTBF, Podujevo municipality has complied with all MEF guidelines and the recommendations contained in the Budget Circular 2011/01. In MTBF revenue forecast and expenses are made for the following three years but when MTBF was assessed with budget documents, it was concluded that forecasts of the fiscal aggregates were adhered to for only two years on a rolling basis.

The data which are analyzed are as follows:

- The main macroeconomic indicators
- The effects of fiscal policy in their municipal budget, and
- Trend of revenue sources of income in the three previous years.

Also in MTBF, projections of municipal expenditures are divided under the following categories:

1. Budget expenditures by budget functions
2. Budget expenditure by economic categories

In the section of the budget expenditures by function, Podujevo Municipality has incorporated the expenditure budgeting based on performance of each program / director for the next three years, including major information performance, including mission, vision, and sharing budgetary support in achieving these objectives for each director / program.

In the section of the budget expenditure by economic categories, the Municipality of Podujevo, has made budget projections of spending under the following categories: Wages & Salaries, Goods & Services, Subsidies & Transfers and Capital expenditures (or forecast the costs of PIP). Also this category of expenditure presents shares of:

a. Current budget expenditures

b. Capital Budget Expenditures

Score B

## **(ii) Scope and frequency of debt sustainability analysis**

Podujevo Municipality has not entered into any debt financing arrangements.

This dimension is not applicable.

## **(iii) Existence of costed sector strategies (or development plans)**

During the third quarter of 2010, Podujevo Municipality has prepared a strategic document called the Local Economic Development Strategy 2011 - 2014. The drafting of this strategy for local economic development by the Municipality of Podujevo is a key component of the Developing Enterprises Locally Through Alliance and Action (DELTA) Project, which is a joint initiative of the World Bank Group and the Local Government and Public Service Reform Initiative (LGI), Hungary which is a network program of the Open Society Institute (OSI). The DELTA project was guided by Local Economic Development (LED) experts based in the Urban Department of the World Bank, and is implemented locally by Riinvest Institute. The project aims to support Kosovar Municipalities to build their capacities to draft and implement Local Economic Development strategies which will promote a more favorable environment for SME development, and strengthen the ties between local governments and other organizations (business associations, professional associations and NGOs engaged in LED).

The team for drafting the LED strategy, the working groups, stakeholders group, forum of the business community and Mayors forum were established at the beginning of the process for drafting the municipal strategy. The LED team and working groups had the full political support of the municipal leadership. The LED strategy was reviewed and approved by the Municipal Assembly on December 10, 2010.

The LED strategy provides statements on Vision, 6 Goals, 22 Objectives, Programs and projects (as specific actions the community to achieve the vision, goals and objectives). It identifies six Goals (including 22 Objectives with SMART technique- A prevalent process for setting goals uses the SMART acronym (Specific, Measurable, Achievable, Realistic, and Timely) across the main areas of municipal competencies, including: Creating environment for businesses, Sustainable Agriculture and Rural, Sustainable development and urban spatial planning, improved infrastructure, improvement of health services and level of social welfare, security and raising the quality of education.

For each Goal and Objectives area, the Development Strategy identifies a list of specific projects from institutional/soft infrastructure or hard infrastructure (capital investment projects) to ensure that goals and objectives

are met; in total 105 projects with a cost amounting to 20.5 million euro. For each project, total cost has been estimated (source of finance, implementing organizations and partners, duration starting time). Projects identified in the Local Economic Development Strategy are consistent with the Municipal MTBF for 2011-2013.

The Development Strategy contains an overview of historical trends in the main budgetary parameters, including the structure of municipal revenues and expenditure by the main competencies/functions. Also the document identifies fiscal forecast and mid-term aggregate resource envelope available for the implementation of the Strategy consistent with the affordable fiscal targets. This strategy is prepared with estimates of the expenditures included of each budget program and based on revenue sources and being modified only by macro-economic indicators and fiscal and then based on the approved budget for 2010.

This strategy presents 3-year forecast of total municipal expenditure. Municipal revenues are presented with a similar trend for each year and an increase of government grants which will then be incorporated into subsequent estimates expenditures under Budget circulars and budget limits that will be determined by the Commission grants of MEF. Revenue forecast in the Local Economic Development Strategy are consistent with the Municipal MTBF and financial terms overlap.

Score A

#### **(iv) Linkages between investment budgets and forward expenditure estimates**

Kosovo has a Public Investment Program (PIP) which central and municipal budget organizations must use to assess potential viability and prioritisation of capital projects. In principle, the system is designed to facilitate for each investment priority to be analyzed as to its financial requirements and available funding over the construction phase as well as the recurrent cost. In practice, the recurrent cost implications are rarely factored into subsequent budgets (as noted above), with some estimates and numerical assumptions entered into the system but without real relation to future budgetary implications and compliance.

It is generally considered that the PIP system and procedures are understood by municipal stakeholders following know-how transfer and training of municipal officers<sup>34</sup>. Despite this claim, the understanding of the PIP, its purpose and utilization to benefit budget planning is not clear and is consequentially deficient in its application. There are deficiencies in the timely and orderly application of the system during the course of budget process, which undermines its usefulness for the investment prioritization and its full integration into budget plan. Currently, the PIP system appears to serve as a recording tool rather than a mechanism for budgetary decision making process.

Score D

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<sup>34</sup> Interview with EU-PIP “EU Support to improving the quality of public investments in Kosovo and preparing the ground for EU funds” project experts on the application of the PIP system by municipal budget organizations during the 2011 budget development process, MFE, January 19, 2011



PI-12	Explanation	Score-M2
(i) Preparation of multi-year fiscal forecasts and functional allocations;	<b>Score B</b> (i) Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained	<b>B</b>
(ii) Scope and frequency of debt sustainability analysis	<b>N/A</b>	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	<b>Score A</b> (iii) Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.	
iv) Linkages between investment budgets and forward expenditure estimates.	<b>Score D</b> (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	

## 5.4 Predictability and Control in Budget Execution

### 5.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities

#### (i) Clarity and comprehensiveness of tax liabilities

Property tax is the only local tax administered and collected by Podujevo Municipality. In 2010, property tax revenues amounted to 257 thousands of euro (or 71.8% of annual tax assessment as compared with 50.9% in 2009) and constituted 1.9% of total collections in Kosovo municipalities<sup>35</sup>.

Property taxation is now regulated by the Property Tax Law No. 03/L-204, which entered into force on January 1, 2011. It essentially replaced (and amended) the Property Tax Regulation No. 2003/29, which has been in place since 2003. The Law (and previously Regulation) establishes a tax on immovable property and sets forth the standards and procedures that all municipalities must follow in administering the tax, including the following key aspects of the system:

- definition of the taxpayer;
- tax base determined as a market value of the property established in accordance with the standards set in the law;
- tax rates range set on an annual basis between 0.05% and 1% of the market value of the property;
- tax exemptions;
- property registration obligations;

<sup>35</sup> Data as reported by Property Tax Department, MFE, February 2010

- municipal functions and responsibilities in administering property taxation (including property tax information management and data entry, property valuation, bills' delivery, collection and enforcement, and administrative appeals);
- system of penalties and appeals procedures.

The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. The possibility for any discretionary administrative decisions in the application of taxation is limited. In addition, property tax rates are set on annual basis and specified in the Decision of Municipal Assembly in accordance with city zones and buildings' categories, which combined determine the valuation and tax obligation.

Score A

#### **(ii) Taxpayers' access to information on tax liabilities and administrative procedures**

Municipality of Podujevo informs its citizens on regular basis through leaflets, local radio and posters. These announcements are usually made in cases when there are revisions or amendments to the property tax system, such as changes in tax rates as established by the decision of the Municipal Assembly.

In general, information on property tax is disseminated annually and is reflects the Decision of Municipal Assembly and is made available on the Municipality website: <http://kk.rksgov.net/podujeve/Shpalljet/Vendimet.aspx>

Property tax office within the municipality provides educational services related to property tax procedures. In addition, complete information on the system - including relevant legislation, rules, procedures, forms and other information, can be downloaded from the Property Tax Department website in the MFE: <http://tatimineprone-rks.org/al/downloads>.

Score A

#### **(iii) Existence and functioning of a tax appeals mechanism**

The legislation provides taxpayers with the right to appeal in the following situations:

- when a taxpayer claims that the assessed value is not the market value;
- when there are errors in the database upon which the bill is based; or
- the bill is deemed to be incorrect in any other way.

Until January 1, 2011 the Property Tax Regulation allowed two channels for appeals:

- (1) Municipal Board for Tax Complaints on Immovable Property (Municipal Board) and
- (2) Supreme Court when (1) does not resolve the appeal.

A request for review has to be made in writing within 30 days of receipt of the tax bill with supporting documentary evidence. For 2010 the latest day to appeal was May 31. The appeal does not suspend the obligation to pay the tax. If the decision after review is in taxpayer's favour the refund of the excess tax and accrued interest is made within 30 days from the date of decision. The Municipal Board has 60 days from the receipt of the request to notify on its decision. A taxpayer who disagrees with the decision issued by the Municipal Board may apply to a court of competent jurisdiction for review of the decision taken by the municipality.

In accordance with the Regulation, applicable during 2010, Podujevo Municipality has a well-established Municipal Board of Appeals, which acts independently from Municipal Property Tax Office. The Board of Appeals, including a Chairman and two members, is appointed by the Mayor and constitutes a part of the municipal administration financed from municipal annual budget. All members of the Board are required to have a law degree. The Board maintains the register of appeal cases and reports annually on the performance to the Mayor.

The operation of appeals system in Podujevo Municipality in 2009 and 2010 are summarized below.

Table 12: Property Tax Appeals, 2009-2010

**2009**

Property Category	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	186	103	83
Commercial	37	19	18
Industrial	0	0	0
<b>Total</b>	<b>223</b>	<b>122</b>	<b>101</b>

**2010**

Property Category	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	93	41	52
Commercial	15	11	4
Industrial	2	1	1
<b>Total</b>	<b>110</b>	<b>53</b>	<b>57</b>

Source: Podujevo Municipality – Property Tax Office

All cases of complaints received by the board were reviewed within the timeframe stipulated by law and also all complaints were decided within the municipal board of appeals and there was no case for second degree appeals process in Supreme Court. In total for 2009 and 2010, the board received 333 complaints, which 175 claims were approved and 158 complaints were rejected.

Results presented as a % of reviewed appeals, 2009-2010:

- 52.6% of appeals fully approved in favor of taxpayers
- 47.4% of appeals against taxpayers claims.

Score A

PI-13	Explanation	Score-M2
(i) Clarity and comprehensiveness of tax liabilities	<b>Score A</b> (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.	<b>A</b>
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	<b>Score A</b> (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	
(iii) Existence and functioning of a tax appeals mechanism.	<b>Score A</b> (iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon	

## **5.4.2 PI-14 Effectiveness of Measures for Taxpayer Registration and Tax Assessment**

### **(i) Controls in the taxpayer registration system**

Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. In accordance with the Property Tax Regulation No. 2003/29, all persons owning, using or occupying immovable property are liable to register that property in the property tax database, and supply the relevant municipality with updated property information not later than 1 March of each tax period (fiscal year).

Each municipality is obliged to manage the entry of property tax information within the database, with all property tax information including, the addresses of property, the addresses of property owners and users, data on the land and the buildings, property values, tax rates, tax bills, and records of tax payments. The market valuation of each property should be reviewed and updated by the municipality every three to five years. The property tax database is based on the information from the property tax rights register and the land cadastre. Further, the link (although not physical one) is established with the Treasury KFMIS for the purpose of payment reconciliation.

There were 13,922 property tax objects registered in Podujevo Municipality database in 2010, with a total tax assessment amounting to 357,099 euro. The properties re-survey is to take place in 2011, and this has been outsourced to a private provider with municipal personnel participation.

Podujevo Municipality - similarly to the other municipalities – has established a range of enforcement measures with the objective to improve registration and the effectiveness of property tax collection. The Municipality introduced conditioning of some municipal services upon proving property tax payment. The conditioning takes place with respect to a cadastral-related services and vehicle registration. This measure has proved to be efficient for the collection of property tax, but municipality does not have any data as to what percentage of collections is a direct result of this measure.

Score A

### **(ii) Effectiveness of penalties for non-compliance with registration and tax declaration**

The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. Municipalities do not have the discretion to set penalty rates and interests, while the penalty application is automatically administered in the system in the Property Tax Department in MFE. The penalties are applied for:

- a failure to apply for the registration of the immovable property or a failure to supply the municipality with an annual property tax information update - loss of the right to appeal the tax bill; not applied in practice;
- a failure to pay the property tax on or before the last date prescribed for payment - a penalty in an amount equal to 5% of the tax liability;
- a failure to pay the property tax within 60 days after the last date prescribed for payment - an additional penalty in an amount equal to 10% of the tax liability;
- A monthly interest of one per cent of outstanding arrears.

In addition, delinquent tax payers can be subject to the blockage of bank account and confiscation of the property. However, the use of these measures is problematic and not applied mostly because municipalities did not fulfill implementation requirements of commercial banks.

The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes.

Podujevo Municipality collected €16.121 euro (or 7.8% of total collection) in 2009 and €8.215 (or 3.2% of total collection) in 2010 worth of interest and penalty payments.

Score B

### **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Based on current property tax legislation, every 3-5 years municipalities should plan for a resurvey of all properties within their jurisdiction. This means that municipalities should have a plan for inspection of 1/3 of properties within their jurisdiction, each year.

Annual reports on inspections of local tax offices as compiled by the Property Tax Department in MEF, generally underline the fact that municipalities are faced with a lack of capacity for implementation of property audits/inspections (as provided for by law) on an annual basis. MFE believes that at a country level, there is a considerable number of facilities which remain outside tax base in different municipalities, and inspection of properties that are already registered in the tax base is poor.

Thus, it is considered that at Kosovo level properties are understated by about 20% of their market value. This was confirmed by municipal officials.

As a result, the Property Tax Department in MFE, given the centralized nature (in some aspects) of this tax, initiated in 2009 a re-survey of all properties in all municipalities of Kosova which is being conducted (data collection on the ground, door to door) by external contractors in cooperation with the municipalities. Main objective is to update existing data and modify property valuation model which would result in adjustments of actual values of properties with market value. Modified values of properties are scheduled to be implemented in fiscal year 2012. Whereas municipalities are expected in the future to continue updating their databases based on individual audit/inspection plans in each municipality.

Municipal Tax Office in Podujevo has three Inspectors employed for registering tax objects and they cover four municipal zones. During 2009 number of registered tax objects was 13,748 with total amount billed 407,669 Euros while in 2010 number of registered tax objects was increased with 174 new objects with total of 13,922 but total amount billed for 2010 was 357,099 which was less for 50,570 Euros comparing with 2009.

Score: C

PI-14	Explanation	Score-M2
(i) Controls in the taxpayer registration system.	<b>Score A</b> (i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations	<b>B</b>
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	<b>Score B</b> (i) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	
(iii) Planning and monitoring of tax audit and fraud investigation programs.	<b>Score C</b> (iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria	

### 5.4.3 PI-15 Effectiveness in Collection of Tax Payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

In the municipality of Podujevo municipal debt stock from 2001 until 2008 amounted at 1.5 million Euros or 3.4% of total debt stock.

During 2009 and 2010 property tax arrears have reached 42% - 60% of total collections for each year. Based on data for the past two years, the stock of arrears at the end of 2010 is estimated at a minimum of 89,558 euro or 35% of the total collections.

Table 13: Property Tax Collection Statistics, 2008-2010

	euro	2009	2010
<b>Tax Assessment</b>	<b>(A)</b>	<b>407,669</b>	<b>357,099</b>
<b>Total Tax Collection</b>	<b>(B)</b>	<b>207,540</b>	<b>256,685</b>
of which:			
Current year collection	(C=D+E+F)	120,514	104,226
Tax assessment	(D)	119,400	102,808
Interests	(E)	620	1,006
Penalties	(F)	494	412
Past years arrears	(G=B-C)	87,026	152,459
Current Arrears	(H=B-D)	88,140	153,877
<b>Current Arrears as % of Total Collection</b>	<b>(I=H/B)</b>	<b>42%</b>	<b>60%</b>
Stock of Arrears	(J=sumH-G)		89,558
<b>Stock of Arrears as % of Total Collection</b>	<b>(K=J/B)</b>		<b>35%</b>

Source: Property Tax System Database, Property Tax Department, MF, May 2011.

Table 14: Property Tax Debt Collection Ratio, 2009-2010

	2009	2010	Average
Arrears (beginning of year)	1.5	1.4	1.45
Arrears Collected (during year)	0.09	0.15	0.12
<b>Annual Debt Collection Ratio</b>	<b>6.0</b>	<b>10.7</b>	<b>8.35</b>

Total amount of property tax arrears in Podujevo Municipality is significant, while average debt collection ratio for the last two years amounted to 8.35%.

Score D

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration**

Property Tax bills are issued with a unique code – UniRef Code – which allows the identification of municipality, tax category, and tax payer. Payments by taxpayers are paid into commercial banks and consequently reported to the Central Bank. Based on UniRef, they are later transferred to the municipality's sub-account in the Treasury. Commercial banks are required to transfer tax receipts to the Central Bank within 24 hours. Property Tax Department in MFE receives daily reports from the Treasury revenue module.

Score A

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

Reconciliation of revenues from commercial banks is done on a daily basis. A daily revenue report from the KFMIS is provided to the Property Tax Department, which with the use of specially designed software selects and identifies payments against property tax obligations. These are then reconciled against property tax database.

Score A

PI-15	Explanation	Score-M1
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	<b>Score D</b> (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e., more than 2% of total annual collections)	<b>D+</b>
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	<b>Score A</b> (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	<b>Score A</b> (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month	

#### **5.4.4 P-16 Predictability in the Availability of Funds for Commitment of Expenditures**

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

At the beginning of each fiscal year, the Treasury issues an Administrative Directive to guide all budget organizations in preparing their cash flow plan and to set a deadline for the submission of the plan to the Treasury.

Podujevo Municipality – as a general practice for all municipalities and following the Treasury procedures – prepares annual cash flow forecast in January of the fiscal year. This forecast is built on and complies with the total municipal budget appropriations as approved in the Budget Law. Cash flow plan is prepared separately for the following sources of financing:

- a) government grants; and
- b) municipal own source revenues (based on the availability of funds in accordance with the actual collection trends). MOSR are appropriated upon their receipt and deposited in the STA in accordance with the approved budget expenditure plan for this source of funding. In the event that during the fiscal year, municipality's own source revenue amounts, which have been deposited and recorded in KFMIS, exceed the budgeted revenue amounts, an automatic appropriation is authorized for such excess revenue based on a budget adjustment approved by the Municipal Assembly. Subsequently, a cash flow plan is prepared and submitted to the Treasury with the request for allocation of additional MOSR amounts. MOSR, which were carried forward from the past fiscal years are automatically re-appropriated at the beginning of a fiscal year and cash flow plan is prepared accordingly.

Cash flow plan takes account for the main economic categories of expenditure across municipal programs/Departments and is updated in accordance with the following schedule:

1. Wages and Salaries: default monthly forecast based on 1/12 of total budget appropriations and adjustments can be introduced in accordance with anticipated employment forecast.; However, an ongoing issue is the lack of control in preparing the payroll, where despite internal controls for changes to the personnel records and the payroll (see PI-18), the sufficiency of budget allocations is not determined until the final payroll is transmitted to the Treasury for processing. In recent years, the Treasury has regularly held back payment to specific organizations, including municipalities, until necessary adjustments were introduced to ensure that budget allocations or staff limits were not exceeded.
2. Goods and Services: quarterly update based on the actual trends in expenditure and funding availability.
3. Capital Outlays: quarterly update based on the requirements of projects' procurement and implementation plans and the actual trends in expenditure and funding availability.

Cash flow plan is also prepared for individual spending units in the education sector (i.e., schools).

Score A

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

Treasury manages allocations through the year to ensure that the Budget is executed within the available cash amount.

Cash flow forecast prepared by Podujevo Municipality, including its periodic updates according to the schedule described in PI 16 (i) above, serves as the base for the allocation of funds by the Treasury. In accordance with cash flow plans submitted, Treasury allows to commit allocated amounts from government grants up to 12 months in advance within budget appropriation limits. Similarly, there is no time limit imposed by Treasury for the commitment of funds from MOSR carried forward, which can be committed for up to 12 months. Current year MOSR funds, when actually deposited and recorded in the KFMIS, can be committed in accordance with allocation limits for the



remainder of fiscal year. Information on allocations and commitments is disseminated to the heads of municipal Departments and can be automatically derived and seen in the KFMIS.

Table 15: Podujevo Structure of Funding Sources, 2008-2010

	Commitment Horizon	2008		2009		2010		Average
		mln euro	%	mln euro	%	mln euro	%	%
Government Grants MOSR Carried Forward MOSR Current	Up to 12 months	7.5	88.6%	10.4	89.7%	12	91.7%	<b>90.0%</b>
	Up to 12 months	0.3	3.4%	0.4	3.6%	0	2.6%	<b>3.2%</b>
	Up to 12 months subject to collection	0.7	8.1%	0.8	6.6%	1	5.8%	<b>6.8%</b>
<b>Total</b>		<b>8.5</b>	<b>100.0%</b>	<b>11.6</b>	<b>100.0%</b>	<b>13.6</b>	<b>100.0%</b>	<b>100.0%</b>

Source: KFMIS

Score A

### (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

The Treasury, which manages budget allocations, has been making changes to budget allocations only when initiated and requested by Budget Organizations through the submission of adjustment to their cash flow plans. For municipal budget organizations, internal changes in budget allocations most often originate from in-year or mid-year review changes introduced to the original budget appropriations, which have to be conducted in accordance with internal municipal budget process procedures established in the LPFMA, including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly. Subsequently, changes to budget allocations resulting from such process have to be reflected in the adjustment to municipal cash flow forecast.

During 2010 the Municipality of Podujevo had 7 transfers in the amount of 21,330 euro and 9 budget lines have been affected.

Score A

PI-16	Explanation	Score-M1
(i). Extent to which cash flows are forecast and monitored.	<b>Score A</b> (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows	<b>A</b>
(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment	<b>Score A</b> (ii) MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgetary appropriations	
(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.	<b>Score A</b> (iii) significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way	

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

##### (i) Quality of debt data recording and reporting

From the legal stand point, at the beginning of 2010, municipalities acquired access to external financing in the form of borrowing – both short and long term - when the Law on Public Debt entered into force. However, in practice this form of financing has not been utilized by municipalities yet due to access restrictions, namely the requirement of two consecutive unqualified audit reports of municipal financial statements.

However, it is worth stressing that Kosovo authorities has already undertaken the necessary steps to establish an adequate legal framework and system for debt management, including State debt and municipal debt. A Debt Management Unit was established in Treasury with appropriate staff in place. Debt management software (CS-DRMS) was purchased in December 2008. Training for debt management units in the Treasury and the Kosovo Central Bank has taken place.

Score Not Applicable

##### (ii) Extent of consolidation of government cash balances

The Government has created a Single Treasury Account, which is used to manage all transactions of the Government and these are consolidated on a daily basis.

Score A

##### (iii) Systems for contracting loans and issuance of guarantee

In accordance with the Law on Public Debt No. 2009/03-L-175 dated December 2009, a Mayor of a Municipality may incur short-term debt, with notification to the Municipal Assembly and the MFE. A Municipality may also incur long-term debt and issue guarantees to finance capital improvements within the limits established in the law and subject to the authorization by Municipal Assembly. Upon approval by the Municipal Assembly, long-term debt shall be subject to the prior written approval of the Ministry limited to the validation of compliance with the procedural requirements and debt limitations. Podujevo Municipality has not contracted any loans yet.

Score Not Applicable

PI-17	Explanation	Score-M2
(i) Quality of recording and reporting of arrears data	Not Applicable	<b>A</b>
(ii) Extent of consolidation of government cash balances	<b>Score A</b> All cash balances are consolidated on daily basis	
(iii) Loan contracting and guarantee issuance systems	Not Applicable	

#### 5.4.6 PI-18 Effectiveness of Payroll Controls

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

Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Administration. In January 2009, new software on Personnel was developed and delivered to the MPA, however the two databases have not as yet been integrated. The link and communication between the two databases have not been established.

Each municipality manages the personnel data separately. As there is no link between human resource information held by individual municipalities and the payroll, the possibility arises of discrepancies between the two. Administrative Instruction, issued by the MPA, regulates update procedures, with the provision and reconciliation of electronic and physical copies of changes into records on monthly basis.

Podujevo Municipality maintains human resource records, including information on the description of position, job description, qualifications, and salary grades. The register is kept regularly updated, with information on changes transmitted to the MPA but the systems are not linked electronically or directly.

Score B

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

Podujevo Municipality complies with general procedures for the management of changes established by the MPS. MPS collects the personnel lists from all budget organizations until the 11th of each month. By the 18th these data are processed and inputted into the payroll database. Between the 20th and 23rd of the month, the payroll is calculated and payment lists are prepared. By the 23rd Treasury is provided with the final payroll list to process salary payments. Any changes that occurred after the closer of payroll lists are accounted for during the next pay period. However, if any changes occurred after the 23rd-27th period, budget organization may request the introduction of adjustment to already prepared payroll list. In such case the actual payment will be made in accordance with requested adjustment, while reconciliation of records takes place next month.

As budget organizations update the payroll monthly, prior to the execution of the payroll, the changes are made on a timely basis, and retroactive adjustments to the payroll are rare. In accordance with the transactions recorded in the KFMIS, total retroactive adjustments to the payroll in Podujevo Municipality amounted to 11,054 euro in 2010.

Score A

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

Podujevo Municipality has well functioning internal procedures for the management of changes to personnel records. Changes to personnel records (additions/deletions/amendments) are approved by the Personnel Administration Department and transmitted to the Human Resource Department for concurrence and recording. The amendments are usually processed internally within a week. Municipality maintains an archive of personnel records and data. Municipality is also responsible to timely notify and request any changes in the personnel database kept by the MPS based on a written form request – signed by the head of Personnel Administration and the Mayor – to introduce changes to the payroll.

In 2008, the MPS payroll software was upgraded. One of the features of the new software is the ability to record the audit trail of any changes, which ensures that any change to a particular record is recorded and can be traced back to its authorized originator. Access to the system requires authorization.

Score A

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

The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively. As compared with 2007, following the Auditor General's recommendations MPS achieved the following improvements:

- Downsized the number of employees who receive more than two salaries;
- Eliminated employees older than 65 years from the pension contribution scheme;
- Improved the quality of database by including all data in payroll system.

The 2008 audit highlighted the existence of the following weaknesses in the administration of payroll system for all budget organizations:

- Inaccurate reconciliation between payroll system and Treasury General Ledger leading to expenditures out of payroll list;
- Inadequate controls in the application of salary grades and respective management of payroll system;
- Lack of written procedures in regard to entering employees within the payroll system;
- Discrepancies in data in payroll system with data in the contracts for Civil Servants;
- Inadequate control of retroactive payments.

Podujevo Municipality employed 2,055 (or 4.6% of total local government employment) staff in 2010 (data according to the Treasury Annual Budget Report for 2010). There has been no formal payroll audit performed in Podujevo Municipality either within the internal audit activities or externally by the Auditor General during the last three years. In 2010, the Auditor General audited Podujevo's payroll on a sample basis on the occasion of the audit of the 2009 Financial Statements. Not-in depth and only sample-based analysis focused on compliance issues in terms of staff recruitment, contracts, and legal procedures enforcement. In addition, the audit of payroll system in the MPA conducted by the Auditor General as described above did not identify any irregularities in Podujevo Municipality.

Score B

PI-18	Explanation	Score-M1
(i) Degree of integration and reconciliation between personnel records and payroll data.	<b>Score B</b> (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.	<b>B+</b>
(ii) Timeliness of changes to personnel records and the payroll	<b>Score A</b> (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments)	
(iii) Internal controls of changes to personnel records and the payroll.	<b>Score A</b> (iii) Authorization to introduce changes to personnel records and payroll is limited and results in an audit trail	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	<b>Score B</b> (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)	

#### 5.4.7 PI-19 Competition, Value for Money and Controls on Procurement

**(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)**

During the last two years (2009 and 2010) there were a total of 99 procurement contracts worth over 10,000 euro each and with a total value of 10.8 million euro. According to the municipal procurement report for the past two years (2009 and 2010), open competition procedures were used for all these 99 contracts

A summary of data on the use of open competition for contracts with the value exceeding €10,000 is presented below:

Table 16: Procurement Procedures, 2009-2010

Year	Number of Total Contracts	Number of Total Contracts > 10,000 euro	Number of Open Competition Procedure for Contracts > 10,000 euro)	Number of Open Competition Procedure as % of Total Contracts (> 10,000 euro)
2009	236	41	41	100%
2010	178	58	58	100%

Source: Podujevo Municipality Annual Procurement Reports

The open competition procurement method was used for the award of 100% of contracts with value exceeding 10.000 euro for 2009 and 2010. Some of the contracts were extension of already existing contracts which had already followed the open competition procedures.

All contract awards of Podujevo Municipality are published in the official website of the Public Procurement Regulatory Commission (PPRC).

Score A

## **(ii) Justification for use of less competitive procurement methods**

The conditions for the use of less competitive public procurement methods are defined in the Law on Public Procurement No. 2010/03-L-241 dated September 2010. Procurement method other than the open competition can only be utilized with the authorization of the Kosovo Public Procurement Agency.

For contracts up to 10,000 euro the following criteria have to be followed during the procurement process: (a) prequalification of suppliers; (b) minimum 3 offers qualified.

For purchases of value up to 1,000 euro an offer quotation and minimum 3 offers are required.

Score A

## **(iii) Existence and operation of a procurement complaints mechanism**

The Law on Public Procurement provides for a centralized procurement complaints mechanism using the Procurement Review Body (PRB) (Title IX of the Law: Procurement Review Procedures). The PRB is an independent institution that has the mandate from the Assembly of Republic of Kosovo to address complaints relating to procurement.

The PRB is a public authority and a budget organization, which consists of a Board of Directors and a Secretariat led by Head of the Secretariat. The PRB is comprised of five members appointed for a term of five years, and may be reappointed only once. Each member of the PRB is nominated by the Government and appointed by the Assembly based on a recommendation made by an independent selection body established by the Assembly. The independent selection body shall be comprised of three duly appointed judges designated by the Kosovo Judicial Council.

The PRB organizes its work in a number of review panels. Depending on the value, size, difficulty or importance of the case, the President of PRB shall be responsible for establishing internal rules concerning the appointment of PRB members for such review panels. The review panel may consist of one, three or five members.

A complaint can be filed at any stage of procurement activity and with respect to any act concerning contracting process. If the contract has been awarded, a complaint may be filed only within the ten day period from the publication of municipal contract award.

In 2010, the PRB received and reviewed a total of 7 complaints concerning procurement cases in the Podujevo municipality. Three complaints were resolved in favour of the complaining party and four sustained the decision of Municipality.

All complains, together with decisions, are published on the website of Procurement Review Body: <http://oshp.rks-gov.net/?cid=1,71>.

Score A

PI-19	Explanation	Score-M2
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>Score A</b> (i) Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition	<b>A</b>
(ii) Justification for use of less competitive procurement methods	<b>Score A</b> (ii) Other less competitive methods when used are justified in accordance with clear regulatory requirements	
(iii) Existence and operation of procurement complaints mechanism	<b>Score A</b> (iii) A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny	

#### 5.4.8 PI-20 Effectiveness of Internal Controls for Non-salary Expenditure

##### (i) Effectiveness of expenditure commitment controls

Financial rules and consolidated guidance for the expenditure of public money by the Kosovo public sector, including municipalities, are based on the LPFMA and set in the Treasury “Financial Rule 02 – Expenditure of Public Money”. Approved budget appropriations are recorded in the KFMIS. Budget appropriations can be spent through the process of allocation as described in Pi-16 (i). The Treasury – based on cash flow forecast prepared by budget organizations – determines all allocations in order to ensure that adequate funds are available for expenditure. The LPFMA requires that all expenditure must be made from allocated appropriations. As a result, expenditure cannot be made where appropriations are not sufficient for such expenditure – commitment control. Any current or future contractual payment obligation must be reflected in a form of commitment registered by a budget organization in the KFMIS. Commitments in the current year can be legally made only against both appropriations and allocations. Funds must be committed prior to the commencement of any procurement process. However, there are reported cases when budget organizations circumvent the above described procedures and enter into obligations without a prior commitment of necessary funds. As Treasury strictly enforces expenditure control, the risk is shifted to contractors and suppliers, while the budget is effectively protected as the resulting invoices cannot be honored without a commitment to spend being in place and funds allocated for that purpose.

Commitment controls for expenditures are in place both procedurally and technically in Podujevo Municipality in accordance with LPFMA and Treasury’s Financial Rule 02 - Expenditure of Public Money has not entered into any financial obligation before committing funds. However, in the last report on Financial Statements for 2009 by the Office of the Auditor General for Podujevo municipality, list of outstanding obligations is presented (PI-4). The list of outstanding obligations is largely dominated by utility bills for December that are billed in January of the coming year.

Score B

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

The framework for internal control procedures is established in the following legislation:

- Law on Public Financial Management and Accountability
- Law on Local Government Finances
- Law on Local Self-Government
- Law on Appropriations
- Financial Rule 01 – Public Internal Financial Control
- Financial Rule 02 – Public Money Expenditure
- Administrative Instruction No.02/2009 Delegation of Expenditure Management to the Budget Organizations
- Internal Procedures

The internal control regime is comprehensive and relevant, with harmonization achieved between the legislation, subordinate legislation and the application of the KFMIS (including procedures and manuals) through: (1) the development of Treasury rules and procedures in conjunction with KFMIS implementation and (2) through ongoing revisions to the Law on Public Financial Management and Accountability. A Central Harmonization Unit (CHU) was established through a regulation issued in May 2006 by the Treasury. It is responsible for coordinating the implementation and further development of the principles of financial management and control in all budget organizations, with emphasis on<sup>36</sup>:

- developing the legislative framework to support FMC through guidance and manuals;
- promoting the development of FMC through networking of practitioners and training program;
- monitoring and reporting on the implementation of FMC.

In 2009, Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. This brought a number of advantages to municipalities, including improvements in the efficiency in payment processing, elimination of travel expenses to the central/regional Treasury offices, higher internal control, greater autonomy and accountability of municipalities.

Podujevo Municipality participated in this process in 2009 and its key public finance officers were trained and certified. Podujevo Municipality is now certified as a budget organization by the Minister of Finance, which demonstrates the strength of its internal controls and compliance with standards established by MFE for the delegation of expenditure management (including successful implementation of the KFMIS; certification of Goods Receiving Officers, Expenditure Officers, Certifying/Approval Officers; implementation and independent functioning of expenditure and approvals functions within the management and organizational structure of municipality; establishment of dedicated archives).

Score A

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<sup>36</sup> Treasury Financial Rule 01/2010 – Financial Management and Control



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

There is a high level of compliance in terms of processing and identifying transactions within the municipality of Podujevo, however in the last report on Financial Statements for 2009 by the Office of the Auditor General, a list of outstanding obligations is presented (PI-4). As described in dimension (i) within this indicator as well as is in (PI-4) in general, large number of these cases is related to December utility bills that are billed in January next year.

Also in the Audit Report for 2009, auditor identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management and control. The Auditor concluded that the level of financial control needs improving (Audit Report 2009, p. 6-7). The following areas lacked adequate management:

- Completeness and accuracy of the financial information;
- Integrity of data;
- Assets safeguard; and
- Non-recording of payments from third parties may result in such assets/services being used rent-free by parties other than the Municipality.

Score B

PI-20	Explanation	Score M1
(i) Effectiveness of expenditure commitment controls	<b>Score B</b> (i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception	<b>B+</b>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	<b>Score A</b> (ii) Other internal control rules and procedures are relevant, incorporate a comprehensive and generally cost effective set of controls, which are widely understood	
(iii) Degree of compliance with rules for processing and recording transactions	<b>Score B</b> (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification	

#### 5.4.9 PI-21 Effectiveness of Internal Audit

##### (i) Coverage and quality of the internal audit function

Although Internal Audit Unit in the Municipality of Podujevo had employed one auditor for number of years, there was no Audit conducted until 2010. In the beginning of 2010, the municipality employed another auditor in the position of the Director of the Unit. Since then, the Internal Audit Unit has undertaken two audits. The two audits were made in a department of municipal administration. One audit is for the use of official telephones where officials made two recommendations that are now implemented and the second was on the use of official vehicles and there

were seven recommendations made. This audit was done in the fourth quarter of 2010 and has not yet been assessed on their implementation.

In late 2010, the Unit of Internal Auditor of Podujevo municipality has made a strategic plan as required by the Central Harmonisation Unit and the same plan was submitted to the CHU in MEF within the deadline (31 October) as is prescribed by law. The municipality has not established an Audit Committee. Score D

## **(ii) Frequency and distribution of reports**

As outlined above, two reports were produced by the Unit of Internal Auditor for the department of administration. Reports were submitted to the Mayor's Office. The Internal Audit Unit also prepared Annual Report on activities completed during 2010. The report was submitted to the Mayor. Internal audit management has been recently established and it's too early to assess the frequency of the reports in Podujevo municipality and therefore this dimension is not applicable.

Score Not Applicable

## **(iii) Extent of management response to internal audit findings**

Senior management (mayor) in the Municipality of Podujevo had two meetings with internal auditor and where reports were submitted. Regarding the findings of the internal audit unit a letter was sent by the mayor to all departments to implement internal audit recommendations. The outcome of the management response remains to be seen.

Score Not Applicable

PI-21	Explanation	Score- M1
(i) Coverage and quality of the internal audit function	<b>Score D</b> (i) There is little or no internal audit focused on systems monitoring.	<b>D</b>
(ii) Frequency and distribution of reports	Not Applicable	
(iii) Extent of management response to internal audit findings	Not Applicable	

## **5.5 Accounting, Recording and Reporting**

### **5.5.1 PI-22 Timelines and Regularity of Accounts Reconciliation**

#### **(i) Regularity of bank reconciliation**

Collection, saving and spending of public money are implemented through a Single Treasury Account (STA) – including sub-accounts for each budget organization - which are reconciled on a monthly basis. Municipal revenues are identified by an individual UniRef code for each category of revenue. Payments from taxpayers are made in all licensed commercial banks in Kosovo with CBK sub-account as the destination account. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting municipalities, which enables them to enter revenue collected into the KFMIS classified by revenue type, economic code, and department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation.

All municipal expenditures are made by the "main account" the STA and this account is reconciled daily. In addition to the daily and monthly reconciliation of bank accounts, all budget organizations are required to perform a quarterly revenue and expenditure reconciliation with Treasury in order to confirm matching between the KFMIS and CBK account.

Podujevo Municipality operates within the STA arrangements and complies with the above described reconciliation procedures. However, it is important to record some weaknesses in the revenue reconciliation and record keeping pointed out by the Auditor General in the audit of the 2009 financial statements.

In 2009, Municipality has not implemented a comprehensive and automated billing system and does not maintain separate sub ledgers or lists of all its debtors regarding various taxes. Instead only cash collections from revenue streams are recorded. Whilst receivables are not required to be disclosed in the financial statements, lack of accuracy and completeness will impact revenues that Municipality can earn and the ability to prepare a reliable and accurate budget, to report an accurate collection ratio, and to monitor the collection of the own source revenues on a timely basis.

Score A

#### **(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments**

Advances, including for petty cash and official travel purposes, are managed from the budget category Goods and Services. The opening of the advance for petty cash is based on the request for petty cash expenditure needs. The advances for travel are based on official and approved travel agendas and are reconciled upon the presentation of documents from the completed travel.

At the end of fiscal year, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier and the breakdown of expenditure by economic classification is performed and recorded. In a case that the allocated advance is not fully spent the funds are returned to the consolidated fund, with supporting evidence.

Score B

PI-22	Explanation	Score- M2
(i) Regularity of bank reconciliation	<b>Score A</b> (i) Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.	<b>B+</b>
(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments	<b>Score B</b> (ii) Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.	

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

Recent budget decentralization to the level of individual schools – supported by World Bank in 10 Kosovo Municipalities<sup>37</sup> – has contributed to the availability and scope of information on resources received by the service delivery units. Podujevo Municipality joined this initiative in 2010. Information on resources is now available at the stage of budget planning and budget execution:

1. Budget Plans, including proposed expenditure allocation by economic category, are prepared by each individual school in the Municipality. Associated cash flow forecasts and updates are also prepared in order to manage the allocation of budgetary funds.
2. Actual Budget Expenditures are recorded (and can be reported) in the KFMIS in accordance with the Chart of Accounts, which provides for a separate administrative code for each spending unit in pre-primary, primary, and secondary education programs.
3. Similarly, although budget plan is not explicitly broken down to the level of spending units in the primary health care sector, actual budget expenditure is recorded in accordance with the Chart of Accounts in the KFMIS, which facilitates generation of data for individual health houses.

Primary and secondary education is a municipal competency assigned by the LLSG; however the Ministry of Education still retains some part of investment and capital formation program in this sector with a part of school construction managed centrally. Details of associated capital expenditure can again be derived from the Budget documentation and the KFMIS at the central level.

Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units. Some concerns remain to what extent this data is consolidated.

While information and data on resources made available in cash to service delivery units is recorded and can be processed from the KFMIS there have been no attempts undertaken by Podujevo Municipality to compile comprehensive and aggregate reports. However, the Department of Education and Department of Health respectively maintain internal reconciliation reports on resources allocated to individual spending units which constitute such a report on spending by primary service delivery units.

In principle, conditions (in particular the strengths and advantages of the KFMIS) appear in place for an A score; however reliable evidence on the consolidated annual reports is lacking thus the score is downgraded to B.

<sup>37</sup> The program was initiated in 2009 with three pilot municipalities, including Istog, Gjilane, and Kacanik, In 2010 it was extended to ten municipalities, including Shtime, Podujeve, Prishtine, Gjakovë, Peje, Klinë, Prizren, Suhareke, Mitrovicë, and Ferizaj.

PI-23	Explanation	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and functioning of those units	<b>Score B</b> (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across the most of the SN's governance jurisdiction with information compiled into reports at least annually.	<b>B</b>

### 5.5.3 PI-24 Quality and Timeliness of in- year Budget Reports

#### (i) Quality and timeliness of in-year budget reports

The Municipality prepares budget reports in accordance with the Law on Public Financial Management and Accountability. Reports prepared on a quarterly basis which includes a report on budget execution and quarterly reports on progress on the implementation of capital projects. These reports are made according to the budget and present commitments of the fund balance for each month and every three months for each category of economic and municipal program. These reports are based on KFMIS data which are reconciled monthly with STA account. Podujevo Municipality also prepares special reports internally for the mayor and for the municipal assembly.

Score A

#### (ii) Timeliness of the issue of reports

Municipality of Podujevo prepares quarterly reports on budget execution within 4 weeks after the end of the quarter. This report is distributed MEF, the office of Mayor, municipal departments and the Municipal Assembly.

Score A

#### (iii) Quality of Information

Information provided in reports produced during the year is of good quality. Reports during the year using KFMIS data equated with STA account and quarterly reconciliation process used to report the Municipality of Podujevo with consolidated reports.

Score A

PI-24	Explanation	Score-M1
(i) Quality and timeliness of in-year budget reports	<b>Score A</b> (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	<b>A</b>
(ii) Timeliness of the issue of reports	<b>Score A</b> (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	
(iii) Information's quality	<b>Score A</b> (iii) There are no material concerns regarding data accuracy.	

#### 5.5.4 PI-25 Quality and Timeliness of Annual Financial Statements

##### (i) Completeness of the financial statements

The LPFMA requires each budget organization to produce financial statements by January 31 for the past fiscal year. Treasury at MEF provides a generic template for annual financial statement reporting as well as the system from where data is generated by all Municipalities. Municipalities have no impact on the format of financial statements as it is determined at the central government - Treasury/MFE- however what makes a difference is the level of completeness of this template by each Municipality and how good available data is presented.

A step forward with financial statements was made in 2010 when the template given by the Treasury/MEF to all Municipalities for reporting has required additional information from them to include a table to reflect the progress in the implementation for external audit recommendations from the previous year. This is yet to be seen how well is being filled with information by all municipalities.

Municipality of Podujevo did submit Financial Statements as required by Administrative Instruction. Municipality's Financial Statement as of 31 of December 2009 covered information on revenues, expenditure and financial obligations.

However Financial Statement 2009 did not provide a comprehensive picture for the Office of Auditor General which was not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. OAG had a disclaimer of opinion, or did not express an opinion on the Municipality's financial statements for the year ended 31 December 2009 (Audit Report 2009, p.2.), due to the significance of the matters described below:

- Budget Execution Report is not complete and accurate.
- Reporting obligations under the LPFMA is not complete.
- Reconciliation between Original and Final Budget Appropriations is not complete and accurate while Budget Execution Report is not properly completed.
- Differences between payments and final budget are not completed.
- Non-financial assets are not completed.
- Statement of Outstanding Invoices, the reason for nonpayment is not completed.

Despite the fact that Municipality has trained and certified assets officer for number of years, they still lack a registry on real estate as well as the value of the municipal properties. However, according to the interview that KIPRED<sup>38</sup> had with one municipal official, this is happening due to the inability to register different properties in the Freebalance software, their depreciation, etc.

Score B

## **(ii) Timeliness of submission of the financial statements**

Podujevo Municipality in accordance with the Administrative Instruction No. 02-2009 for annual reporting of budget organizations has made the submission of financial statements to the Treasury. Over the last three years financial statements have been filed on these dates:

- 1) January 31, 2011
- 2) January 29, 2010
- 3) January 30, 2009

Podujevo municipality respects the request for preparation and timely submission of its financial statements. The financial statements were submitted for external audit within less than 6 months after the end of the fiscal year.

Score A

## **(iii) Accounting standards used**

In accordance with Administrative Instructions in place, and Treasury/MEF requirements (template provided) Podujevo Municipality is responsible for the preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

In 2010, the Auditor General Audit report (Audit Report 2009, p. 2) disclaimed an opinion on Municipality’s financial statements due to the reasons given above in Dimension (i), therefore OAG highlighted that Financial Statement for 2009 were not in full compliance with IPSAS requirements.

Score D

PI-25	Explanation	Score-M1
(i) Completeness of the financial statements	<b>Score B</b> (i) A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenues, expenditure and financial assets/liabilities	<b>D+</b>
(ii) Timeliness of submission of the financial statements	<b>Score A</b> (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	
(iii) Accounting standards used	<b>Score D</b> (iii) Statements are presented in consistent format over time or accounting standards are not disclosed	

<sup>38</sup> KIPRED Report on “Public Purse Towards an Efficient and Transparent Management of Municipal Budgets, Pristina, March 2011

## 5.6 External Scrutiny and Audit

### 5.6.1 PI-26 Scope and Nature of Follow-up of External Audit

#### (i) Scope/nature of audit performed (incl. adherence to auditing standards)

Financial statements for the municipality of Podujevo are audited annually by the Auditor General. The last audit was conducted in connection with financial statements for the year ended December 31, 2009. The audit was conducted in accordance with international auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

The report by Auditor General for municipality of can be downloaded from the web site of the Auditor General (PI-10). However this audit did not include performance audit of management and operational efficiency and effectiveness.

Score B

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

Audit Report of the Office of the Auditor General for the Financial Statements for the last year (2009) was submitted to the Mayor's office and a copy to the CFO, but report was not delivered at any time to the municipal assembly.

Score D

#### (iii) Evidence of follow up on audit recommendations

Reports for the last two years from the Office of the Auditor General for Podujevo municipality have made recommendations in certain areas. In the table below are presented recommendations for last two years and their applicability.

Table 17: Audit Recommendations

Audited year	Total Recommendations	Implemented	Partially Implemented	Outstanding	Outstanding as % of total
2008	5	0	5		0%
2009	5	0	5		0%

Podujevo municipality has implemented partially all audit recommendations for the past two years but failed to fully address the issues raised by the Auditor General and as the consequence there were repetition of the similar problems in the recent years.

Score C



PI-26	Explanation	Score- M1
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	<b>Score B</b> (i) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	<b>D+</b>
(ii) Timeliness of submission of audit reports to legislature	<b>Score D</b> (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).	
(iii) Evidence of follow up on audit recommendations	<b>Score C</b> (iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up	

## 5.6.2 PI-27 Legislative Scrutiny of the Annual Budget Law

### (i) Scope of Assembly's Scrutiny

Podujevo's Municipal Assembly is actively engaged in the municipal budget process, including key stages of budget proposal development and approval. During the 2011 Budget process the Assembly was involved in the following:

- The review and approval of municipal medium term budget framework, including projection of the key municipal budget parameters;
- The conduct of two budget hearings with citizens regarding budget priorities and capital program;
- The review, debate, and approval of municipal budget proposal.

Assembly is sufficiently informed and involved in the budget process, with the possibility to make key decisions. The process is open and transparent, with the Assembly's debates recorded and documented in publicly available minutes from meetings.

Score A

### (ii) Extent to which the Assembly's procedures are well-established and respected

The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The primary responsibility for budget review rests with the Policy and Finance Committee before the budget proposal goes for the general Assembly debate. Professional input and consultations are sought from other six specialized committees, which analyze specific budget aspects in accordance with their respective expertise area.

Score A

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

The Municipal Assembly is allowed one month – since September 1<sup>st</sup> to September 30<sup>th</sup> – to conduct the review and approval of municipal budget proposal. These deadlines are provided in the legislative framework and embodied in the LPFMA.

The 2011 Budget calendar assessed in PI-11 suggests that the Municipal Assembly received budget proposal from the executive branch in mid-September 2010, which provided only three weeks for the Assembly review and approval. Subsequently, criteria for score D would be met. However, in light of an extensive Assembly's involvement during the budget process as described above in PI-27(i) a score B can be justified.

Score B

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

The LPFMA provides for rules governing in-year amendments to the municipal budget. In accordance with this legislative framework all amendments and adjustments to the budget require prior review and approval of the Municipal Assembly. Podujevo Municipality fully adhered to this requirement during 2010.

Score A

PI-27	Explanation	Score-M1
(i) Scope of Assembly's scrutiny	<b>Score A</b> (i)The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.	<b>B+</b>
(ii) Extent to which the Assembly's procedures are well-established and respected	<b>Score A</b> (ii)The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committee, and negotiation procedures.	
(iii) Adequacy of time for the Assembly to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	<b>Score B</b> (iii) The legislature has at least one month to review the budget proposals	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Assembly	<b>Score A</b> (iv)Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected	

### 5.6.3 PI-28 Legislative Scrutiny of External Audit Reports

#### (i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)

During the last three years, there was no report from Auditor General submitted to Policy and Finance Committee nor municipal assembly.

Not Applicable

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

Municipal Assembly has not discussed the report of the Auditor General during the last three years.

Not Applicable

#### (iii) Issuance of recommendations by the Assembly and implementation by the Government

Municipal Assembly has not recommended any action to implement recommendations from the report of the Auditor General.

Not Applicable

PI-28	Explanation	Score-M1
(i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)	Not Applicable	Not Applicable
(ii) Extent of hearings on key findings undertaken by the Assembly.	Not Applicable	
(iii) Issuance of recommendations by the Assembly and implementation by the Government	Not Applicable	

## 5.7 Donor practices

### 5.7.1 D-1 Predictability of Direct Budget Support

#### (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)

Municipalities are not recipients of direct budget support from donors.

Score Not Applicable

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

Score Not applicable

<b>D – 1</b>	<b>Explanation</b>	<b>Score- M1</b>
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	Not Applicable	<b>Not Applicable</b>
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Not Applicable	

**5.7.2 D-2 Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme Aid**

**(i) Completeness and timeliness of budget estimates by donors for project support.**

During 2010, Podujevo Municipality received one direct donor grant from German Agency GTZ for the renovation of the primary school “Naum Veqilharxhi” in Llapashtica village. Municipality was informed before for the donor support from GTZ at the planning stage. Project included general renovation of the existing school building which included installation of the central heating, new roof, new doors and windows and new carpet. Total amount of the project was 141.000 euro, which Municipality financed 101.000 euro and 40.000 euro was financed from GTZ.

Score A

**(ii) Frequency and coverage of reporting by donors on actual donor flows for project support**

One oversight commission was established for the purpose of project supervision and project acceptance. Commission has included professionals from municipality and one member was from the donor agency. The whole project lasted for less than three months and two reports were produced, one in the beginning of the project and one in the end as the final report. Execution of Municipality’s co-funding was conducted and recorded through the KFMIS.

Score A

D-2	Explanation	Score-M1
(i) Completeness and timeliness of budget estimates by donors for project support	<b>Score A</b> (i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursements of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification	A
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	<b>Score A</b> (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification.	

### 5.7.3 D-3 Proportion of Aid that is Managed by Use of National Procedures

#### (i) Overall proportion of aid funds to central government that are managed through national procedures

Procurement and implementation of project assistance described in D-2 above was wholly conducted in accordance with the Kosovo procedures and rules.

Score A

D-3	Explanation	Score-M1
(i) Overall proportion of aid funds to SN government that are managed through national procedures.	<b>Score A</b> (i) 90% or more of aid funds to SN government are managed through national procedures	A

### 5.8 HLG-1 Predictability of Transfers from Higher Level of Government

#### (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

There are three main categories of transfers from the Kosovo Central Government to Municipalities:

- Unconditional general grant that municipalities may use in the discharge of any of their municipal competencies;
- Specific (earmarked) education grant to finance the cost of providing a minimum standard services in pre-primary, primary and secondary education;
- Specific (earmarked) health grant to finance the cost of providing a minimum standard services in public primary healthcare.

The LLGF foresees specific additional transfers for the implementation of enhanced and delegated competencies by the selected municipalities. The intergovernmental body – Grants Commission – is responsible for the determination of aggregate amounts of government transfers and allocation criteria to individual municipalities. The allocation is determined annually and based on objective and transparent formulae, which take into account such factors as municipal population, size, ethnicity, school enrollment. Transfer estimates are then communicated to municipalities at the beginning of budget process through Budget Circular issued by MFE. Unspent appropriation of grants' amounts lapses on December 31.

During the analyzed period of 2008-2010 Podujevo Municipality was a recipient of general grant, education grant, and health grant, which in total amounted to approximately 90% of municipal financing (i.e., residual funded by MOSR). During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Podujevo Municipality original budget. Additional allocations of grants during mid-year review processes contributed to such developments.

Table 18: Annual Deviation in the Allocation of Total HLG Transfers, 2008-2010, euro

	<b>Original Grants Allocation</b>	<b>Actual Grants Used</b>	<b>Difference</b>	<b>Variance</b>
<b>2008</b>	7,294,823	7,523,811	228,979	<b>3%</b>
<b>2009</b>	10,170,357	10,387,873	217,516	<b>2%</b>
<b>2010</b>	11,709,634	12,492,823	783,189	<b>7%</b>

Source: KFMIS

Score A

#### **(ii) Annual variance between actual and estimated transfers of earmarked grants**

Deviations in earmarked grants as recorded for the last three years in Podujevo Municipality are relatively small and did not exceed 5%.

Score A

Table 19: Variance in Actual and Estimated Earmarked Grants, 2008-2010

	<b>Total Grants Deviation</b>	<b>Earmarked Grants Variance</b>	<b>Variance beyond total deviation</b>
<b>2008</b>	3%	3%	<b>0%</b>
<b>2009</b>	2%	3%	<b>1%</b>
<b>2010</b>	7%	%	<b>0%</b>

Source: KFMIS

Table 20: Total Grants Deviation and Grants Variance for the Main Categories of HLG Transfers, 2008-2010

	<b>Original Grant Allocation (Budget Schedule)</b>	<b>Actual Grant Used (Expended Dec 31)</b>	<b>Difference</b>	<b>Absolute</b>	<b>Variance</b>
<b>2008</b>					
General Administration (Unconditional Grant)	2,323,322	2,249,015	-74,307	-74,307	-3%
Education (Earmarked Education Grant)	4,029,650	4,318,152	288,502	288,502	7%
Health (Earmarked Health Grant)	941,860	956,644	14,784	-14,784	-2%
<b>Total Deviation</b>	<b>7,294,832</b>	<b>7,523,811</b>	<b>228,979</b>	<b>228,979</b>	<b>3%</b>
<b>Composition Variance</b>	<b>7,294,832</b>	<b>7,523,811</b>		<b>199,411</b>	<b>3%</b>
<b>2009</b>					
General Administration (Unconditional Grant)	4,121,912	4,030,976	-90,936	90,936	2%
Education (Earmarked Education Grant)	4,845,475	5,108,535	263,060	263,060	5%
Health (Earmarked Health Grant)	1,202,970	1,248,362	45,392	-45,392	-4%
<b>Total Deviation</b>	<b>10,170,357</b>	<b>10,387,873</b>	<b>217,516</b>	<b>217,516</b>	<b>2%</b>
<b>Composition Variance</b>	<b>10,170,357</b>	<b>10,387,873</b>		<b>308,604</b>	<b>3%</b>
<b>2010</b>					
General Administration (Unconditional Grant)	4,650,545	5,131,151	480,606	480,606	10%
Education (Earmarked Education Grant)	5,655,828	5,768,057	112,229	112,229	2%
Health (Earmarked Health Grant)	1,403,261	1,593,615	190,354	190,354	14%
<b>Total Deviation</b>	<b>11,709,634</b>	<b>12,492,823</b>	<b>783,189</b>	<b>783,189</b>	<b>7%</b>
<b>Composition Variance</b>	<b>11,709,634</b>	<b>12,492,823</b>		<b>783,189</b>	<b>7%</b>

Source: KFMIS

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)**

There is no specific timetable agreed between levels of government for the in-year distribution of grants disbursements. Cash liquidity has not been a problem in Kosovo, and as a rule the allocation of funds for expenditure financed from grants is done in accordance with monthly and quarterly allocation schedule requested by a municipal budget organization in its cash flow plan submitted to the Treasury (see PI-16).

Treasury in managing allocations adheres to this schedule agreed with a municipality. Given that legislative framework foresees provides for appropriations from grants to lapse at the end of fiscal year (i.e., only unspent MOSR are automatically carried forward), there is a strong incentive for municipalities to spend all grants funds in order not to lose financing allocated from the central government.

Score A

HLG-1	Explanation	Score-M1
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	<b>Score A</b> (i) In no more than one out of the last three years have HLG transfers fallen short of the estimated by more than 5%	<b>A</b>
(ii) Annual variance between actual and estimated transfers of earmarked grants	<b>Score A</b> (ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 5 percentage points in any of the last three years	
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	<b>Score A</b> (iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years.	



## 6 Vushtrri Municipality PEFA Performance Report

### Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	N/A
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	B+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	A
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A
D-2	Financial information provided by donors	D
D-3	Proportion of aid that is managed by use of national procedures	D
HLG-1	Predictability of Transfers from Higher Level of Government	A

## Municipality Background Information

The population of the Municipality of Vushtrri is estimated at some 75.000 according to the last census<sup>39</sup> inhabitants living in 67 locations (villages). However, this number is considered to be an underestimate due to rapid population growth it is considered that the population that lives in the jurisdiction is more than 100.000. However this remains unofficial until the new census is held.

Over 2641 businesses operate within the boundaries of the municipality. Based on Ministry of Trade and Industry data, about 45 % of those businesses are involved in trade, 19% in transport and 9% in catering and other services. No businesses involved in production activities giving a structure of business operations skewed to the service sector and trade.

The administration of Municipality of Vushtrri is organized around a Head Quarter and 15 local offices providing services at the community level. Considerable institutional reforms at the municipality level resulted from the Law on Local Self Government promulgated in 2008 and changes to the electoral system. The Mayor is now directly elected, while the Assembly members are elected through a proportional voting system based on open election lists. The organizational structure of the Municipality is shown below.

The 2011 Municipal Budget is in excess of 8 million euro, almost four times smaller in size compared to Prishtina's Municipal budget. Municipality considers the budget insufficient to be able to address the immediate social, infrastructural and public services challenges of a growing city.

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<sup>39</sup>1981

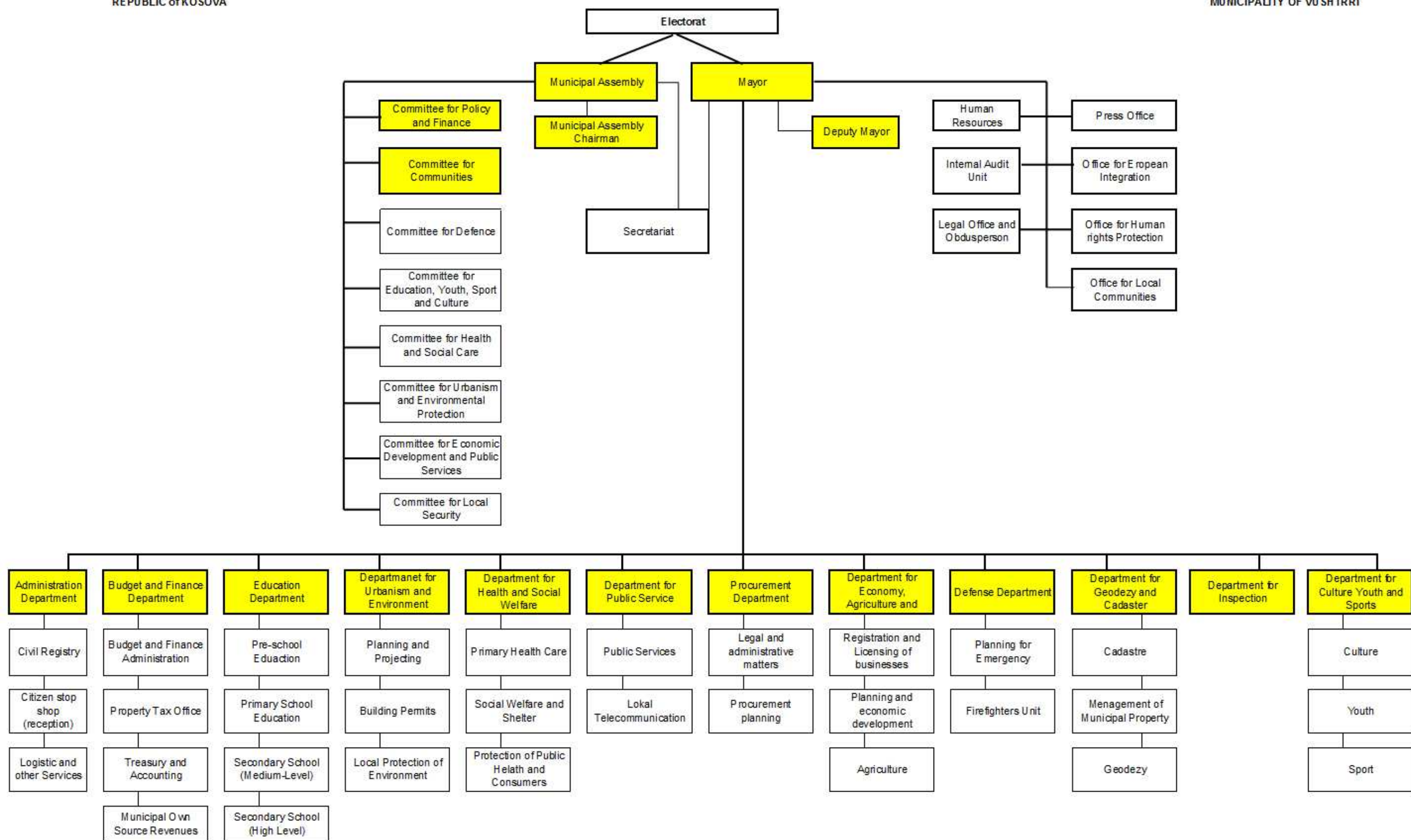


REPUBLIC of KOSOVA



MUNICIPALITY OF VUSHTRRI

## MUNICIPAL ORGANIZATIONAL STRUCTURE 2010



## Assessment of the PFM systems, processes and institutions

### 6.1 Budget Credibility

#### 6.1.1 PI-1 Aggregate Expenditure Out-Turn

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

Total Expenditure deviate / differ in the three years analyzed with a maximum expenditure deviation of 12.0% in 2008 and a minimum of 2.7% in 2009 (see table). From year to year initial municipal budget has seen increases, reaching a maximum growth of 33.1% in 2010 as compared to 2008. Increased municipal budget results primarily from the gradual decentralization of powers to the municipality and with it the transfer of funds from central government.

Table 1: Expenditure Outturn and Original Approved Budget

Year	Total expenditure deviation
2008	12.0%
2009	2.7%
2010	11.6%

Score: C

PI-1	Explanation	Score – M1
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	<b>Score C</b> (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 15 % of budgeted expenditure	<b>C</b>

#### 6.1.2 PI-2 Composition of Expenditure Out-Turn

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years

Variance in primary expenditure composition is not significant. . For the three year of analysis 2008-2010, variance is under 5% (see table).

Table 2: Total Deviation and Expenditures Deviation for the Main Budget Program Lines

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2008	12.0%	16.0%	4.0%
2009	2.7%	6.6%	3.9%
2010	11.6%	14.0%	2.4%

Source: KFMIS

Score: A

PI-2	Explanation	Score – M1
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	<b>Score A</b> (i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.	<b>A</b>

Table 3: Total Deviation and Expenditure Deviation for the Main Budget Program Lines, 2008-2010

2008					
Functional head	Budget	Actual	Difference	Absolute	Percent
1 Mayor Office and Assembly	101,400.00	97,608.00	(3,792.00)	3,792.00	3.7%
2 Procurement	23,650.00	22,894.55	(755.45)	755.45	3.2%
3 Administration	220,379.00	210,979.28	(9,399.72)	9,399.72	4.3%
4 Budget and Finance	851,030.00	1,512,344.92	661,314.92	661,314.92	77.7%
5 Inspection	50,710.00	60,362.88	9,652.88	9,652.88	19.0%
6 Public Services	238,760.00	205,672.04	(33,087.96)	33,087.96	13.9%
7 CEO Office	61,800.00	63,330.31	1,530.31	1,530.31	2.5%
8 Local Office for Communities	48,090.00	43,017.29	(5,072.71)	5,072.71	10.5%
9 ZKK	3,524.00	3,507.85	(16.15)	16.15	0.5%
10 Fire-fighters	125,204.00	119,575.78	(5,628.22)	5,628.22	4.5%
11 Agriculture, Forestry and Rural Dev	22,530.00	22,626.78	96.78	96.78	0.4%
12 Economy	18,690.00	14,588.65	(4,101.35)	4,101.35	21.9%
13 Geodesy and Cadastre	45,400.00	47,826.54	2,426.54	2,426.54	5.3%
14 Urbanism	38,800.00	31,096.71	(7,703.29)	7,703.29	19.9%
15 Health and Soc. Wealth	653,757.00	604,433.36	(49,323.64)	49,323.64	7.5%
16 Culture, Youth and Sport	95,460.00	93,904.75	(1,555.25)	1,555.25	1.6%
17 Education and Science	3,361,946.00	3,521,880.81	159,934.81	159,934.81	4.8%
<b>total expenditure</b>	<b>5,961,130.00</b>	<b>6,675,650.50</b>	<b>714,520.50</b>	<b>714,520.50</b>	<b>12.0%</b>
<b>composition variance</b>	<b>5,961,130.00</b>	<b>6,675,650.50</b>		<b>955,391.98</b>	<b>16.0%</b>
2009					
Functional head	Budget	Actual	Difference	Absolute	Percent
1 Mayor Office and Assembly	138,400.00	134,142.36	(4,257.64)	4,257.64	3.1%
2 Administration	298,137.00	298,464.73	327.73	327.73	0.1%
3 Inspection	58,246.00	62,271.67	4,025.67	4,025.67	6.9%
4 Procurement	28,278.00	28,789.93	511.93	511.93	1.8%
5 Budget and finance	222,184.00	201,385.81	(20,798.19)	20,798.19	9.4%
6 Public Services MCE	1,367,706.00	1,653,418.52	285,712.52	285,712.52	20.9%
7Community Office	50,365.00	50,415.50	50.50	50.50	0.1%
8 Agriculture, Forestry and Rural Dev	35,264.00	37,500.45	2,236.45	2,236.45	6.3%
9 Geodesy and Cadastre	551,842.00	437,935.03	(113,906.97)	113,906.97	20.6%
10Primary Health Care	869,415.00	933,232.95	63,817.95	63,817.95	7.3%
11Performance in Health	36,720.00	21,577.50	(15,142.50)	15,142.50	41.2%
12 Culture, Youth and Sport	212,643.00	235,059.27	22,416.27	22,416.27	10.5%
13 Education and Science	4,241,657.00	4,238,575.83	(3,081.17)	3,081.17	0.1%
<b>total expenditure</b>	<b>8,110,857.00</b>	<b>8,332,769.55</b>	<b>221,912.55</b>	<b>221,912.55</b>	<b>2.7%</b>
<b>composition variance</b>	<b>8,110,857.00</b>	<b>8,332,769.55</b>		<b>536,285.49</b>	<b>6.6%</b>

Functional head	2010				
	Budget	Actual	Difference	Absolute	Percent
1 Mayor Office	61200	54,154.87	-7045.13	7045.13	11.5%
2 Office of Muni Assembly	147716	106,345.58	-41370.42	41370.42	28.0%
3 Administration	317583.94	333,991.38	16407.44	16407.44	5.2%
4 Inspection	84537.16	69,957.57	-14579.59	14579.59	17.2%
5 Procurement	33026.03	33,247.46	221.43	221.43	0.7%
6 Budget and finance	95610.45	106,168.89	10558.44	10558.44	11.0%
7 Public Services	1330803.36	1,434,051.59	103248.23	103248.23	7.8%
8 Office of Loc Communities	54742.08	49,938.54	-4803.54	4803.54	8.8%
9 Agriculture, Forestry and Rural Dev	61669.6	82,639.41	20969.81	20969.81	34.0%
10 Geodesy and Cadastre	44583.59	46,516.06	1932.47	1932.47	4.3%
11 Urban and Spatial Planning	1273375.54	1,697,348.93	423973.39	423973.39	33.3%
12 Health and Social Welfare	1,050,863.82	1,346,445.64	295581.82	295581.82	28.1%
13 Performance in Health	39610	0.00	-39610	39610	100.0%
14 Culture, Youth and Sport	128627.14	327,022.42	198395.28	198395.28	154.2%
15 Education and Science	4195660.35	4,267,202.29	71541.94	71541.94	1.7%
<b>total expenditure</b>	<b>8919609.06</b>	<b>9955030.63</b>	<b>1035421.57</b>	<b>1035421.57</b>	<b>11.6%</b>
<b>composition variance</b>	<b>8919609.06</b>	<b>9955030.63</b>		<b>1250238.93</b>	<b>14.0%</b>

Source: KFMIS

### 6.1.3 PI-3 Aggregate Revenue Out-Turn

#### (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

Collection of Municipal own source revenues for the last three years was much greater compared to original budget plan. Municipal revenue data are presented below, broken down by source with main revenue categories exceeded the budget plan.

A number of factors affected this collection rate, especially for those revenues considered as main own source revenues (broad based tax) for Vushtrri Municipality - such as property tax:

1. The application of conditional municipal services upon completion of property tax payments, (conditioned services such as annual car registration, cadastral services etc)
2. Improvements in property tax administration and service to taxpayers: since 2008 municipality started delivering property tax bill through Post of Kosovo which proved a higher delivery rate of bills to municipal taxpayers as compare to the past when this was done by municipal employee who did not necessarily do the delivery in timely and proper manner. It is important for taxpayers to know what their obligations are towards their municipality, proper bill delivery made a contribution
3. Awareness campaign via local media (mainly radio)

The PEFA scoring methodology used does not recognize underestimation in revenue forecasts<sup>40</sup>. There is a tendency of revenue underestimation – both at the central and municipal level – which points to a weakness in revenue forecasting.

Table 4: MOSR Budget Plan and Actual Out-Turn, 2008-2010, euro

	2008			2009			2010		
	Budget	Actual	Differ.	Budget	Actual	Differ.	Budget	Actual	Differ.
Administration	41000.00	63673.00	155%	41000.00	82011.60	200%	39281.00	74310.50	189%
Revenue from cadastre	12000.00	47115.25	393%	12000.00	46971.00	391%	11000.00	57704.00	525%
Revenue from inspectorate	0.00	1500.00	0.00	0.00	2570.00	0.00	1500.00	6670.00	445%
Use of public areas	16000.00	52883.12	331%	16000.00	34381.35	215%	30000.00	25243.18	84%
Property transactions	16000.00	22704.48	142%	16000.00	22769.42	142%	30000.00	22129.40	74%
Business licenses	0.00	4290.00	0.00	0.00	4870.00	0.00	10000.00	4500.00	45%
Revenue from construction permits	49000.00	102982.00	210%	49000.00	95468.92	195%	100000.00	90380.50	90%
Property tax	160000.00	228760.76	143%	160000.00	161908.70	101%	145500.00	260861.89	179%
Education co-payments	50000.00	41932.00	84%	40000.00	38844.00	97%	50000.00	57979.00	116%
Health co-payments	50000.00	57551.80	115%	55000.00	44400.00	81%	60000.00	37764.00	63%
Road tax	0.00	70385.00	0.00	0.00	72367.00	0.00	60000.00	72570.00	121%
Other revenue	176000.00	272475.23	155%	171000.00	447425.40	262%	331438.00	474530.33	143%
<b>Total</b>	<b>570000.00</b>	<b>966252.7</b>	<b>170%</b>	<b>56000.00</b>	<b>1053987.39</b>	<b>188%</b>	<b>868719.00</b>	<b>1184642.80</b>	<b>136%</b>

Source: Vushtrri Municipality, KFMIS

Score: A

PI-3	Explanation	Score – M1
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget	<b>Score A</b> (i) collection of OSR in the last three years (2008, 2009, 2010) is beyond 97% of estimated amounts	<b>A</b>

<sup>40</sup> This PEFA was started before the changes in scoring was initiated dated 29 Jan 2011

#### 6.1.4 PI-4 Payment Arrears

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

Any outstanding obligations of the Municipality at the end of each fiscal year must be a) reported to the Treasury/MFE, b) reported in year-end financial reports, and c) any commitments and arrears immediately recorded in the KFMIS in order to reflect these arrears.

Based on Municipal Financial Statements, in the end of year, the stock of arrears against total expenditures of the municipality is low in the last three years (under 2% of total municipal expenditure), as shown in the table below.

Table 5: Assessment of Expenditure Arrears 2008-2010

Description	Comment	2008 (euro)	2009 (euro)	2010 (euro)
Total budget appropriation	As of 31 December	7,246,107.58	9,038,365.70	8,919,609.06
Total budget expenditure	As of 31 December	6,675,650.50	8,332,769.55	9,955,030.63
Total arrears	Cumulative, as of 31 December	61,359.54	50,645.30	71,039.8
Arrears as a % of total expenditure	D=C/B, %	0.92%	0.61%	0.71%

Source: 2010 financial statements

Based on Treasury rules, all invoices which are submitted to the municipality (the same as with other budget organizations) must be paid within 30 days.

Although assessment of this indicator is for the period at the end of fiscal year, when any expenditure payment arrears are reported (see table 5) and the majority of them are paid by that time, the data presented below (Table 6) indicate significant delays in the settlement of payments (receipts) during the year.

Maturity of 2010 invoices as presented in this table shows that 4.75% of total budget expenditures of the municipality is registered as arrears in a certain point during the year, although the bulk of these payments are executed before the end of the fiscal year.

Table 6: Age Profile of Expenditure Arrears, 2010

2010 payment arrears	More than 30 days	More than 60 days	More than 120 days
Total budgeted expenditure (euro)	9,955,030.63		
Value of payment arrears (euro)	473,316.6	252,232.0	97,106.51
Payment arrears as a % of total budget expenditure	4.75%	2.53%	0.97%

Source: MFE/KFMIS transactions in 2010 in Municipality of Vushtrri

Since the stock of expenditure payment arrears at the end of year, as a percentage of total municipal expenditure, is minimal (under 2%), score A is warranted for this dimension.

Score A



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

Municipality maintains data on expenditure payment arrears, and updates are done in a simple excel spreadsheet. The spreadsheet provides information such as invoice number, invoice date, payment date, description, amount due / paid, and the supplier.

This practice of maintaining data on unpaid invoices the municipality has begun to change from 2009 when Treasury/MFE introduced the requirement for all budget organizations, including municipalities, to have this data recorded in the KFMIS. However, this practice is not fully applied by the municipality.

Within KFMIS, a special module is dedicated to monitoring and execution of payments by feeding data from purchases and purchase orders into the system. This purchase module allows for entering the data into the system (KFMIS), such as the invoice date, invoice registration date, and the date of payment. These data provide the opportunity to look at the timeframe within which the payment is executed and allows the monitoring of payments and calculation of procurement costs. In practice, however, the requirement to enter invoice dates in the KFMIS and/or to register the invoice on the day of receipt by the municipality is not necessarily met, which in fact undermines the effectiveness of monitoring and measurement of arrears.

Therefore, it can be considered that municipality possesses complete data on the maturity of arrears; however the age profile is not included in previous financial statements. Financial statements for 2010 were prepared in the time when assessment of the Municipality in this indicator took place and there have been qualitative improvements in this aspect, where for the first time the age profile of expenditure payment arrears is duly presented.

Overall, data on the stock of arrears is generated by Vushtri Municipality through routine procedures at the end of each fiscal year and reported in the Financial Statements; however the completeness of this information raises some concerns. It remains to be seen how the KFMIS module could be better utilized by the Municipality. The information could be made even better by ensuring that the date of the invoices is consistently entered into KFMIS.

Score: B

PI-4	Explanation	Score – M1
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	<b>Score A</b> (i) Stock of arrears is low (under 2% of total budgeted expenditure).	<b>B+</b>
(ii) Availability of data for monitoring of stock of expenditure payment arrears	<b>Score B</b> (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	

## 6.2 Comprehensiveness and Transparency

### 6.2.1 PI-5 Classification of the Budget

#### (i) The classification system used for formulation, execution and reporting of the central government's budget

The Budget Classification/Chart of Account is based upon Government Financial Statistics (GFS) 2001 and is COFOG compliant. The classification system is administered by Treasury /Ministry of Economy and Finance using KFMIS. Municipal budget planning, execution, and reporting is by:

- Functional classification (6 main functions and related sub-functions) compared to 10 groups at level 1 and sub functions for central government
- Economic classification (5 main codes)
- Administrative classification (16 main codes)

A municipality may only request – with the consent of Treasury - some adjustments to the system in use which is provided by the Treasury on the basis of specific administrative requirements they have, but it has no control over the design or structure of the system. Municipal budget documentation is compiled in a consistent manner for these classifications:

1. Budget formulation: detailed budget plans are based on administrative and economic codes. Budget documentation does not explicitly present the functional classification, however it can be produced as functional codes are linked to the administrative classifications and are available in the budget documentation.
2. Budget execution: actual outturn, including authorization for expenditure, allocations, commitments, and daily expenditure, are all recorded by the three classifications.
3. Budget reporting: Reports may be generated electronically based on the three classifications, enabling comparison between original budget plan and outturn; these reports are routinely generated by economic and administrative classifications for the purposes of budget execution reports and financial statements.

Score: A

PI-5	Explanation	Score – M1
(i) The classification system used for formulation, execution and reporting of the local government's budget.	<b>Score A</b> Budget formulation and execution is based on functional, economic and administrative classifications according to GFS/COFOG standards	<b>A</b>

## 6.2.2 PI-6 Comprehensiveness of Information Included in Budget Documentation

(i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)

Municipal budget documentation used for the evaluation purposes of this indicator are 2011 and 2010 budget documents, and the relevant budget circulars issued by the MFE.

Table 7: Scope of Budget Documentation, 2011

	Actually used	Comments
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation as representative for Kosovo	No	Municipality receives the information on main macroeconomic indicators through Budget Circulars issued by the MFE, underlining determination of municipal budget parameters. Although the budget preparation is based on these parameters, they are not evidently used so as to be clear to other stakeholders in the municipality.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	Yes	Municipal budget plan submitted to the Municipal Assembly includes data on fiscal balance which are defined as total revenue minus total expenditure.
3. Deficit financing, describing anticipated composition	Yes	Municipal Budget is presented as balanced; unspent OSR are not foreseen in the budget plan, as they are automatically carried forward in accordance with the Budget Law.
4. Debt stock, including details at least for the beginning of the current year	Yes	The municipality currently has no registered debt since the Law on Public Debt which would allow borrowing for the municipalities has entered into force only in 2009.
5. Financial Assets (such as MOSR carry forward), including details at least for the beginning of the current year	No	The municipality does not include any statement on financial assets in the budget documentation. This is only reflected in the financial statement.
6. Prior year's budget outturn, presented in the same format as the budget proposal	Yes	Table 4.3 of the municipal budget proposal for 2011 shows that information as presented includes the following (a) Summary of total revenue and expenditures, (b) budget expenditure based on administrative and economic classification (for capital and operational budget). Functional classification can be extracted manually by looking at included codes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Information included for the current year's budget present (a) a summary of total revenue and expenditures, (b) budget expenditure based on administrative and economic classification (for capital and operational budget). Functional classification can be extracted manually by looking at the included codes

8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	Aggregate data, including main expenditure and revenue categories by economic classification are included in the budget documentation and in budget plans. But summary of budget data is not presented by administrative and functional classifications.
9. Explanation of budget implications of new policy initiatives (respectively by central and municipal level), with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	<p>Speech of the Municipal Budget Director for the presentation of 2011 budget documents, held in the Municipal Assembly on 30.09.2010.</p> <p>Introduced policies and budget implications as presented below, in terms of revenues and expenses, are (a) initiatives coming from the central level with the respective cost assessment, as part of further decentralization of powers, and (b) initiatives/policies initiated by the municipality itself.</p> <p>New policy initiatives introduced by the central level:</p> <ol style="list-style-type: none"> <li>1. Decentralization of Kosova Forest Agency functions to the municipality (transferred budget: € 26.412)</li> <li>2. Introduction of the English language from grade I in primary schools, and English teachers (transferred budget: € 21.900)</li> </ol> <p>New policy initiatives introduced by the municipality</p> <ol style="list-style-type: none"> <li>3. Regulation on fees, charges, and penalties for 2011 has reduced the burden on small businesses for 20% of the total burden estimated at € 196.264, aimed at encouraging local business.</li> </ol>

Source: Vushtrri Municipality Budget Proposal Submission, September 2010

The 2011 budget documentation is more comprehensive with regard to the inclusion of these elements compared to 2010, although there is still room for other quality improvements. Law on Public Financial Management and Accountability imposes a much more demanding set of requirements than contained in this PEFA indicator. However, meeting these requirements is yet to be fully achieved and will also be dependent on MFE further strengthening and adjusting municipal developing procedures, including mandated budget presentation format, instructed to municipalities.

Score: B

PI-6	Explanation	Score – M1
Share of below listed information in the budget documentation most recently issued by the local government (in order to count in the assessment, the full specification of the information benchmark must be met).	<p><b>Score B</b></p> <p>Recently issued budget documentation meets 5-6 out of 9 information benchmarks</p>	<b>B</b>

### 6.2.3 PI-7 Unreported Government Operations

#### (i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports

Kosovo Consolidated Budget is managed through Single Treasury Account (“STA”). There are no extra-budgetary activities, and extra-budgetary activities that are not reported. Revenues generated from Education or Health sectors are all reported through the system. The Law on Public Financial Management and Accountability requires that all public money that is collected by all Budget Organizations – Central and Local - be deposited in the STA and cannot be spent until it is appropriated. There is no evidence of violation of this legal requirement by the Municipality.

Score: A

#### (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

All donor funding received by the Kosovo Government – both Central and Local Governments - from donors in cash is channeled through the Treasury/MFE STA accounts at the Central Bank and accounted for through the KFMIS. There are no bank accounts operated outside of the STA by Project Implementation Units or Budget Organizations for the implementation of donor-funded projects. All Designated Donor Grants are appropriated as they are received from donors in the Treasury accounts. Consequently, all expenditures of Designated Donor Grants are included in the regular in-year execution reports and year-end fiscal reports.

Municipality of Vushtrri was a recipient of donor funding during 2009, but not in 2010. For the purposes of assessing this indicator, community participation and foreign donations are considered as external donor funding (i.e. foreign organizations as donors, EC IPA funds, citizen participation for certain projects).

Based on the table below, donor funding spent by the Municipality in two recent years are calculated as a % of total municipal expenditure, as generated from Municipality's financial statements for 2009 and 2010. There has been no donor loan financing provided to the Municipality. Score: A

Table 8: Designated Donor Grants, 2009-2010

	2009		2010	
	Received external donations (euro)			
	Community participation	International organization	Community participation	International organizations
	148,450.00	38,390.00	0.00	0.00
Total received external donor funding (euro)	186,840.00		0.00	
Total spent external donor funding (euro)	186,840.00		0.00	
Total budgeted expenditure (euro)	8,332,769.55		9,994,670.23	
Total spent external donor funding as a % of total budget expenditure	2.24%		0.00%	

Source: Vushtrri Municipality Financial Statements

PI-7	Explanation	Score – M1
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	<b>Score A</b> (i) The level of unreported extra budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	<b>A</b>
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	<b>Score A</b> (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	

#### 6.2.4 PI-8 Intergovernmental Fiscal Relations

**(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)**

Not applicable to the Municipality

**(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year**

Not applicable to the Municipality

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories**

Not applicable to the Municipality

PI-8	Explanation	Score-M2
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	Not applicable	<b>Not applicable</b>
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	Not applicable	
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	Not applicable	

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

### (i) Extent of SN government monitoring of AGAs and POEs

According to the Law on Publicly Owned Enterprises, which entered into force in 2008, Kosova Municipalities gained ownership of sixteen POEs (so called Locally Owned POEs). Vushtrri Municipality does not exercise any such ownership rights and responsibilities for any POEs. Therefore, for the purposes of this assessment, this dimension is not applicable for this municipality.

### (ii) Extent of SN government monitoring of lower level SN governments' fiscal position

In accordance with the Law on Local Self Government there are no lower levels of local government within the jurisdiction of municipalities. Thus, dimension (ii) is deemed not applicable for the assessment.

PI-9	Explanation	Score – M1
(i) Extent of SN government monitoring of Autonomous Government Agencies (AGAs) and Public Enterprises (PEs)	N/A	Not Applicable
(i) Extent of SN government monitoring of lower level SN governments' fiscal position	N/A	

## 6.2.6 PI-10 Access to Fiscal Information

### (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)

The Municipality does provide public access to fiscal information. However, some of the information on the municipality is provided to the public by central institutions and not by the municipality itself. Such provision is considered as public access to this information for the purposes of this indicator. In addition, public access to this information through the Internet, is not considered the only tool, and very often other ways (e.g. through local media) of providing public access to information work better for the public of the municipality. It is worth highlighting the fact that the information is provided in all local languages, to enable easy access to non-majority communities. It is recognized that Vushtrri's own efforts to ensure public access to its key fiscal documents could be strengthened.

Table 9: Availability of Fiscal Information

Key Fiscal Information	Availability	Comments
1. Annual Budget Documentation (complete set as listed under PI-6, to the extent information exists)	Yes	Annual Municipal Budget documents are publicly available upon request.
2. In-Year budget execution reports (made available within one month of completion)	Yes	Own Source Revenue Reports are compiled monthly, and budget execution reports are produced quarterly and submitted to the Municipal Assembly. Reports are not posted on Municipality's website; however the discussions of Municipal Assembly members in the Assembly, in the presence of media, are considered as public access to information. Although not with the efforts of the Municipality itself, these reports are published quarterly by the Treasury Department of MFE, as per requirements of the LPFMA, the report being produced at Kosovo level, including budget execution by Municipalities. Quarterly budget execution reports are available on MFE website: <a href="http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq">http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq</a>
3. Year-end financial statements (made available within six months of completion or completed audit)	Yes	Municipality produces financial statements by the end of January of each fiscal year and submits them to the Treasury Department of MFE and Auditor General Office; however, there are no efforts by the Municipality to make them publicly available except upon request.
4. External audit reports (made available within six months of completed audit)	Yes	Municipality makes no effort in making publicly available annual external audit reports however annual audit reports on municipal financial statements are published on Auditor General Office website: <a href="http://www.ks-gov.net/oag/shqip/raportet%20financiare.htm">http://www.ks-gov.net/oag/shqip/raportet%20financiare.htm</a>
5. Contract awards (above 100,000 euro value; published quarterly)	Yes	In compliance with the Law on Public Procurement, the Municipal Procurement Office is obliged to publish all high value contracts, and such information is submitted for publication to the Public Procurement Regulatory Commission which then makes it publicly available on its website: <a href="http://www.ks-gov.net/krrp/Default.aspx?PID=Notices&amp;LID=1&amp;PCID=-1&amp;CID=SearchNotices&amp;stat=2&amp;PPRCMenu_OpenNode=114">http://www.ks-gov.net/krrp/Default.aspx?PID=Notices&amp;LID=1&amp;PCID=-1&amp;CID=SearchNotices&amp;stat=2&amp;PPRCMenu_OpenNode=114</a> As well, the Municipal Procurement Office is obliged to publish such contract awards in the newspapers, and in this way also provides public access.
6. Resources available to primary service units (available on request)	Yes	Devolution of budget process to the level of schools and health centers in 2009 contributed to the improvements in key information on budget parameters. Budgets are now prepared and executed at the level of individual schools and health centers. Information on resources available to individual schools and health centers can be obtained on request from municipal administration Department of Education and Health.
7. Information on Municipal Fees and Charges (rates and coverage)	Yes	Information on property tax, and on municipal fees and charges aren't published on municipality's website. However, given the centralized nature, in some aspects, of property tax it is considered that public access is available through different means that MFE provides. MFE Property Tax Department has developed a separate website on property tax for each municipality, which includes all necessary information: <a href="http://tatimineprone-rks.org/">http://tatimineprone-rks.org/</a> . Property Tax Department in the MFE, for three consecutive years, has sponsored the municipality for the annual tax bill along with an informative leaflet providing general information about the property tax.

Score: A



PI-10	Explanation	Score – M1
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	<b>Score A</b> (i) The Government makes available to the public 6-7 of the 7 listed types of information	<b>A</b>

## 6.3 Policy-Based Budgeting

### 6.3.1 PI-11 Orderliness and Participation in Budget Process

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

Municipality respects the budget calendar issued and provided by the MFE, through two budget circulars issued for the purposes of 2010 and 2011 budget planning. Municipal internal budget development process is very informal in most cases, also taking into account the fact that the municipality is a small budget organization, and the communication between departments is done on daily basis. Most of the time, the Budget and Finance Directorate must formulate the budget for each municipal department, being supplied with information from relevant departments, since the quality of budget requests from departments is not always satisfactory and requires further processing by the Budget and Finance Department. However, the existence of an internal budget calendar is evident and it is respected.

The budget planning process by municipal directorates is initiated at the end of the first week in May, after receiving the initial budget circular from the MFE, based on which the initial budget circular is issued and distributed internally (05/26/2010) to all directorates of the municipality. The latter, under the organization of Budget and Finance Directorate, hold the budget hearings in order to support the process of drafting initial budget requests. The ceilings provided with the first budget circular are very general and provide information about government grants totals (education, health, general purpose grant), and on own source revenues. Consequently, this budget planning period is characterized by large requests from each directorate submitted in different dates (26 to 28 May 2010), having received initial budget circular internally. In the meantime, the municipality has prepared the MTEF 2011-2013 and submitted it to the Municipality where it has received approval (29/06/2010). The municipality has complied with the deadline (06/30/2010) for submission of initial budget requests to the MFE, after receiving the first budget circular.

MFE's second Budget Circular received on 03.08.2010 provides operating and capital expenditure ceilings which are distributed via e-mail to all municipal directors, to the Mayor, and Chair of the Policy and Finance Committee. One month later, in the Office of the Mayor and in several meetings of the Board of Directors final ceilings for each program were discussed and set. This has preceded the development of 2011 draft budget proposal which was submitted to the Policy and Finance Committee of the Municipal Assembly on 13.09.2010, after a planning period of more than six weeks by municipal departments. Municipal Assembly approved the draft budget proposal on 30.09.2010, and on the same day it was submitted to the MFE.

Score A

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

Municipal Departments receive sufficient information and instructions on the budget process through the initial budget circular and final ceilings which are provided with the second circular budget, according to the timeframe and dates specified in dimension (i). Municipal Departments plan their expenditure in response to parameters received through the initial budget circular (as explained above) whereas the second budget circular provides final ceilings. The Mayor, along with the Chief Financial Officer, has approved the 2011 budget ceilings before circulating the budget circular to municipal departments. Head of Policy and Finance Committee was also involved in the process.

Less formalized internal budget process have proved to satisfy Municipality's needs and resulted in the production of timely budget submission, the lack of officially disseminated clear guidance on budget formulation process should be recognized as a concern for the future in particular as the budget organization grows in terms of administration and budget.

Score B

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

Table 10: Budget Approval by the legislature

2011 budget	30.09.2010
2010 budget	24.09.2009
2009 budget	29.09.2008

Source: Vushtrri Municipality

Score A

PI-11	Explanation	Score – M1
(i) Existence of and adherence to a fixed budget calendar	<b>Score A</b> (i) A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	<b>B+</b>
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	<b>Score B</b> (ii) A comprehensive and clear budget circular is issued to MDAs. This reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission	
(iii) Timely budget approval by the legislature	<b>Score A</b> (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year	

## 6.5.2 PI-12 Multi-Year Perspective

### (i) Preparation of multi -year fiscal forecasts and functional allocations

There have been efforts to institutionalize a multi-year approach in the municipal budget process since 2007 budget cycle. The Municipal budget instructions through budget circulars issued by MFE envisage a municipal Medium Term Budget Framework (MTBF) and the preparation of multi-year forward estimates for the main budget aggregates as a part of the annual municipal budget process<sup>41</sup>.

The Municipality made attempts to prepare forward estimates of total budget revenues and expenditures, and presented them according to programs or functional categories for three years (budget plan + 2 out years). 2011-2013 Budget includes data on total revenues and expenditures and the data are presented according to functional titles (16 for 2011). Determination of budget ceilings for the 2011 budget is based on actual expenditure and revenues in 2010.

However the information on municipal financing from central government grant transfers contained in MFE budget circular and underpinning municipal budget process provided only grants estimates for 2011 (i.e., no information on grant forward estimates was officially provided by MFE to the Municipality) and this undermined the feasibility of multi-year budget planning as government grants account for about 60-65% of total municipal budget.

In addition the capital investment program included in the budget documentation provides the details of capital project allocations for the current only; however in principle the PIP system – facilitating the management of capital planning - was set-up to accept multi-year projects and multi-year ceilings.

Score D

### (ii) Scope and frequency of debt sustainability analysis

Vushtrri Municipality has not entered into any debt financing arrangements.

Not applicable

### (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

The municipality has had a sector development plan until 2008 however this plan was not further updated. The municipality is holding talks with various donors who would support the drafting of a joint development plan, which would address separate sector needs and the associated costs, but no exact information on future plans exist.

Score D

### (iv) Linkages between investment budgets and forward expenditure estimates

Kosovo has a Public Investment Program (PIP) which central and municipal budget organizations must use to assess potential viability and prioritisation of capital projects. In principle, the system is designed to facilitate for each investment priority to be analyzed as to its financial requirements and available funding over the construction phase as well as the recurrent cost. In practice, the recurrent cost implications are rarely factored into subsequent budgets,

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<sup>41</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

with some estimates and numerical assumptions entered into the system but without real relation to future budgetary implications and compliance.

It is generally considered that the PIP system and procedures are understood by municipal stakeholders following know-how transfer and training of municipal officers<sup>42</sup>. Despite this claim, the understanding of the PIP, its purpose and utilization to benefit budget planning is not clear and is consequentially deficient in its application. There are deficiencies in the timely and orderly application of the system during the course of budget process, which undermines its usefulness for the investment prioritization and its full integration into budget plan. Currently, the PIP system appears to serve as a recording tool rather than a mechanism for budgetary decision making process.

Score D

PI-12	Explanation	Score – M2
(i) Multi-year fiscal forecasts and functional allocations	<b>Score D</b> (i) No forward estimates of fiscal aggregates are undertaken	<b>D</b>
(ii) Scope and frequency of debt sustainability analysis (where applicable)	N/A	
(iii) Existence of costed sector strategies (or development plans)	<b>Score D</b> (iii) Statements of sector strategies exist for several major sectors but none have comprehensive substantial cost attached for investments and recurrent expenditure	
(iv) Linkages between investment budgets and forward expenditure estimates	<b>Score D</b> (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	

## 6.4 Predictability and Control in Budget Execution

### 6.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities

#### (i) Clarity and comprehensiveness of tax liabilities

Property tax is the only local tax administered and collected by the Municipality, and revenues from this tax are spent 100% at the municipal level. Property taxation is regulated by the Law on Property Tax No. 03/L-204 which replaces (and amends) Regulation 2003/29 on property tax. The law establishes standards and procedures to be followed by the municipality for tax administration, supported by secondary legislation, administrative instructions issued by the MEF, as follows:

- Administrative Instruction no. 2004/7 – Registration of property
- Administrative Instruction no. 2003/11 – Procedures on property tax appeals
- Administrative Instruction no. 2003/1- determination of market value and assessment standards

<sup>42</sup> Interview with EU-PIP “EU Support to improving the quality of public investments in Kosovo and preparing the ground for EU funds” project experts on the application of the PIP system by municipal budget organizations during the 2011 budget development process, MFE, January 19, 2011

- Administrative Instruction no. 2005/2 – Organization and functioning of the Permanent Property Tax Office
- Administrative Instruction no. 2004/3- On introduction of service conditioning subject to payment of property tax bills

In 2010, property tax revenues amounted to 260,861.89 Euro (or 79% of annual tax assessment as compared with 51% in 2009).

Municipality has designated five tax areas with values per square meter (closer to the center the higher price) for each category of buildings (residential, commercial, industrial, etc.). The value of the object is determined by the square meters, the category of the building and the tax area in which the facility is located. In addition, each year Municipality sets property tax rates based on categories of objects, which can be changed each year by the Municipal Assembly. The latter decides on tax rates for different categories of buildings (residential, commercial, industrial, etc.) within the limits of the Law on Property Tax. Calculation of annual tax for each object is based on the following formula: *assessed tax = tax value \* tax rate*.

Property tax data are administered through a centralized database in the Property Tax Department within the MFE, which is fed by data from all Municipalities in Kosovo.

It may be ascertained that the Municipality has established the legislation and clear procedures on the administration of property tax, with a limited possibility for application of hidden administrative decisions.

Score A

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

Municipality possesses comprehensive, up to date, and easily accessible information by the taxpayers regarding property tax (including the provision of these data in all official languages: Serbian, Albanian and English).

Citizens can find all basic tax information in their tax bills which are delivered to them each year through the Post of Kosovo, with a booklet containing all the necessary information. In addition, that basic tax information for each taxpayer is available in the municipality, upon their request.

Given the centralized nature of some aspects of this tax, a large number of related information can be found on the web site for the property tax maintained by Property Tax Department of Property Tax within the MFE: <http://tatimineprone-rks.org/al/TAX>. Also, in the last two years, the MFE has conducted campaigns through television and billboards, reminding taxpayers of important timelines for payment of property tax bills in two installments, and timeliness for complaints, applicable penalties and interest for possible delays in payment.

Discussions about tax rates in the Municipal Assembly and the decision about them are published through local media that cover the work of the Assembly, and thus inform the public on important decisions.

Score A

## **(iii) Existence and functioning of a tax appeals mechanism**

Taxpayer complaint, as provided by legislation, are reviewed once a year by the Independent Board of Appeals within the municipality which is appointed each year until 31 March, and is composed of officials from other municipal departments (other than the tax office) in order to ensure their independence at work. Within 30 days from the date

of receiving the tax bill, taxpayers should exercise their right to appeal before the relevant municipality. Independent Board of Appeals, within 30 days should decide on the complaint and reply to the taxpayer in question. The latter could complain about property assessment, calculated square meters, and the area in which their property is located (if municipal authorities have made a mistake, etc.).

Each year, the Board of Appeals is established in the municipality and it has reviewed and resolved each complaint, and has responded to taxpayers claims within legal deadlines. The Board provides information on the number of complaints, their nature, how many of them were approved in favour of taxpayers, how many were rejected etc. The Board reports to the Mayor. Table with data for 2008-2010 complaints can see below.

Until 1 January 2011, in cases when taxpayers are not satisfied with the decision of the Independent Board of Appeals within the Municipality, they can address their case to the Constitutional Court, based on Regulation 2003/29.

Municipality is not in possession of data on the number of appeals rejected by the Municipality which were further processed through the Constitutional Court.

In early 2011, the Law on Property Tax, adopted recently, envisaged two instances for appealing decisions of the Municipal Board of Appeals: i) competent body for the review of complaints within the MFE, and ii) the Supreme Court.

Table 11: Property Tax Appeals 2008-2010

#### 2008

Property category	Appeal cases	Appeals approved	Appeals rejected
Residential	156	117	39
Commercial	20	15	5
Industrial	0	0	0
<b>Total</b>	<b>176</b>	<b>132</b>	<b>44</b>

#### 2009

Property category	Appeal cases	Appeals approved	Appeals rejected
Residential	74	61	13
Commercial	38	28	10
Industrial	0	0	0
<b>Total</b>	<b>112</b>	<b>90</b>	<b>22</b>

#### 2010

Property category	Appeal cases	Appeals approved	Appeals rejected
Residential	130	90	40
Commercial	50	43	7
Industrial	0	0	0
<b>Total</b>	<b>180</b>	<b>133</b>	<b>47</b>

Source: Municipality of Vushtrri

Score A

PI-13	Explanation	Score – M2
(i) Clarity and comprehensiveness of tax liabilities	<b>Score A</b> (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved	<b>A</b>
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	<b>Score A</b> (i) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns	
(iii) Existence and functioning of a tax appeals mechanism	<b>Score A</b> (iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	

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

##### (i) Controls in the taxpayer registration system

Taxpayer registration system is centralized in one property tax database containing information for all Kosovo municipalities and maintained by Property Tax Department in MFE. Municipality constantly feeds the database with new taxpayer data. It is a legal obligation of each municipality to maintain and update data such as property addresses, names of owner / users, tax rates, property values, payments, etc. Also, under the legislation in force, every 3-5 years municipalities should update all data on the value of properties in order to adjust with market value and tax rates approved annually by the Municipal Assembly.

There were 12,505 property tax objects registered in the Municipality database in 2009, whereas in 2010 this number has been reduced for 166 tax objects (as a result of data migration to MFE's centralized database) and it has resulted in a total tax assessment of 328, 420 Euro for 2010.

Centralized database for the management of property tax data has a direct connection (interface) with the Treasury KFMIS for the import, to the property tax system, of all payments, and reconciliation of accounts.

Municipality applies passive measures to increase the efficiency of revenue collection, among them is the application of Administrative Instruction 2004/3 on conditioning of services subject to payment of property tax bills. Services which are subject to conditioning are mainly those related to geodesy and cadastre, and annual registration of vehicles. The municipality claims that these measures have been effective in cases when they were strictly implemented, and not on selective basis, but there are no accurate statistical data on potential impacts. A considerable impact on increased efficiency of payments has resulted from improved tax administration, such as the distribution of tax bills. Until 2008 tax bills were distributed by municipal inspectors who were not necessarily successful in their distribution efforts and not all taxpayers were reached. This has changed with the decision to outsource this service and that the distributor of the tax bills should be the Post of Kosovo. Municipal authorities claim that this has improved the quality of distribution and has reduced the cost of distribution.

Score A

## **(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

Property tax legislation has determined penalties as punitive measures for delays in meeting taxpayers obligations. Based on current legislation which is applicable to all municipalities in Kosovo, the penalty for failure to make timely payment is 15% per annum (5% for the initial delay in payment + 10% if payment is not completed even after 60 days from the deadline for payment) and 12% annual interest (1% monthly interest) applicable over total annual debt. All these rates are calculated automatically by the system that manages property tax records.

Applicable penalties and interest though considered to be high (27% annually) are deemed efficient.

Another option provided for in the legislation that municipality may apply against all delinquent taxpayers is through blocking of bank accounts and confiscation of property. So far none of these measures are applied by the municipality.

In practice, there are no punitive measures applied against taxpayers who do not report their property data to the local tax office.

Municipality has collected Euro 1,567 in 2010 (or 0.75% of total collected amounts) in penalties and interest, and Euro 646 in 2009 in interest or penalties, or 0.005% of total collected amounts.

Score B

## **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Based on current property tax legislation, every 3-5 years municipalities should plan for a resurvey of all properties within their jurisdiction. This means that municipalities should have a plan for inspection of 1/3 of properties within their jurisdiction, each year.

Annual reports on inspections of local tax offices as compiled by the Property Tax Department in MEF, generally underline the fact that municipalities are faced with a lack of capacity for implementation of property audits/inspections (as provided for by law) on an annual basis. MFE believes that at a country level, there is a considerable number of facilities which remain outside tax base in different municipalities, and inspection of properties that are already registered in the tax base is poor. Thus, it is considered that at Kosovo level properties are understated by about 20% of their market value. This was confirmed by municipal officials.

As a result, the Property Tax Department in MFE, given the centralized nature (in some aspects) of this tax, initiated in 2009 a re-survey of all properties in all municipalities of Kosova which is being conducted (data collection on the ground, door to door) by external contractors in cooperation with the municipalities. Main objective is to update existing data and modify property valuation model which would result in adjustments of actual values of properties with market value. Modified values of properties are scheduled to be implemented in fiscal year 2012. Whereas municipalities are expected in the future to continue updating their databases based on individual audit/inspection plans in each municipality.

Municipal Tax Office in Vushtrri, has stalled in the development of inspection plans for registered tax objects and for the registration of new ones. This is due to the fact that in 2010 the office has been operating with only one surveyor and it was impossible for him to perform the field work on his own and thus to fulfil the legal obligation for the re-survey of 1/3 of properties each year. The data show that in the database of the municipality the number of registered tax objects is reduced from 2009 to 2010 for 166 objects, whereas the increase in billed amounts from 2009 to 2010



(for 12,631.00 Euro) is attributed to increased tax rates, and is not a result of property inspections or eventual increase in their value.

Score C

PI-14	Explanation	Score – M2
(i) Controls in the taxpayer registration system	<b>Score A</b> (i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations	<b>B</b>
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	<b>Score B</b> (i) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	
(iii) Planning and monitoring of tax audit programs	<b>Score C</b> (iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria	

#### 6.4.3 PI-15 Effectiveness in Collection of Tax Payments

**(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)**

Actual debt accumulated during 2009 and 2010 represent 31% and 46% respectively of the total amount collected each year. Despite Municipality's efforts, the debt has more than doubled from year to year; in 2009 it was EUR 49,462.00 (or 31% of the total collected amount) while in 2010 it was EUR 121,230.89.

Based on data for the last two years, debt stock at the end of 2010 was 51,028 Euro (20% of total collections)

Whereas at the end of 2008 Municipal debt stock was enormous 946,268.19 Euro or 2.15% of the debt stock at Kosovo level (all municipalities).

Table 12: Property Tax Collection Statistics, 2009-2010

	Euro	2009	2010
Tax assessment	(A)	315,789.00	328,420.00
Total tax collection	(B)	161,985.00	260,861.89
Of which:			
Current year collection	(C=D+E+F)	113,169	141,197
Tax assessment	(D)	112,523	139,631
Interest	(E)	410	996.7
Penalties	(F)	236	570.25
Past years arrears	(G=B-C)	48,816	119,664.89
Current arrears	(H=B-D)	49,462	121,230.89
Current arrears as a % of total collections	(I=H/B)	31%	46%
Stock of arrears	(J=sumH-G)		51,028
Stock of arrears as a % of total collections	(K=J/B)		20%

Source: Preliminary data from the Property Tax System Database, MFE

Table13: Property Tax Debt Collection Ratio, 2009-2010

	2009	2010	Average
Arrears (beginning of year)	947.000	947.646	947.323
Arrears Collected (during year)	49.500	121.230	85.365
<b>Annual Debt Collection Ratio</b>	<b>5.2</b>	<b>12.8</b>	<b>9.0</b>

Total amount of property tax arrears in Vushtrri Municipality is significant, while average debt collection ratio for the last two years amounted to 9%.

Score D

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration**

Property Tax bills are issued with a unique code – UniRef Code – which allows the identification of municipality, tax category, and tax payer. Payments by taxpayers are paid into commercial banks and consequently reported to the Central Bank. Based on UniRef, they are later transferred to the municipality's sub-account in the Treasury. Commercial banks are required to transfer tax receipts to the Central Bank within 24 hours. Property Tax Department in MFE receives daily reports from the Treasury revenue module.

Score A

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

Reconciliation of revenues from commercial banks is done on a daily basis. A daily revenue report from the KFMIS is provided to the Property Tax Department, which with the use of specially designed software selects and identifies payments against property tax obligations. These are then reconciled against property tax database.

Score A

PI-15	Explanation	Score – M1
(i) Collection ratio for gross tax arrears	<b>Score D</b> (i) The debt collection ratio in the most recent was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections)	<b>D+</b>
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	<b>Score A</b> (i) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	<b>Score A</b> (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month	

#### **6.4.4 P-16 Predictability in the Availability of Funds for Commitment of Expenditures**

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

Municipality prepares the cash flow plan together with approved municipal budget in January each year. This plan is updated primarily through the budget review, however quarterly updates apply for two categories of expenditure capital outlays and goods and services, as needed. Allocations are made quarterly and this serves as a good tool for monitoring their availability for use. Exceptions to this practice are the revenues for which specific requests for allocation are made to the Treasury / MFE and these requests are made monthly. Under this practice, monitoring is done on a monthly basis depending on the level of collection, unlike other allocations (grants) that are made every three months (quarterly) according to cash flow plan that the municipality submits in the beginning of year.

Score A

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

Cash flow plan is prepared with municipal directors who decide on projects to be implemented in the appropriate timeframe. Based on the annual cash flow plan prepared by municipalities, the Treasury/MFE makes allocations for the entire year, followed by adjustments made with mid- term budget review. Directors are informed about these allocations in those periods or on ad hoc basis. In many cases, they are informed on the availability of funds for implementation of projects upon their request, and this is a normal practice in small municipalities where circulation of information is often non-formal and meetings between directors are held on daily basis.

Whereas allocations for OSR are made on a monthly basis and based on specific requests that the municipality sends to Treasury/MFE and directors are immediately informed about this. It often happens that certain directors are awaiting those planned allocations for implementation of projects, especially ongoing projects, and these remain unfunded until new allocations based on monthly collection of revenue are made available.

Score A

##### **(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs**

Municipal practice shows that adjustments in budget allocations are primarily done through budget review process, where unspent funds in various programs, following discussions with municipal departments and with the approval of the Mayor are shifted to and cover the deficit in other programs. Budget adjustments are also a result of government transfers (i.e. transfers for capital projects), for which the municipality has planned a budget, and thus after the government donation, original funds planned by the municipality are transferred to other projects to cover the eventual deficit. Various budget adjustments initiated by the executive, i.e. municipal departments are submitted to the municipal assembly for discussion and approval, prior to their execution in the system. These movements naturally affect the cash flow plan which must be updated correspondingly. In 2010 municipality had two large transfers in the category of capital projects amounting to 900,000 Euros.

Score A

PI-16	Explanation	Score – M1
(i) Extent to which cash flows are forecast and monitored	<b>Score A</b> (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows	<b>A</b>
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	<b>Score A</b> (ii) MDAs are provided with reliable information on commitment ceilings, at least three months in advance	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	<b>Score A</b> (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way	

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

##### (i) Quality of debt data recording and reporting

Score Not Applicable

##### (ii) Extent of consolidation of government cash balances

The Government has created a Single Treasury Account, which is used to manage all transactions of the Government and these are consolidated on a daily basis.

Score A

##### (iii) Systems for contracting loans and issuance of guarantee

As there is, as yet, no debt, the score is rated not applicable.

PI-17	Explanation	Score-M2
(i) Quality of recording and reporting of arrears data	Not Applicable	<b>A</b>
(ii) Extent of consolidation of government cash balances	<b>Score A</b> All cash balances are consolidated on daily basis.	
(iii) Loan contracting and guarantee issuance systems	Not Applicable	

#### **6.4.6 PI-18 Effectiveness of Payroll Controls**

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

Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. In January 2009, new software on Personnel was developed and delivered to the MPS, however the two databases have not as yet been integrated. The link and communication between the two databases have not been established.

Each municipality manages the personnel data separately. As there is no link between human resource information held by individual municipalities and the payroll, the possibility arises of discrepancies between the two. Administrative Instruction, issued by the MPS, regulates update procedures, with the provision and reconciliation of electronic and physical copies of changes into records on monthly basis.

Each month the payroll of employees of the municipality is submitted to the relevant directors who then circulate it among the employees individually. These payroll lists enable all directors and employees to identify any deficiencies and to check if the list of relevant personnel and changes in them do not correspond to the payroll. For the Department of Education and Health payroll data are submitted to school directors and clinics directors respectively for confirmation of data.

Municipality maintains records for the municipal staff, both in physical and electronic form, and the operations of this office are closely linked to the finance office, which enters any changes in personnel and reports it to the payroll at MPS.

Score B

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

The municipality is relatively expedient (within the month) in making changes to personnel records which are also made known to the finance office in the municipality which then notifies the central authority for any changes to the payroll. Reconciliation between personnel records and the payroll is done on monthly basis. Although for the municipality as a medium budget organization these changes are rare, however, if submitted prior to date 10 of the respective month then they are implemented immediately during the same month, and if these changes are introduced after that date then adjustments are made in the next month. These adjustments, however, are minimal and therefore not subject to evaluation in this dimension.

Score A

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

Based on the Law on Civil Servants (LSC) all personnel records are treated as confidential information and therefore access to these data in the Municipality is limited. Changes to personnel records may be made only by the Chief of staff, as determined by LCS. Access to these data is also secured for auditors and the Independent Review Board. Audits of the personnel records and of relevant documentation are conducted almost every year by the auditor, while payroll is the responsibility of central government, namely the Ministry of Public Administration, therefore audits and controls conducted by them are not a municipal competency.

In 2008, the MPS payroll software was upgraded. One of the features of the new software is the ability to record the audit trail of any changes, which ensures that any change to a particular record is recorded and can be traced back to

its originator. This is considered to have contributed towards improvements in previously inadequate controls in the application of salary grades and respective management of payroll system as highlighted by the audit 2008. However, as no audit of payroll has been conducted recently (since 2008), scoring of this dimension is rather based on the most recent audit performed for the payroll as indicated in Dimension (iv).

Score A

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

Payroll is the responsibility of central government, namely the Ministry of Public Service, therefore audits and controls conducted by them are not a municipal competency.

However the Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively. As compared with 2007, following the Auditor General's recommendations MPS achieved the following improvements:

- Downsized the number of employees who receive more than two salaries;
- Eliminated employees older than 65 years from the pension contribution scheme;
- Improved the quality of database by including all data in payroll system.

The 2008 audit highlighted the existence of the following weaknesses in the administration of payroll system for all budget organizations:

- Inaccurate reconciliation between payroll system and Treasury General Ledger leading to expenditures out of payroll list;
- Inadequate controls in the application of salary grades and respective management of payroll system;
- Lack of written procedures in regard to entering employees within the payroll system;
- Discrepancies in data in payroll system with data in the contracts for Civil Servants;
- Inadequate control of retroactive payments.

The review of payroll by the internal audit found payroll procedures and controls generally adequate. The audit of payroll system in the MPS conducted by the Auditor General as described above did not identify any irregularities in Vushtrri Municipality.

Score B

PI-18	Explanation	Score – M1
(i) Degree of integration and reconciliation between personnel records and payroll data	<b>Score B</b> (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data	<b>B+</b>
(ii) Timeliness of changes to personnel records and the payroll	<b>Score A</b> (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments)	
(iii) Internal controls of changes to personnel records and the payroll	<b>Score A</b> (iii) Authorization to introduce changes to personnel registers and payroll data is limited and results in an audit trail	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	<b>Score B</b> A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)	

#### 6.4.7 PI-19 Competition, Value for Money and Controls on Procurement

(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)

Municipality exercises procurement activities under the Law on Public Procurement in Kosovo (LPPK) and in full accordance with rules established by the Public Procurement Agency of Kosovo. The following table shows the number of signed contracts (> 10,000 euro) in 2009 and 2010. In 2009, 98% of the contract values (> 10,000 euro) were performed using open procedure, while in 2010, 100%. One pre-approved contract (Annex contract) in 2009 was signed with a non significant value, less than 10% of the total original contracts, as determined by PCCK.

Table 14: Contract Awards 2009-2010

		2009	2010
<b>All Procurement Contracts Awarded</b>			
The total number of contracts awarded	A	280	248
Total value of contracts awarded	B	3,633,890.55	4,029,192.62
<b>Award of procurement contracts &gt; 10,000.00</b>			
Number of contracts awarded	C	70	69
Total value of contracts awarded	D	2,909,134.42	3,601,718.91
Number of contracts based on:	C=E+F+G+H	70	69
Open competition	E	69	69
One source	F	1	0
Pre-approved contractors	G	0	0
Other <sup>1</sup>	H	0	0
Participation of contracts using open competition	I=E/C	0.98	1.00

Source: Vushtrri Municipality, Procurement Reports

Score A

## **(ii) Justification for use of less competitive procurement methods**

Procurement methods used in the municipality are mainly competitive (see dimension i), except for a number of non-significant (i.e., in value terms) contracts which may be considered less competitive, but which were justified in accordance with the Law on Public Procurement in Kosovo. A such, in 2009 there was only one contract with 2% of the total value of contracts.

For procurement procedures with no publication required and executed with three bids of operators are included in Minimal quotation procedures (value <1000 Euro). Another procedure that does not require announcement and can be accomplished with three or more operators offers (when not received appropriate offers procurement manager has the right of announcement) is applied a price quotation procedure (see table above ' other ') for values > 10,000 Euro and is used only in cases of supply and for renovation works.

Score A

## **(iii) Existence and operation of procurement complaints mechanism**

The Law on Public Procurement provides for a centralized procurement complaints mechanism using the Procurement Review Body (PRB) (Title IX of the Law: Procurement Review Procedures). The PRB is an independent institution that has the mandate from the Assembly of Republic of Kosovo to address complaints relating to procurement.

The PRB is a public authority and a budget organization, which consists of a Board of Directors and a Secretariat led by Head of the Secretariat. The PRB is comprised of five members appointed for a term of five years, and may be reappointed only once. Each member of the PRB is nominated by the Government and appointed by the Assembly based on a recommendation made by an independent selection body established by the Assembly. The independent selection body shall be comprised of three duly appointed judges designated by the Kosovo Judicial Council.

The PRB organizes its work in a number of review panels. Depending on the value, size, difficulty or importance of the case, the President of PRB shall be responsible for establishing internal rules concerning the appointment of PRB members for such review panels. The review panel may consist of one, three or five members.

A complaint can be filed at any stage of procurement activity and with respect to any act concerning contracting process. If the contract has been awarded, a complaint may be filed only within the ten day period from the publication of municipal contract award. The municipality applies complaints procedures established by the Law on Public Procurement in Kosovo, LPPK. The municipality has had only one complaint in 2009 which was resolved in PRB, in favour of the decision of the municipality. PRB's decisions regarding the submitted complaint is published, as required by LPPK. In 2010, there were no appeals in decision of the municipality to award contracts.

Score A



PI-19	Explanation	Score-M2
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>Score A</b> Accurate data's on the method used to award public contracts exists and shows that over 75% of contracts that exceed the threshold are awarded on the basis of open competition	<b>A</b>
(ii) Justification for use of less competitive procurement methods	<b>Score A</b> When using less competitive methods, they are justified in accordance with clear regulatory requirements	
(iii) Existence and operation of procurement complaints mechanism	<b>Score A</b> Defined process within the legislation for submission and timely resolution of complaints regarding procurement process, is operational and is subject to the supervision of an external body with data's on resolution of complaints made available to the public	

#### 6.4.8 PI-20 Effectiveness of Internal Controls for Non-salary Expenditure

##### (i) Effectiveness of expenditure commitment controls

The municipality operates on the basis of a well-built system for the control of expenditure commitments and it has mainly followed procedures on the expenditure of public money. In practice, as noted in PI-4, the Municipality has completed the year with late payments that represent a non-relevant percentage (utility bills, fuel, etc.) against total expenditures of the municipality, thus reflecting the application of rules in expenditure of money and initiation of procurement procedures with prior commitment of funds.

Score B

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

The municipality operates under a set of rules described in the legislation, procedures and manuals regarding the expenditure of public money and internal controls, as defined by KFMIS. The municipality is certified (its staff) for demonstration of internal controls and implementation of standards for delegation of expenditure management authority as defined by the MFE for all budget organizations.

Score A

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

Municipality bases its actions on a set of rules for recording of financial transactions, as addressed in Treasury Financial Rule 02 – Expenditure of Public Funds. However, the Auditor General for 2009 finds that there have been issues with financial reporting (p.8) which might expose the Municipality to risks and misstatements related to the following:

- Completeness and accuracy of the financial information;
- Integrity of data
- Assets safeguard, and
- Non-recording of payments from third parties may result in such assets/ services being used rent-free by parties other than the Municipality

Score B

PI-20	Explanation	Score – M1
(i) Effectiveness of expenditure commitment controls	<b>Score B</b> (i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception	<b>B+</b>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	<b>Score A</b> (ii) Other internal control rules and procedures are relevant, incorporate a comprehensive and generally cost effective set of controls, which are widely understood	
(iii) Degree of compliance with rules for processing and recording transactions	<b>Score B</b> (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification	

#### 6.4.9 PI-21 Effectiveness of Internal Audit

##### (i) Coverage and quality of the internal audit function

Internal Audit Unit has been operating since 2002 under the recommendation of the Auditor General – pursuant to Law No.02/L-74, for the establishment of IAU and the audit committee. Until the end of 2009 the Internal Audit Unit (IAU) has functioned with one internal auditor, however in light of needs to cover the activities foreseen in the internal audit strategic plan, one additional internal auditor was employed.

Municipal Internal audit function is based primarily on Law no. 02/L-74 and on Internal Audit Law No. 03 L 128, adopted in 2009. The operations of IAU are also based on the 2009-2011 Strategic Plan as approved by the Audit Committee and senior management of the municipality, and the annual work plan for the respective years (2009-2011). It is established based on risk assessment in accordance with the Law on Internal Audit, Internal Audit Standards, and Code of Ethics for Internal Auditors, the Statute of Internal Audit Unit, and Internal Audit Methodology for Public Sector, prepared by Internal Audit Unit in Vushtrri for years 2010 – 2012 and 2011-2013 respectively, and approved by the senior management. Internal audits are carried out according to a regular annual plan approved by senior management and are assessments of the existence and functioning of systems based internal controls, performance and financial aspects.

IAU reports on quarterly and annual basis. Central Harmonization Unit in Prishtina has produced the Internal Audit Manual which is in use by all Internal Auditors in Kosovo and it serves to uphold international standards (ISPPA /

SNPPAB), code of ethics of the Institute of Internal Audit, and best professional practices, and it is published in three volumes.

Municipal Internal Auditor is certified for this position as part of the support provided by the European Commission to enhance professional skills of internal audit in three projects implemented in 2004, 2006 and 2007 respectively.

Municipality has established the Internal Audit Committee in 2008, but the Committee has become functional only in 2010 under a second decision issued by the Municipality.

The value of expenses covered by the audit performed by the IAU for each functional title in 2009 is presented in the table below. This suggests that the percentage of samples covered by the audit of 2009 budget is at 16.44% of the total budget.

Table 15: 2009 Municipal Budget against IAU Sample Aggregates

Functional title	Budget in euro (A)	Actual (B)	Value of sample tests covering 2009 (sample aggregates) (C)	Percent (B/C, %)
1. Mayor's Office	138,400.00	134,142.36	6,023.58	4.4%
2. Administration	298,137.00	298,464.73	5,247.00	1.75%
3. Inspectorate	58,246.00	62,271.67	1,315.50	2.1%
4. Procurement	28,278.00	28,789.93	-	-
5. Budget and Finance	222,184.00	201,385.81	77,265.00	38.4%
6. Public Services MCE	1,367,706.00	1,653,418.52	1,018,620.08	61.60%
7. Community Office	50,365.00	50,415.50	1,107.00	2.1%
8. Agriculture, Forestry, Rural Development	35,264.00	37,500.45	165.00	0.4%
9. Cadastre and Geodesy	551,842.00	437,935.03	173,754.20	39.70%
10. Primary Health Care.	869,415.00	933,232.95	82,685.00	8.8%
11. Performance Payment in Health	36,720.00	21,577.50	-	-
12. Culture, Youth and Sports	212,643.00	235,059.27	3,155.00	1.34%
13. Education and Science	4,241,657.00	4,238,575.83	9,385.00	0.22%
Total expenditure deviation	8,110,857.00	8,332,769.55	1,369,337.28	16.44%

Source: Vushtrri Municipality, IAU Reports

Score A

## (ii) Frequency and distribution of reports

Internal audit reports prepared by internal auditors in Vushtrri are submitted regularly to the management under an approved annual plan. IAU reports continuously through quarterly and annual reports on internal audit activities of the Chief Administrative Officer who signs these reports and submits them to the Central Harmonization Unit, under a timeframe established by law, and then submitted to the Government, Parliament and the Office of the Auditor General. Score A

### (iii) Extent of management response to internal audit findings

The management of audited departments provides comments on recommendations given by the internal auditor which are then incorporated into the final report. Chief Administrative Officer after each report holds meetings to analyze recommendations and gives directions on their implementation, as scheduled in the action plans provided by the Department managers.

Number of recommendations in 2008 is 30, of which 14 were acted upon, the number of recommendations in 2009 is 27, including unimplemented recommendations from 2008, and in 2010 there are 15 recommendations; during 2010 recommendations from 2009 and 2010 were implemented. Total number of recommendations issued during 2008 - 2010 period is 72, of which until the end of 2010 54 or 75% were implemented.

The remaining recommendations are under implementation and this process will continue during 2011 in accordance with action plans.

Score B

PI-21	Explanation	Score – M1
(i) Coverage and quality of internal audit function	<b>Score A</b> (i) Internal audit is operational in all SN government entities, and generally meets the professional standards. It is focused on systemic issues (in at least 50% of staff time)	<b>B+</b>
(ii) Frequency and distribution of reports	<b>Score A</b> (ii) Reports follow a fix timeline and are distributed to the audited entity, Ministry of Finance, and IA	
(iii) Extent of management response to internal audit findings	<b>Score B</b> (iii) Immediate and comprehensive action is taken by most (but not all) managers	

## 6.5 Accounting, Recording and Reporting

### 6.5.1 PI-22 Timelines and Regularity of Accounts Reconciliation

#### (i) Regularity of bank reconciliation

Collection, saving and spending of public money are implemented through a Single Treasury Account (STA) – including sub-accounts for each budget organization - which are reconciled on a monthly basis. Municipal revenues are identified by an individual UniRef code for each category of revenue. Payments from taxpayers are made in all licensed commercial banks in Kosovo with CBK sub-account as the destination account. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting municipalities, which enables them to enter revenue collected into the KFMIS classified by revenue type, economic code, and relevant collecting department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation. All public expenditure is made through the “main account” in the STA and this account is reconciled daily. In addition to the daily and monthly reconciliation of bank accounts, all budget organizations are required to perform a quarterly revenue and expenditure reconciliation with Treasury in order to confirm matching between the KFMIS and CBK account.

Vushtrri Municipality operates within the STA arrangements and complies with the above described reconciliation procedures. All revenue collection is performed with UniRef Code which makes reconciliation easy. There are some cases where reconciliation was difficult since UniRef code was not used, however this is considered minor. Municipality makes daily reports (a template is developed by revenue officer) on all types of revenues which is aggregated in monthly basis based on the template. The daily report (same with monthly) covers the date of payment, purpose, name and last name, the department where the money will be transferred and the amount.

Score A

## **(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments**

Advances, including for petty cash and official travel purposes, are managed from the budget category Goods and Services. The opening of the advance for petty cash is based on the request for petty cash expenditure needs. The advances for travel are based on official and approved travel agendas and are reconciled upon the presentation of documents from the completed travel.

At the end of each month, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier and the breakdown of expenditure by economic classification is performed and recorded. In a case that the allocated advance is not fully spent the funds are returned to the consolidated fund, with supporting evidence. Municipality has had only one case of advance payment during the year of 2010, which was closed within a month.

Score A

PI-22	Explanation	Score – M2
Regularity of bank reconciliation	<b>Score A</b> (i) Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period	<b>A</b>
(ii) Regularity of reconciliation and clearance of suspense accounts and of advance payments	<b>Score A</b> (ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly within one month of end of period and with only some balances brought forward	

## **6.5.2 PI-23 Availability of Information on Resources Received by Service Delivery Units**

Primary and secondary education is a municipal competency assigned by the LLSG; however the Ministry of Education still retains some part of investment and capital formation program in this sector with a part of school construction managed centrally.

Recent budget decentralization to the level of individual schools – supported by World Bank in 10 Kosovo Municipalities<sup>43</sup> – has contributed to the availability and scope of information on resources received by the service delivery units. Vushtrri Municipality is not yet part of this project.

<sup>43</sup> The program was initiated in 2009 with three pilot municipalities, including Istog, Gjilane, and Kacanik, In 2010 it was extended to ten municipalities, including Shtime, Podujeve, Prishtine, Gjakovë, Peje, Klinë, Prizren, Suhareke, Mitrovicë, and Ferizaj.

These contributions associated with capital expenditure can be derived from the Budget documentation and the KFMIS at the central level. Also Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units.

Municipal Director for Education and Health receive monthly reports from all schools in their jurisdiction and health centers respectively. This way they get information on all resources, although Municipality makes no effort in producing more comprehensive reports on contributions received. While generally available,, concerns remain to what extent this data is reliable and consolidated.

Score B

PI-23	Explanation	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and functioning of those units	<b>Score B</b> (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the SN's governance jurisdiction with information compiled into reports at least annually; OR special surveys undertaken within the last three years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling)	<b>B</b>

### 6.5.3 PI-24 Quality and Timeliness of in- year Budget Reports

#### (i) Quality and timeliness of in-year budget reports

The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time. Municipalities are connected to the KFMIS, which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly. The system allows for the comparison of original budget estimates with year-to-date information on allocations, commitments, actual expenditure, budget balance, and employment in accordance with three main budget classifications, including administrative, economic, and functional.

Score A

#### (ii) Timeliness of the issue of reports

The LPFMA requires the mayor of a municipality to prepare and submit to the municipal assembly quarterly budget execution reports, including the status of all capital expenditure projects, covering the fiscal year through the end of the quarter just concluded. Such reports shall be submitted by the mayor to the municipal assembly, with a copy to the Minister of Finance, within thirty days from the end of each quarter and then published by the mayor on the municipality's website.

In 2010, Vushtrri Municipality produced regular periodic Budget Execution Reports as required by the LPFMA and the same were submitted to the Municipal Assembly. The municipal administration prepared and provided also weekly Budget Execution Reports for the purpose of weekly meetings of Board of Directors presenting the current status of budget performance.

Independently from the Municipality, Treasury Department in MFE produces regular Quarterly Budget Reports on the execution of Consolidated Kosovo Budget. These reports are issued within 30 days from the end of each quarter and submitted to the Government and the Kosovo Assembly (also available from the MFE website). The reports provide full coverage of the status of municipal budget execution.

Score A

### (iii) Quality of Information

In-year budget execution information can be derived from the KFMIS and is considered to be accurate and up-to date. Budget reports include all relevant information as required by this indicator and they are produced and distributed regularly.

Score A

PI-24	Explanation	Score-M1
(i) Scope of reports in terms of coverage and compatibility with budget estimates	<b>Score A</b> (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	<b>A</b>
(ii) Timeliness of the issue of reports	<b>Score A</b> (ii) Reports are prepared quarterly or more frequently and issued within 4 weeks of end of period	
(iii) Information's quality	<b>Score A</b> (iii) There are no material concerns regarding data accuracy.	

## 6.5.4 PI-25 Quality and Timeliness of Annual Financial Statements

### (i) Completeness of the financial statements

The LPFMA requires each budget organization to produce financial statements by January 31 for the past fiscal year. Treasury at MEF provides a generic template for annual financial statement reporting as well as the system from where data is generated by all Municipalities. Municipalities have no impact on the format of financial statements as it is determined at the central government- Treasury/MFE- however what makes a difference is the level of completeness of this template by each Municipality and how good available data is presented.

A step forward with financial statements was made in 2010 when the template given by the Treasury/MEF to all Municipalities for reporting has required additional information from them to include- a table to reflect the progress in the implementation for external audit recommendations from the previous year. This is yet to be seen how well is being filled with information by all municipalities.

Municipality of Vushtrri did submit Financial Statements as required by administrative instruction. Municipality's Financial Statement as of 31 of December 2009 covered information on revenues, expenditure and, financial obligations.

However Financial Statement 2009 did not provide a comprehensive picture for the Office of Auditor General who was not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. OAG had a disclaimer of opinion, or did not express an opinion on the Municipality's financial statements for the year ended 31 December 2009 (Audit Report 2009, p.2.), due to the significance of the matters described below:

- The Municipality's financial statements as of and for the year ended 31 December 2009 in some parts are incomplete and not reconciled with the related notes to the financial statements
- The Municipality does not maintain appropriate listings of payments from third parties
- The property, plant, and equipment included in the Municipality's financial statements as of 31 December 2009 are not reconciled with fixed assets register as of the date
- The Municipality's management did not perform revenue reconciliation between the data as accounted for in its accounting system and those disclosed in the financial statements as of 31 December 2009

Highlighted above OAG's remarks do not appear relevant for the PEFA Framework requirements, therefore a score B is justified and it acknowledges the fact that OAG has had remarks about the quality of financial statements.

Score B

#### **(ii) Timeliness of submission of the financial statements**

Vushtrri Municipality in compliance with the requirements of Administrative Instruction 20/2009 has been preparing and submitting to the MFE financial statements annually. The last financial statement is dated: January 31, 2011 for the 2010 fiscal year.

Vushtrri Municipality complies with the requirement of timely preparation and submission of its financial statements. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year.

Score A

#### **(iii) Accounting standards used**

In accordance with Administrative Instructions in place, and Treasury/MEF requirements (template provided) Vushtrri Municipality is responsible for the preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

As the financial statements were not completed fully as indicated above in Dimension (i), therefore the use of applicable accounting standards (IPSAS) in financial statement reporting, as highlighted by OAG was incomplete as well.

Score C



PI-25	Explanation	Score – M1
(i) Completeness of the financial statements	<b>Score B</b> A consolidated government statement A consolidated government statement (which may exclude service delivery units that are separate cost centers) is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities	<b>C+</b>
(ii) Timeliness of submission of the financial statements	<b>Score A</b> (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year	
(iii) Accounting standards used	<b>Score C</b> (iii) Statements are presented in consistent format over time with some disclosure of accounting standards	

## 6.6 External Scrutiny and Audit

### 6.6.1 PI-26 Scope and Nature of Follow-up of External Audit

#### (i) Scope/nature of audit performed (incl. adherence to auditing standards)

Vushtrri Municipality's financial statements are audited annually by the independent external auditor - Office of Auditor General (outsourced to Grant Thornton). The latest available audit was performed with respect to the financial statements for the year ended 31 December 2009. The audit was carried out in accordance with international auditing standards issued by INTOSAI (Audit Report 2009, p.4) and represented a regularity audit defined as an attestation of financial accounting involving the examination and evaluation of financial statements, regularity of underlying financial transactions, and financial management including the appropriateness of internal controls and internal audit functions (Audit Report 2009, p.5). However this audit did not include performance audit of management and operational efficiency and effectiveness which would score this dimension higher.

Score B

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

Financial statements are submitted to the Office of Auditor General by March 31. The latest external audit report received by the Municipal Assembly was the one for the fiscal year 2007, received in October 22, 2008. Municipal Assembly received Audit Report for fiscal year 2008, in January 2010. Audit Report for Financial Statements of 2009, although completed was never send to Municipal Assembly. This dimension would score C as the last audit report submitted to the Assembly (that for 2008) took 10 months, however since we don't see regular submission of the report to the Assembly annually, the score is downgraded.

Score D

#### (iii) Evidence of follow up on audit recommendations

Municipality of Vushtrri did not make an action plan to address recommendations submitted with audit report 2009, 2008 and 2007. Each Department Head is responsible in addressing respective recommendations however there is no

clear evidence that rests with municipality as how many of them were implemented or partially implemented and what remains outstanding. The status of external audit recommendations is reported to the Mayor.

The assessment of this dimension is derived from the audit memorandum for financial statements of 2010 which is a temporary audit report delivered to the Mayor on November 17, 2010, until it is finalized for the entire period. It is expected that by the end of the year, when external auditor is about to finalize the report, the municipality will have better performance. The following is summary information on the extent of the implementation of prior year's audit recommendations.

Table 16: Status of External Audit Recommendations Given in 2009

Audited year	Total Recommendations	Implemented	Partially Implemented	Outstanding	Outstanding as % of Total
2009	5	1	3	1	20%

Source: Auditor Memorandum for Financial Statements 2010

The evidence presented suggests that to some extent there are reasonable measures to follow up on audit recommendations in Vushtrri Municipality. However municipality does not have reliable evidence for past years. Neither do Auditor General Reports (performed by outsourced companies) consulted as they present only the current year status. Based on the data above a score B is warranted.

PI-26	Explanation	Score – M1
(i) Scope/nature of audit performed (incl. Adherence to auditing standards)	<b>Score B</b> (i) SN government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systematic issues. There is a clear delegation of responsibilities between audit entities.	<b>D+</b>
(ii) Timeliness of submission of audit reports to legislature	<b>Score D</b> (ii) Audit Reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors)	
(iii) Evidence of follow up on audit recommendations	<b>Score B</b> (iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up	

## 6.6.2 PI-27 Legislative Scrutiny of the Annual Budget Law

### (i) Scope of Assembly's Scrutiny

Vushtrri Municipal Assembly is actively engaged in the municipal budget process, including key stages of budget proposal development and approval. During the 2011 Budget process the Assembly was involved in the following:

- The review and approval of municipal medium term budget framework, including projection of the key municipal budget parameters;
- The conduct of two budget hearings with citizens regarding budget priorities and capital program;
- The review, debate, and approval of municipal budget proposal.

According to the Chairman of Municipal Assembly, the Assembly is sufficiently informed and involved in the budget process, with the possibility to influence key decisions. The process is open and transparent, with Assembly's debates recorded and documented in publicly available minutes from meetings.

Score A

**(ii) Extent to which the Assembly's procedures are well-established and respected**

The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The primary responsibility for budget review rests with the Policy and Finance Committee (comprised of five members out of 35) before the budget proposal goes for the general Assembly debate. Professional input and consultations are sought from other four specialized committees, which analyze specific budget aspects in accordance with their respective expertise area.

Municipal Assembly every year, at the beginning, presents a comprehensive working plan to all assembly members. Participation in budget process is part of the plan each year. The chairman of Municipal Assembly, reports every year, to all members on fulfilled activities.

Score A

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

The Municipal Assembly is allowed one month – since September 1<sup>st</sup> to September 30<sup>th</sup> – to conduct the review and approval of municipal budget proposal. These deadlines are provided in the legislative framework and embodied in the LPFMA.

The 2011 Budget calendar assessed in PI-11 suggests that the Municipal Assembly received budget proposal from the executive branch in September 13, 2010, which provided only two weeks for the Assembly review and approval. Subsequently, criteria for score D would be met. However, in light of an extensive Assembly's involvement during the budget process as described above in PI-27(i) a score B can be justified.

Score B

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

The LPFMA provides for rules governing in-year amendments to the municipal budget. In accordance with Article 31 up to 5% can be transferred except in the case of wages and salaries between categories. However, even though the legislation allows virement without reference to the Assembly, the Municipality requires that all amendments and adjustments to the budget require prior review and approval of the Municipal Assembly. Vushtrri Municipality fully adhered to this requirement during 2010.

Score A

PI-27	Explanation	Score-M1
(i) Scope of Assembly's scrutiny	<b>Score A</b> (i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue	<b>B+</b>
(ii) Extent to which the Assembly's procedures are well-established and respected	<b>Score A</b> (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committee, and negotiation procedures	
(iii) Adequacy of time for the Assembly to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	<b>Score B</b> (iii) The legislature has at least one month to review the budget proposals	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Assembly	<b>Score A</b> (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected	

### 6.6.3 PI-28 Legislative Scrutiny of External Audit Reports

#### (i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)

In Vushtrri Municipality the review of the only audit report received by the Assembly, in last three years, took place a month after it was received by Municipality. The audit report on the 2007 Financial Statement was debated during one Municipal Assembly sessions. The audit report received by the Assembly was discussed in timely manner, within a month, and this justifies an A, although there is a clear evidence that it is only once that the Assembly discussed audit reports in last three years due to the fact that local government never submitted.

Score A

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

Vushtrri Municipal Assembly in 2008 conducted dedicated hearing on audit report for financial statement of 2007. The audit report was given in advance to all assembly members; on the day when report is reviewed and debated at the Assembly, the budget/finance director is present for further explanations to cover basic questions from the assembly members. The chairman of the assembly recalls that the debate in 2008 was not as long and strong as there were no major findings which will generate that. In the last two years Assembly received none of the two audit reports.

The Assembly lacks specialized professional capacity to review, analyze, and assess audit reports, thus such hearings are usually limited on major findings rather than going in to more details and technical ones generated by the audit report. The Assembly generally relies on independent auditor's findings and opinion.

Score D

### **(iii) Issuance of recommendations by the Assembly and implementation by the Government**

Generally due to no major and controversial findings given by the Auditor General and to some extent the lack of expertise and professional capacity Vushtrri Municipal Assembly did not issue own recommendations following the review of audit reports. It reinforced and concurred with the recommendations issued by the Auditor General. No action plan to follow up on auditor's recommendations was presented by the Mayor. The Assembly does not require Municipality to present an action plan and also does not monitor the implementation of recommendations.

Evidence from audit reports for the last three years (see PI-26) suggests that follow up on audit recommendations is only partial.

Score D

<b>PI-28</b>	<b>Explanation</b>	<b>Score-M1</b>
(i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)	<b>Score A</b> (i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports	<b>D+</b>
(ii) Extent of hearings on key findings undertaken by the Assembly	<b>Score D</b> (ii) No in-depth hearings are conducted by the legislature	
(iii) Issuance of recommendations by the Assembly and implementation by the Government	<b>Score D</b> (iii) No recommendations are being issued by the legislature	

## **6.7 Donor practices**

### **6.7.1 D-1 Predictability of Direct Budget Support**

**(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)**

Municipalities are not recipients of direct budget support from donors.

Score Not Applicable

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

Score Not Applicable

D – 1	Explanation	Score- M1
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	Not Applicable	Not Applicable
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Not Applicable	

## 6.7.2 D-2 Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme Aid

### (i) Completeness and timeliness of budget estimates by donors for project support

During 2010 Vushtrri Municipality signed a Memorandum of Understanding with United States of Agency for International Development, presented by its contractor Academy for Education Development (AED) to fund road construction in Prelluzhë village. The infrastructure project was completely funded by the USAID and amounted 44,000 Euros. The project was not incorporated into, and approved in the 2010 Budget as Municipality was not given the information appropriately about the timing of the flow of funds. Municipality admits that most of the donor projects come in ad hoc basis, not following the budget calendar as they prepare.

Score D

### (ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Donor projects do not provide reports to the Municipality to inform them on the progress of project implementation. The only case when donors would provide periodically reports is when other than donor funds, for example Municipal funds are included or the project is co-funded. Otherwise, if projects are completely implemented by donor funds most of the reporting from their side to Municipality, even if it happens, is done out of courtesy.

Score D

D – 2	Explanation	Score- M1
(i) Completeness and timeliness of budget estimates by donors for project support.	<b>Score D</b> (i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start	D
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	<b>Score D</b> (ii) Donors do not provide quarterly reports within one two month of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget	

### 6.7.3 D-3 Proportion of Aid that is Managed by Use of National Procedures

#### (i) Overall proportion of aid funds to central government that are managed through national procedures

The project implemented by AED, as indicated in D-2 is managed solely by donor contractor therefore not managed by national procedures. The only exception for national procedures to apply is when Municipal funds are used to co-fund donor projects. In most of these cases national procedures are applicable.

Score D

D – 3	Explanation	Score- M1
(i) Overall proportion of aid funds to local government that are managed through national procedures	<b>Score D</b> (i) Less than 50% of aid funds to SN are managed through national procedures	<b>D</b>

### 6.8 HLG-1 Predictability of Transfers from Higher Level of Government

#### (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

There are three main categories of transfers from the Kosovo Central Government to Municipalities:

- Unconditional general grant that municipalities may use in the discharge of any of their municipal competencies;
- Specific (earmarked) education grant to finance the cost of providing a minimum standard services in pre-primary, primary and secondary education;
- Specific (earmarked) health grant to finance the cost of providing a minimum standard service in public primary healthcare.

The LLGF foresees specific additional transfers for the implementation of enhanced and delegated competencies by the selected municipalities. The intergovernmental body – Grants Commission – is responsible for the determination of aggregate amounts of government transfers and allocation criteria to individual municipalities. The allocation is determined annually and based on objective and transparent formulae, which take into account such factors as municipal population, size, ethnicity, school enrollment. Transfer estimates are then communicated to municipalities at the beginning of budget process through Budget Circular issued by MFE. Unspent appropriation of grants' amounts lapses on December 31.

During the analyzed period of 2008-2010 Vushtrri Municipality was a recipient of general grant, education grant, and health grant, which in total amounted to approximately 80% of municipal financing (i.e., residual funded by MOSR). During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Vushtrri Municipality original budget. Additional allocation of grants' determined during mid-year review processes contributed to such developments.

Table 17: Annual Deviation in the Allocation of Total HLG Transfers, 2008-2010, euro

	<b>Original Grants Allocation</b>	<b>Actual Grants Used</b>	<b>Difference</b>	<b>Variance</b>
<b>2008</b>	5,259,286	6,165,262	905,976	<b>17%</b>
<b>2009</b>	7,550,857	7,696,231	145,374	<b>2%</b>
<b>2010</b>	8,077,671	8,793,559	715,888	<b>9%</b>

Source: KFMIS

Score A

**(ii) Annual variance between actual and estimated transfers of earmarked grants**

Deviations in earmarked grants as recorded for the last three years in Vushtrri Municipality are relatively low as shown below.

Score A

Table 18: Variance in Actual and Estimated Earmarked Grants, 2008-2010

	<b>Total Grants Deviation</b>	<b>Earmarked Grants Variance</b>	<b>Variance beyond total deviation</b>
<b>2008</b>	17%	18%	<b>1%</b>
<b>2009</b>	2%	4%	<b>2%</b>
<b>2010</b>	9%	9%	<b>0%</b>

Source: KFMIS



Table 19: Total Grants Deviation and Grants Variance for the Main Categories of HLG Transfers, 2008-2010

<b>2008</b>					
General Administration (Unconditional Grant)	1,343,583	2,089,077	745,494	745,494	55%
Education (Earmarked Education Grant)	3,311,946	3,488,824	176,878	176,878	5%
Health (Earmarked Health Grant)	603,757	587,361	-16,396	16,396	3%
<b>Total Deviation</b>	<b>5,259,286</b>	<b>6,165,262</b>	<b>905,976</b>	<b>905,976</b>	<b>17%</b>
<b>Composition Variance</b>	<b>5,259,286</b>	<b>6,165,262</b>		<b>938,768</b>	<b>18%</b>
<b>2009</b>					
General Administration (Unconditional Grant)	2,712,898	2,626,213	-86,685	86,685	3%
Education (Earmarked Education Grant)	4,066,824	4,210,030	143,206	143,206	4%
Health (Earmarked Health Grant)	771,135	859,989	88,854	88,854	12%
<b>Total Deviation</b>	<b>7,550,857</b>	<b>7,696,232</b>	<b>145,375</b>	<b>145,375</b>	<b>2%</b>
<b>Composition Variance</b>	<b>7,550,857</b>	<b>7,696,232</b>		<b>318,745</b>	<b>4%</b>
<b>2010</b>					
General Administration (Unconditional Grant)	3,009,756	3,434,169	424,413	424,413	14%
Education (Earmarked Education Grant)	4,150,660	4,213,445	62,785	62,785	2%
Health (Earmarked Health Grant)	917,255	1,145,945	228,690	228,690	25%
<b>Total Deviation</b>	<b>8,077,671</b>	<b>8,793,559</b>	<b>715,888</b>	<b>715,888</b>	<b>9%</b>
<b>Composition Variance</b>	<b>8,077,671</b>	<b>8,793,559</b>		<b>715,888</b>	<b>9%</b>

Source: KFMIS

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)**

There is no specific timetable agreed between levels of government for the in-year distribution of grants' disbursements. Cash liquidity has not been a problem in Kosovo, and as a rule the allocation of funds for expenditure financed from grants is done in accordance with monthly and quarterly allocation schedule requested by a municipal budget organization in its cash flow plan submitted to the Treasury (see PI-16). Treasury in managing allocations adheres to this schedule agreed with a municipality. Given that legislative framework foresees provides for appropriations from grants to laps at the end of fiscal year (i.e., only unspent MOSR are automatically carried forward), there is a strong incentive for municipalities to spend all grants' funds in order not to lose financing allocated from the central government.

Score A

HLG-1	Explanation	Score-M1
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	<b>Score A</b> (i) In no more than one out of the last three years have HLG transfers fallen short of the estimated by more than 5%	A
(ii) Annual variance between actual and estimated transfers of earmarked grants	<b>Score A</b> (ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 5 percentage points in any of the last three years	
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	<b>Score A</b> (iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years	

## 7. Mamusha Municipality PEFA Performance Report

### Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	N/A
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	N/A
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	A
PI-25	Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	N/A
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A
D-2	Financial information provided by donors	A
D-3	Proportion of aid that is managed by use of national procedures	A
HLG-1	Predictability of Transfers from Higher Level of Government	C+

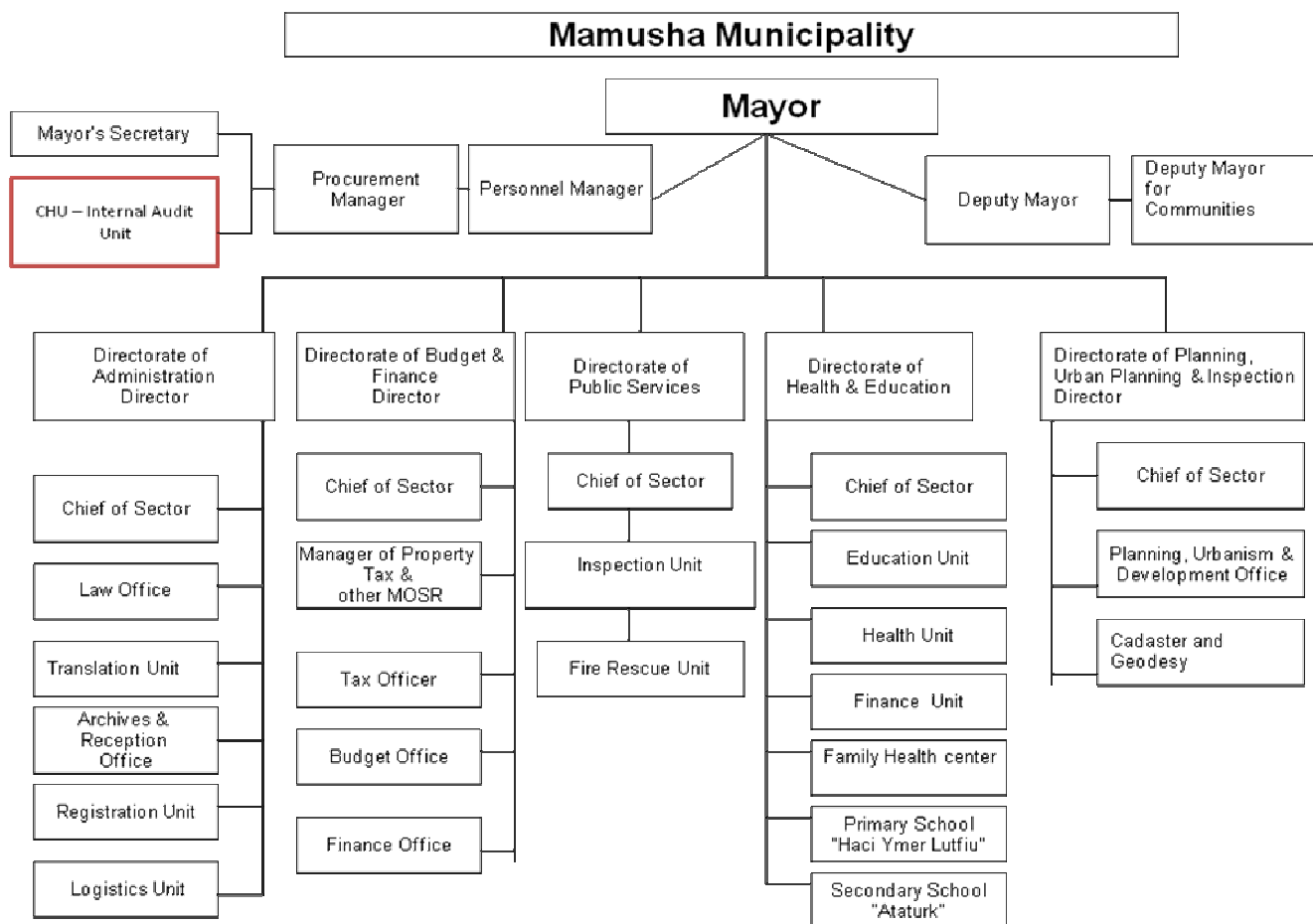
## **Municipality Background Information**

Mamusha Municipality consists of the just the town of Mamusha itself without any adjoining villages. It is located in the south of Kosovo, and is surrounded by the municipalities of Rahovec, Suhareka and Prizren. Until 2005, Mamusha was a part of municipality of Prizren. Mamusha was established as a pilot Municipality with the UNMIK Administrative (Instruction No. 2005/11 dated September 27, 2005) and as of 2<sup>nd</sup> October 2008 Mamusha gained full municipal status.

The municipality covers 10.94 km<sup>2</sup> and the population is about 6,000 inhabitants, consisting of citizens with Turks, Albanian and Roma ethnicity of which Turks represent some 95% of this population. Mamusha is mainly agricultural, with 550 hectares of land farmed and its main economic activity impacting on all aspects of economic life, including production, household income and employment. Mamusha is famous within Kosovo for the production of high quality tomatoes with more than 200 farmers producing about 13,000 tones of tomatoes annually. The Municipality every year organizes the Tomato Festival where farmers present their products.

Mamusha offers great potential and opportunities for development of agriculture in general.

Currently the municipality has 127 employees.



## Assessment of the PFM systems, processes and Institutions

### 7.1 Budget Credibility

#### 7.1.1 PI-1 Aggregate Expenditure Out-Turn

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

The actual out-turn deviated from the original plan by 6.0% in 2008, 0.3% in 2009, and 9.6% in 2010 with an under-spend in each of the three years.

Table 1: Mamusha Municipality Budget Outturn, 2008-2010

	2008	2009	2010
Original Budget Plan (euro)	480,533.00	723,311.00	833,914.00
Actual Budget Outcome (euro)	451,522.76	721,334.64	753,671.46
Difference (euro)	-29,010.24	-1,976.36	-80,242.54
<b>Difference (%)</b>	<b>6.0</b>	<b>0.3</b>	<b>9.6</b>

Source: KFMIS

Score B

PI-1	Explanation	Score – M1
The difference between actual primary expenditure and the originally budgeted primary expenditure	<b>Score B</b> (i) in no more than one of last three years, have actual expenditure deviated from originally budgeted expenditure in an amount equal to more than 10% of budgeted expenditure	<b>B</b>

#### 7.1.2 PI-2 Composition of Expenditure Out-Turn

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years

This indicator measures the extent to which reallocations between budget lines/programs have contributed to variance<sup>44</sup> in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.

Relatively high level of variance in expenditure composition relating to administrative categories (see annex) was recorded for each of the last three years and is primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations. Reallocations do exist, however, and their impact appears minor. While the original budget does not incorporate expenditures funded by unspent MOSR carried forward, such expenditure is recorded in the outturn. This practice results in a considerable difference between budget plan and actual expenditure for a number of budget programs, in particular related to capital spending.

<sup>44</sup> The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure, calculated as a percent of budgeted expenditure for the main budget programs envisaged on municipality budget plan.

Table 2: Total Deviation and Expenditures Deviation, 2008 - 2010

Year	Total expenditure deviation (PI-1)	Overall expenditure deviation	Variance beyond overall deviation (PI-2)
2008	6.0%	22.7%	16.7%
2009	0.3%	9.4%	9.1%
2010	9.6%	35.5%	25.5%

Source: KFMIS

Table 3: Total Deviation and Expenditure Deviation for the Main Budget Program Lines, 2008-2010

2008					
Functional head	Budget	Actual	Difference	Absolute	Percent
Office of the Mayor	57,503.00	56,106.81	-1396.19	1396.19	2.4%
Municipal Administration	91,621.00	100,033.53	8412.53	8412.53	9.2%
Budget, Finance	16,474.00	16,674.13	200.13	200.13	1.2%
Office of the Chief Exc.	16,907.00	16,843.78	-63.22	63.22	0.4%
Geodesy, Cadastre, Property	26,426.00	57,818.61	31392.61	31392.61	118.8%
Health, Social Welfare	40,549.00	38,914.73	-1634.27	1634.27	4.0%
Education and Science	231,053.00	165,131.17	-65921.83	65921.83	28.5%
<b>total expenditure</b>	<b>480,533.00</b>	<b>451,522.76</b>	<b>(29,010.24)</b>	<b>29,010.24</b>	<b>6.0%</b>
<b>composition variance</b>	<b>480,533.00</b>	<b>451,522.76</b>		<b>109,020.78</b>	<b>22.7%</b>
2009					
Functional head	Budget	Actual	Difference	Absolute	Percent
Municipal Assembly Mayor	96,617.00	86,579.06	-10037.94	10037.94	10.4%
Administration and Personnel	131,515.00	133,765.27	2250.27	2250.27	1.7%
Budget, Finance	27,008.00	25,500.76	-1507.24	1507.24	5.6%
Geodesy, Cadastre	211,780.00	188,358.07	-23421.93	23421.93	11.1%
Primary Health Care	61,753.00	74,399.80	12646.8	12646.8	20.5%
Payment for Health Perform.	2,938.00	2,853.54	-84.46	84.46	2.9%
Education and Science	191,700.00	209,878.14	18178.14	18178.14	9.5%
<b>total expenditure deviation</b>	<b>723,311.00</b>	<b>721,334.64</b>	<b>(1,976.36)</b>	<b>1,976.36</b>	<b>0.3%</b>
<b>composition variance</b>	<b>723,311.00</b>	<b>721,334.64</b>		<b>68,126.78</b>	<b>9.4%</b>
2010					
Functional head	Budget	actual	difference	Absolute	Percent
Office of the Mayor	47,902.00	45,744.39	-2157.61	2157.61	4.5%
Office of the Municipal Assembly	51,471.00	43,976.64	-7494.36	7494.36	14.6%
Administration and Personnel	89,441.00	106,270.74	16829.74	16829.74	18.8%
Budget, Finance	30,531.00	30,921.58	390.58	390.58	1.3%
Public services, civil protection, emer.	252,424.00	179,438.20	-72985.8	72985.8	28.9%
Geodesy, Cadastre	38,343.00	20,222.74	-18120.26	18120.26	47.3%
Health, Social Welfare	84,198.00		-84198	84198	100.0%
Payment for Health Perform.	3,169.00		-3169	3169	100.0%
Education and Science	236,435.00	238,875.06	2440.06	2440.06	1.0%
Primary Health Care		88,222.11	88222.11	88222.11	
<b>total expenditure deviation</b>	<b>833,914.00</b>	<b>753,671.46</b>	<b>(80,242.54)</b>	<b>80,242.54</b>	<b>9.6%</b>
<b>composition variance</b>	<b>833,914.00</b>	<b>753,671.46</b>		<b>296,007.52</b>	<b>35.5%</b>

Source: KFMIS

Score D

PI-2	Explanation	Score – M1
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years.	<b>Score D</b> (i) Variance in expenditure composition has exceeded the overall primary deviation for 10% in at least two of last three years.	<b>D</b>

### 7.1.3 PI-3 Aggregate Revenue Out-Turn

#### (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

Municipal revenue data are presented below, broken down by source. Actual revenue collection was lower than budget forecast for 2008, 2009 and 2010. In 2008, Mamusha municipality was granted with full municipal status and there was apparent initial willingness among citizens of Mamusha to comply with municipal obligations which exceeded 50 % of revenue collection in 2008, but subsequently has fallen below forecast (which had not increased significantly in 2009, but has in 2010). Almost 80% of the revenues collected in 2008 came from Business licenses and Property Tax.

Table 4: MOSR Budget Plan and Actual Out-Turn, 2008-2010, euros

	2008			2009			2010		
	budget	actual	difference	budget	actual	difference	budget	actual	difference
Administration Fees	2,000	3,042	152%	2,076	5,138	247%	4,000	4,835	121%
Use of public areas	6,000			3,000					
Business licenses	34,940	20,049	65%	28,312	2,600	9%	30,000	6,221	207%
Property tax	8,500	15,220	179%	9,552	7,663	80%	13,500	8,276	61%
Health co-payments	3,000	1,760	58%	3,000	2,715	90%	3,500	4,821	137%
Road tax	14,000	3,975	28%	3,500	5,070	145%	4,200	4,990	119%
Other revenue	3,000	364	12%	12,000	2,124	17%	23,209	4,793	20%
<b>Total</b>	<b>71,440</b>	<b>44,410</b>	<b>62%</b>	<b>61,440</b>	<b>25,310</b>	<b>41%</b>	<b>78,409</b>	<b>33,936</b>	<b>43%</b>

Source: KFMIS

Score D

PI-3	Explanation	Score – M1
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	<b>Score D</b> (i) Current collection of internal revenues was below 92% of internal revenues assessed and budgeted in two or all three last years.	<b>D</b>



#### 7.1.4 PI-4 Payment Arrears

**(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock**

In accordance with the Treasury rules all claims for payment that are received by the municipality should be paid within 30 days after the receipt of an invoice. The obligations outstanding at the end of a fiscal year are required to be: (a) reported to the Treasury and Budget Departments in MFE; (b) reported in financial reports; and (c) reflected as a commitment in the KFMIS.

Assessment for 2009 is based on the analysis of the information in Table 5 below:

1. List of outstanding obligations (i.e., older than 30 days) at the end of year presented in the 2009 Financial Statement;
2. List of invoices dated before December 1, 2009 and included as expenditure transactions recorded in the KFMIS during 2010, with the comparison of invoice date and payment date.

Table 5: Assessment of Expenditure Arrears, 2009

Item	Data Source	Total Budget Expenditure (euro)	Total Arrears (euro)	Total Arrears as percent of Total Expenditure (%)
1	2009 Financial Statement	753,671.46	5,986	1.20
2	2010 KFMIS		1,643	0.21

Source: KFMIS

In 2009, following the decentralization of the expenditure function to the local government the municipality became fully responsible for the processing of expenditure, with document control, approval, and payment authority. Although overall arrears existing at the end of 2009 appear relatively minor, but the analysis of information recorded in the KFMIS during the following year suggests considerable delays in the recording and payment of invoices dated in 2009.

Also, despite the payment of a majority of outstanding obligations by the end of year, some delays in settling individual due invoices occur during the course of year. The age profile of due invoices in 2009 is presented below and suggests that about 7% of municipal expenditure entered into arrears (i.e. not paid within the required time period). These were mainly utilities and maintenance expenses, such as water, electricity, heating oil of primary spending units (schools and health houses) as well as some capital investment contracts.

Given that cash liquidity is not a problem in Kosovo, this points out to weaknesses in documents/transactions flow between the levels of municipal administration and the lack of regular monitoring of due payments although it is clear that arrears at the end of the accounting period is not a serious problem.

Table 6: Age Profile of Expenditure Arrears, 2009

	Older than 30 days	Older than 60 days	Older than 120 days
Total budget expenditure (euro)	721,334.64		
Value of overdue bills (euro)	50,955	23,088	10,714
<b>Overdue bills as a % of total budget expenditure</b>	<b>7.06%</b>	<b>3.20%</b>	<b>1.49%</b>

Source: KFMIS

Score A

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

In 2007, the purchasing module was implemented in the KFMIS to facilitate follow-up and execution of payments by inputting data from purchase requests and purchase-order forms. Implementation of the purchasing module has allowed the entering of the date of invoice, date of invoice recording, and date of payment. Since 2009 more emphasis has been placed by Treasury on strengthening the compliance by budget organizations with requirement to record date information timely.

This allows the timeline for when the payment was executed to be assessed and enables monitoring of the payments and expenditure calculations relating to procurement. However, in practice the requirement to enter invoice dates in the KFMIS and/or to record invoices at the time of their receipt is not always complied with, which undermines the effectiveness of monitoring and measuring arrears.<sup>45</sup>

The discrepancy – amounting to about 72% - between the value of arrears identified in Mamusha Municipality's Financial Statements (see item 1 in table 5 above) and actual arrears evidenced in the KFMIS (see item 2 in table 5 above) suggests considerable delays that Mamusha Municipality encountered in recording its invoices in the KFMIS.

Overall, data on the stock of arrears is generated by Mamusha Municipality through routine procedures at the end of each fiscal year and reported in the Financial Statements. The information could be made even better by ensuring that the date of the invoices is consistently entered into KFMIS.

Score B

PI-4	Explanation	Score – M1
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	<b>Score A</b> (i) Stock of arrears is relatively small (i.e., under 2% of total expenditure)	<b>B+</b>
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	<b>Score B</b> (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	

<sup>45</sup> Excel spread sheets are used as an informal way of keeping records on arrears, but in reality the KFMIS should be solely used for recording invoices. The use of spread sheets is not a good practice when the KFMIS is available.

## 7.2 Comprehensiveness and Transparency

### 7.2.1 PI-5 Classification of the Budget

#### (i) The classification system used for formulation, execution and reporting of the central government's budget

The Budget Classification/Chart of Account is based upon Government Financial Statistics (GFS) 2001 and is COFOG compliant. The classification system is administered by Treasury /Ministry of Economy and Finance using KFMIS. Municipal budget planning, execution, and reporting is by:

- Functional classification (6 main functions and related sub-functions) compared to 10 groups at level 1 and sub functions for central government
- Economic classification (5 main codes)
- Administrative classification (16 main codes)

A municipality may only request – with the consent of Treasury - some adjustments to the system in use which is provided by the Treasury on the basis of specific administrative requirements they have, but it has no control over the design or structure of the system. Municipal budget documentation is compiled in a consistent manner for these classifications:

1. Budget formulation: detailed budget plans are based on administrative and economic codes. Budget documentation does not explicitly present the functional classification, however it can be produced as functional codes are linked to the administrative classifications and are available in the budget documentation.
2. Budget execution: actual outturn, including authorization for expenditure, allocations, commitments, and daily expenditure, are all recorded by the three classifications.
3. Budget reporting: Reports may be generated electronically based on the three classifications, enabling comparison between original budget plan and outturn; these reports are routinely generated by economic and administrative classifications for the purposes of budget execution reports and financial statements.

Score: A

PI-5	Explanation	Score – M1
The classification system used for formulation, execution and reporting of the local government's budget.	<b>Score A</b> Budget formulation and execution is based on functional, economic and administrative classifications according to GFS/COFOG standards	<b>A</b>

### 7.2.2 PI-6 Comprehensiveness of Information Included in Budget Documentation

#### (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)

Budget documentation used for the purpose of this assessment includes the 2011-2013 Municipal MTEF and the 2011 Municipal Budget produced during the most recent budget development cycle and approved by the Mamusha's Municipal Assembly in September 2010.

The following elements were included in the 2011 budget documentation:

Table 7: Scope of Budget Documentation, 2011

	Actually Used	Comments
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation as representative for Kosovo	No	Main macroeconomic indicators are available in the national MTEF document; Municipal Budget Circular issued by MFE instructs the use and presentation of economic and budgetary fiscal assumptions for the purpose of municipal MTEF.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	Yes	Fiscal balance - defined as total revenue less total expenditure - is presented on budget schedules submitted to the Municipal Assembly.
3. Deficit financing, describing anticipated composition	Yes	The budget is presented as “balanced”; MOSR unspent balances are not included in the budget schedules – either on expenditure or retained earnings side - but are automatically carried forward in accordance with the Budget Law.
4. Debt stock, including details at least for the beginning of the current year	Yes	Municipality does not currently have any debt; the Law on Public Debt – allowing for municipal borrowing - entered into force only in 2009.
5. Financial Assets including details at least for the beginning of the current year	No	The statement of Financial Assets is not included in budget documentation; however it is contained in the annual Financial Statement. Also, resulting the Treasury procedures on carry forward of unspent balances of MOSR, these funds are incorporated and envisaged on the current year budget information.
6. Prior year’s budget outturn, presented in the same format as the budget proposal	Yes	Information is included in budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
7. Current year’s budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Information on current year budget – as resulting from mid-year budget review – is included on budget schedules presenting: (a) summarized budget aggregates of revenue and expenditure; (b) budget expenditure by the administrative and economic (recurrent and capital) classifications. Functional classification could be derived manually based on included functional codes.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	Summarized budget data, presented on a separate budget schedule, includes information on the main categories of revenues and expenditure aggregates by economic classification. However, summary budget data by administrative and functional classifications are not produced and presented in budget document.
9. Explanation of budget implications of new policy initiatives (respectively by central and municipal level), with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	Budget documents submitted to the Municipal Assembly do not include explanatory narrative.

Source: Mamusha Municipality Budget Proposal Submission, September 2010

Score: B

PI-6	Explanation	Score – M1
(i) Share of below listed information in the budget documentation most recently issued by the local government.	<b>Score B</b> Recently issued budget documentation meets 5-6 out of 9 information benchmarks	<b>B</b>

### 7.2.3 PI-7 Unreported Government Operations

#### (i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports

The Government of Kosovo has implemented the Single Treasury Account and has no extra-budgetary activities. The Law on Public Financial Management and Accountability requires that all public money that is collected by all Budget Organizations – Central and Local - be deposited in the STA and cannot be spent until it is appropriated. There is no evidence of violation of this legal requirement by Municipalities, including Mamusha.

Score A

#### (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

All donor funds received by the Kosovo Government – both Central and Local Governments - from donors in cash is channeled through the Treasury/MFE STA accounts at the Central Bank and accounted for through the KFMIS. There are no bank accounts operated outside of the STA by Project Implementation Units or Budget Organizations for the implementation of donor-funded projects. All Designated Donor Grants are appropriated as they are received from donors in the Treasury accounts and resulting expenditures are included in the regular in-year execution reports and year-end fiscal reports.

During 2009, Mamusha Municipality received three donor grants from different agencies totaling 55.000 Euros. USAID donated 32.000 Euros, on construction of the sidewalks, Municipality of Bursa from Turkey donated the waste containers in total value of 20.000 Euros and OSCE donated 3.000 Euros for Municipal Archive. In 2010, there were no donor grants received by Municipality. All the information regarding donor grants was included in the Municipal Financial Statements.

Donor Grants funding as compared with municipality's total budget expenditure was insignificant in both years and respective statistics are detailed below. There has been no donor loan funding provided to the municipality. Score A

Table 8: Mamusha Designated Donor Grants, 2009-2010

	2009	2010
Funds received from donors (euro)	55,000	0
Expenditure of donor funds (euro)	55,000	0
Total budget expenditure (euro)	721,334	753,671
<b>Expenditure of donor funds as a percentage of total budget expenditure (%)</b>	<b>7.62%</b>	<b>0%</b>

Source: Mamusha Municipality Financial Statements

PI-7	Explanation	Score-M1
(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	<b>Score A</b> The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	<b>A</b>
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	<b>Score A</b> Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	

#### 7.2.4 PI-8 Intergovernmental Fiscal Relations

**(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)**  
Not applicable to the Municipality

**(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year**  
Not applicable to the Municipality

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories**  
Not applicable to the Municipality

PI-8	Explanation	Score-M2
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	Not applicable	<b>Not applicable</b>
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	Not applicable	
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	Not applicable	

### 7.2.5 PI-9 Fiscal Risk

#### (i) Extent of SN government monitoring of AGAs and PEs

Not applicable to the Municipality

#### (ii) Extent of SN government monitoring of SN governments' fiscal position

Not applicable to the Municipality

PI-9	Explanation	Score-M1
(i) Extent of central government monitoring of AGAs and PEs.	Not applicable	Not applicable
(ii) Extent of central government monitoring of SN governments' fiscal position.	Not applicable	

### 7.2.6 PI-10 Access to Fiscal Information

#### (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)

This indicator assesses whether information is accessible to the general public and to assess the quality of information made available.

When information is available from other sources, such as those administered by central government institutions, it is assumed that the requirement of public access is met. It has to be noted though that the Municipality of Mamusha's own efforts to ensure public access to its key fiscal documents could be strengthened. Public access to key fiscal information is assessed as follows

Table 9: Availability of Fiscal Information

Key fiscal information	Available	Comments
1. Annual Budget Documentation (complete set as listed under PI-6, to the extent information exists)	Yes	Annual Municipal Budget documents, including budget schedules and Municipal Assembly Decision on budget approval, are available upon request in Mamusha Municipality.
2. In-year budget execution reports (made available within one month of completion)	Yes	As required by the LPFMA, in-year budget execution reports are produced by municipal administration but they are not published in the municipal website.. Regular Quarterly Budget Reports produced by the Treasury Department of MFE include data on municipal budget execution progress, including: actual revenue collection, actual budget expenditure out-turn compared to original budget by economic classification, execution of municipal capital projects, and municipal employment status. Quarterly Budget Reports are available on MFE website: <a href="http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq">http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq</a>
3. Year-end financial statements (made available within six months of completion or completed audit)	Yes	Municipality produces financial statements by the end of January of each fiscal year and submits them to the Treasury Department of MFE and Auditor General Office. The 2009 Financial Statement is dated March 23, 2010. Although Financial Statement is not made publicly accessible it is available upon request.
4. External audit reports (made available within six months of completed audit)	Yes	The 2009 Audit report is dated June 10, 2010. Municipality made no effort to publish Audit report in their own web-site, however report is available and published on Auditor General Office website: <a href="http://www.ks.gov.net/oag/Raportet%20shqip/2009/komunat2009/Mamusha%202009%20ALB.pdf">http://www.ks.gov.net/oag/Raportet%20shqip/2009/komunat2009/Mamusha%202009%20ALB.pdf</a>
5. Contract awards (above 10,000 euro value; published quarterly)	Yes	Contract notifications and contract awards are published on the PPRC website: <a href="http://www.ks.gov.net/krpp">www.ks.gov.net/krpp</a> . They are also published in at least one daily newspaper.
6. Resources available to primary service units	Yes	Devolution of budget process to the level of schools in 2009 contributed to the improvements in key information on budget parameters. Budgets are now prepared and executed at the level of individual schools. Information on resources available to individual schools can be obtained on request from municipal administration Department of Education. Similarly, information on resources available to primary providers in health sector can be obtained on request from Department of Health.
7. Information on Municipal Fees and Charges (rates and coverage)	Yes	Information on municipal fees and charges is not published on Municipality's website but it's available to public in MFE website and SIDA leaflets.

Source: Mamusha Municipality

Score A

PI-10	Explanation	Score – M1
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	<b>Score A</b> (i)The Government makes available to the public 6-7 of the 7 listed types of information	<b>A</b>



## **7.3 Policy-Based Budgeting**

### **7.3.1 PI-11 Orderliness and Participation in Budget Process**

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

The Municipal budget process is regulated by the requirements of the LPFMA and MFE instructions issued through an annual municipal budget circular. These provide the budget procedures, main information on grants for the next three years (annually), key budget stages and main statutory deadlines. In accordance with the LPFMA, the issuance of the first municipal budget circular by MFE officially commences the budget process and determines two legally binding dates that municipalities are obliged to observe: (1) Mayor's submission of draft municipal budget to Municipal Assembly not later than September 1 and (2) approval of municipal budget by Municipal Assembly and its transmission to MFE not later than September 30. Within these parameters, the timetable and management of the internal budget process is left to the discretion of the municipality's administration.

A general budget calendar has been now instituted for at least three years and municipal budget organizations are well familiar with the process. The MFE Municipal Budget Circular for the preparation of the 2011 Municipal Budget included process stages and associated deadlines<sup>46</sup>:

1. Establishment of Municipal Medium Term Budget Framework – by June 30, 2010
2. Issuance of First Internal Municipal Budget Circular: Municipality Programs Priority Review
3. Issuance of Second Internal Municipal Budget Circular: Program Specific Initial Budget Ceilings and Budget Calendar – by July 1, 2010
4. Budget Proposal Submissions by Programs
5. Issuance of Third Internal Municipal Budget Circular: Calendar and Instructions for Internal Budget Hearings
6. Preparation of Budget Proposal Documentation
7. Submission of Budget Proposal to Municipal Assembly – by September 1, 2010
8. Budget Proposal Approval by Municipal Assembly and Transmission to MFE – by September 30, 2010

The Municipality of Mamusha has followed the deadlines set out in budget circulars on the indicative timetable, and initial funding ceilings for the preparation of proposed municipal budget. Budget deadline for submission was 30 of September 2010.

The Municipality has a clear budget calendar that enables program directors to have exact information and sufficient time for proper completion of proposals/budget requests.

The following table presents the overview of Mamusha Municipality adherence to the budget development stages and actual dates during the preparation of the 2011 Municipal Budget proposal.

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<sup>46</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

Table 10: Mamusha Municipality Budget Development Process, 2011

Key Municipal Budget Development Steps		2011 Budget Calendar – Actual Dates
1.	Receipt of information on central government grants issued by MFE	MFE Budget Circular dated May 5, 2010
2.	Submission of Municipal MTEF to Municipal Assembly	09.09.2010
3.	Discussion of budget process requirements and budget parameters with the Heads of Departments	03.06.2010
4.	Preparation of budget requests by the Heads of Departments	23.06. 2010
5.	Consolidation of budget requests and internal budget hearings in order to bring requests within provided expenditure ceilings	12.06.-21.06.2010
6.	Citizens meetings and budget debates	23.07.2010
7.	Budget proposal review by Mayor and finalization of consolidated draft Municipal Budget Proposal	25-27.07.2010
8.	Submission of draft Municipal Budget Proposal to the Policy and Finance Committee of Municipal Assembly	22.08.2010
9.	Submission of draft Municipal Budget Proposal to the Municipal Assembly	19.09.2010
10.	Approval by Municipal Assembly	29.09.2010
11.	Transmission of approved Municipal Budget Proposal to MFE	30.09.2010

Source: Mamusha Municipality

It can be concluded that annual budget calendar exists, is communicated to and understood by the key participants of the internal municipal budget process, and is generally adhered to with municipal Departments allowed 3 weeks to complete and consolidate budget requests. The 2011 Municipal Budget Proposal was approved within the statutory deadline mandated by the LPFMA. While the application of the PEFA Framework criteria for this dimension would suggest a score C, the size of budget and established budget development procedures appear to justify a score B in this case.

Score B

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

Mamusha Municipality has a well formulated internal budget circular that enables program directors to have the necessary information on budget ceilings. The Mayor and Chief Financial Officer, and all directors of municipal departments are involved in determining and approving budget ceilings. All directors were provided the information about their budget ceilings before the preparation of budget requests started.

Score A

**(iii) Timely budget approval by the legislature or by another body with similar authority (during last three years)**

Mamusha municipal budget for the past three years (2009, 2010, and 2011) was approved in the municipal assembly within the timeframe established in the Law on Public Financial Management and Accountability.

Table 11: Budget Approval Calendar, 2009-2011

Budget	Date of approval by the Municipal Assembly
2009	30.10.2008
2010	25.09.2009
2011	22.09.2010

Source: Mamusha Municipality

Score A

PI-11	Explanation	Score-M2
(i) Existence of and adherence to a fixed budget calendar;	<b>Score B</b> (i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (and at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time	<b>A</b>
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	<b>Score A</b> (ii) A comprehensive and clear budget circular is issued to MDAs reflecting Cabinet (or equivalent) approved ceilings before distribution of circular to MDAs	
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	<b>Score A</b> (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year.	

### 7.3.2 PI-12 Multi-Year Perspective

#### (i) Preparation of multi -year fiscal forecasts and functional allocations

The Municipality made an attempt to prepare forward estimates of total budget revenues and expenditures, and presented them according to programs or functional categories for three years (budget plan + 2 out years). The 2011-2013 MTEF includes data on total revenues and expenditures and the data are presented according to functional titles. Determination of budget ceilings for the 2011 budget is based on actual expenditure and revenues in 2010.

This is not on a rolling basis where the forward year becomes the budget base in due time.

Also, the capital investment plan is presented for three years and has list of projects from Government grant, own source revenues and also projects from donors. The revenue forecast has not been projected in this document.

The 2011-2013 Municipal MTBF was approved by the Municipal Assembly in September, 2010.

Score D

#### (ii) Scope and frequency of debt sustainability analysis (N/A)

Municipality of Mamusha currently has no registered debt thus this dimension is not applicable.

Score: N/A

#### (iii) Existence of costed sector strategies (or development plans)

Municipality of Mamusha possesses a document related to a certain strategies such as the case of a primary school which includes planning for school construction; however information on related recurrent expenditure is not included in this document. Overall, municipality does not have any well formulated official document in relation to multi-year strategy which would specify the development of strategic policies, priorities and development sectors of

the municipality. The absence of this strategic document by municipal officials is justified by the size of the municipality and its small budget.

Score D

#### (iv) Linkages between investment budgets and forward expenditure estimates

Kosovo has a Public Investment Program (PIP) which central and municipal budget organizations must use to assess potential viability and prioritisation of capital projects. In principle, the system is designed to facilitate for each investment priority to be analyzed as to its financial requirements and available funding over the construction phase as well as the recurrent cost. In practice, the recurrent cost implications are rarely factored into subsequent budgets (as noted above), with some estimates and numerical assumptions entered into the system but without real relation to future budgetary implications and compliance.

It is generally considered that the PIP system and procedures are understood by municipal stakeholders following know-how transfer and training of municipal officers<sup>47</sup>. Despite this claim, the understanding of the PIP, its purpose and utilization to benefit budget planning is not clear and is consequentially deficient in its application. There are deficiencies in the timely and orderly application of the system during the course of budget process, which undermines its usefulness for the investment prioritization and its full integration into budget plan. Currently, the PIP system appears to serve as a recording tool rather than a mechanism for budgetary decision making process.

Score D

PI-12	Explanation	Score-M2
(i) Preparation of multi -year fiscal forecasts and functional allocations	<b>Score D</b> (i) No forecasts of aggregate fiscal amounts are conducted.	<b>D</b>
(ii) Scope and frequency of debt sustainability analysis	N/A	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	<b>Score D</b> (iii) Statements of sector strategies may have been prepared for several major sectors but are only substantially costing for investments and recurrent expenditure.	
iv) Linkages between investment budgets and forward expenditure estimates	<b>Score D</b> (iv) Budgeting for investment and recurrent expenditure are separate processes, without an exchange of assessment in terms of recurrent expenditure.	

<sup>47</sup> Interview with EU-PIP “EU Support to improving the quality of public investments in Kosovo and preparing the ground for EU funds” project experts on the application of the PIP system by municipal budget organizations during the 2011 budget development process, MFE, January 19, 2011

## **7.4 Predictability and Control in Budget Execution**

### **7.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities**

#### **(i) Clarity and comprehensiveness of tax liabilities**

Property tax is the only local tax administered and collected by Mamusha Municipality. In 2010, property tax revenues amounted to 8,300 of euro (or 66% of annual tax assessment as compared with 83% in 2009) and constituted 0.06% of total collections in Kosovo municipalities<sup>48</sup>.

Property taxation is now regulated by the Property Tax Law No. 03/L-204, which entered into force on January 1, 2011. It essentially replaced (and amended) the Property Tax Regulation No. 2003/29, which has been in place since 2003. The Law (and previously Regulation) establishes a tax on immovable property and sets forth the standards and procedures that all municipalities must follow in administering the tax, including the following key aspects of the system:

- definition of the taxpayer;
- tax base determined as a market value of the property established in accordance with the standards set in the law;
- tax rates range set on an annual basis between 0.05% and 1% of the market value of the property;
- tax exemptions;
- property registration obligations;
- municipal functions and responsibilities in administering property taxation (including property tax information management and data entry, property valuation, bills' delivery, collection and enforcement, and administrative appeals);
- system of penalties and appeals procedures.

The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. The possibility for any discretionary administrative decisions in the application of taxation is limited. In addition, property tax rates are set on annual basis and specified in the Decision of Municipal Assembly in accordance with city zones and buildings' categories, which combined determine the valuation and tax obligation.

Score: A

#### **(ii) Taxpayers' access to information on tax liabilities and administrative procedures**

Municipality of Mamusha informs its citizens on regular basis through leaflets, and posters. These announcements are usually made in cases when there are revisions or amendments to the property tax system, such as changes in tax rates as established by the decision of the Municipal Assembly.

During 2010, Chief Financial Officer in a meeting with citizens explained the process of property tax, payment terms and the application of penalties and interest.

Property tax office within the municipality provides educational services related to property tax procedures.

In addition, complete information on the system - including relevant legislation, rules, procedures, forms and other information, can be downloaded from the Property Tax Department website in the MFE: <http://tatimineprone-rks.org/al/downloads>.

Score A

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<sup>48</sup> Data as reported by Property Tax Department, MFE, February 2010

### (iii) Existence and functioning of a tax appeals mechanism

The legislation provides taxpayers with the right to appeal in the following situations:

- when a taxpayer claims that the assessed value is not the market value;
- when there are errors in the database upon which the bill is based; or
- the bill is deemed to be incorrect in any other way.

Until January 1, 2011 the Property Tax Regulation allowed two channels for appeals: (1) Municipal Board for Tax Complaints on Immovable Property (Municipal Board); and (2) Supreme Court when (1) does not resolve the appeal. A request for review has to be made in writing within 30 days of receipt of the tax bill with supporting documentary evidence. For 2010 the latest day to appeal was May 31. The appeal does not suspend the obligation to pay the tax. If the decision after review is in taxpayer's favour the refund of the excess tax and accrued interest is made within 30 days from the date of decision. The Municipal Board has 60 days from the receipt of the request to notify on its decision. A taxpayer who disagrees with the decision issued by the Municipal Board may apply to a court of competent jurisdiction for review of the decision taken by the municipality.

In accordance with the Regulation, applicable during 2010, Mamusha Municipality has a well-established Municipal Board of Appeals, which acts independently from Municipal Property Tax Office.

The Board of Appeals, including a Chairman and two members, is appointed by the Mayor and constitutes a part of the municipal administration financed from municipal annual budget.

All members of the Board are required to have a law degree. The Board maintains the register of appeal cases and reports annually on the performance to the Mayor.

The operation of appeals system in Mamusha Municipality in 2009 and 2010 are summarized below:

Table 12: Property Tax Appeals, 2009-2010

#### 2009

Property Category	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	13	12	1
Commercial	2	1	1
Industrial	0	0	0
<b>Total</b>	<b>15</b>	<b>13</b>	<b>2</b>

#### 2010

Property Category	Appeal Cases	Appeals Approved	Appeals Rejected
Residential	5	2	3
Commercial	1	1	0
Industrial	0	0	0
<b>Total</b>	<b>6</b>	<b>3</b>	<b>3</b>

Source: Mamusha Municipality – Property Tax office

All cases of complaints received by the board were reviewed within the timeframe stipulated by law and all complaints were decided within the municipal board of appeals, and there was no case of second instance of the appeals which is Supreme Court.

In total for 2009 and 2010, the board received 21 complaints, which 16 complaints were approved and 5 other complaints were rejected.

Results presented as a % of reviewed appeals:

76.2% of appeals fully approved in favour of taxpayers

23.8% of appeals against taxpayers claims

Score A

PI-13	Explanation	Score-M2
(i) Clarity and comprehensiveness of tax liabilities	<b>Score A</b> (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.	<b>A</b>
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	<b>Score A</b> (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	
(iii) Existence and functioning of a tax appeals mechanism.	<b>Score A</b> (iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon	

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

##### (i) Controls in the taxpayer registration system

Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. In accordance with the Property Tax Regulation No. 2003/29, all persons owning, using or occupying immovable property are liable to register that property in the property tax database, and supply the relevant municipality with updated property information not later than 1 March of each tax period (fiscal year).

Each municipality is obliged to manage the entry of property tax information within the database, with all property tax information including, the addresses of property, the addresses of property owners and users, data on the land and the buildings, property values, tax rates, tax bills, and records of tax payments. The market valuation of each property should be reviewed and updated by the municipality every three to five years. The property tax database is based on the information from the property tax rights register and the land cadastre. Further, the link (although not physical one) is established with the Treasury KFMIS for the purpose of payment reconciliation.

There were 777 property tax objects registered in Mamusha Municipality database in 2010, with a total tax assessment amounting to 12,547 thousands euro. The properties re-survey is to take place in 2011, and this has been outsourced to a private provider with municipal personnel participation.

Mamusha Municipality - similarly to the other municipalities – has established a range of enforcement measures with the objective to improve registration and the effectiveness of property tax collection. The Municipality introduced conditioning of some municipal services upon proving property tax payment. The conditioning takes place with respect to a cadastral-related services and vehicle registration. This measure has proved to be efficient for the collection of property tax, but municipality does not have any data as to what percentage of collections is a direct result of this measure.

Score A

## **(ii) Effectiveness of penalties for non-compliance with registration and tax declaration**

The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. Municipalities do not have the discretion to set penalty rates and interests, while the penalty application is automatically administered in the system in the Property Tax Department in MFE. The penalties are applied for:

- a failure to apply for the registration of the immovable property or a failure to supply the municipality with an annual property tax information update - loss of the right to appeal the tax bill; not applied in practice;
- a failure to pay the property tax on or before the last date prescribed for payment - a penalty in an amount equal to 5% of the tax liability;
- a failure to pay the property tax within 60 days after the last date prescribed for payment - an additional penalty in an amount equal to 10% of the tax liability.
- A monthly interest of one per cent of outstanding arrears.

In addition, delinquent tax payers can be subject to the blockage of bank account and confiscation of the property. However, the use of these measures is problematic and not applied mostly because municipalities did not fulfill implementation requirements of commercial banks.

The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes.

Mamusha Municipality, in 2009 has collected €553 in penalties (or 7% of total collection) and in 2010 it has collected €481 (or 5.8% of total collection) in penalties and interest.

Score B

## **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Based on current property tax legislation, every 3-5 years municipalities should plan for a resurvey of all properties within their jurisdiction. This means that municipalities should have a plan for inspection of 1/3 of properties within their jurisdiction, each year.

Annual reports on inspections of local tax offices as compiled by the Property Tax Department in MEF, generally underline the fact that municipalities are faced with a lack of capacity for implementation of property audits/inspections (as provided for by law) on an annual basis. MFE believes that at a country level, there is a considerable number of facilities which remain outside tax base in different municipalities, and inspection of properties that are already registered in the tax base is poor. Thus, it is considered that at Kosovo level properties are understated by about 20% of their market value. This was confirmed by municipal officials.

As a result, the Property Tax Department in MFE, given the centralized nature (in some aspects) of this tax, initiated in 2009 a re-survey of all properties in all municipalities of Kosova which is being conducted (data collection on the ground, door to door) by external contractors in cooperation with the municipalities. Main objective is to update existing data and modify property valuation model which would result in adjustments of actual values of properties with market value. Modified values of properties are scheduled to be implemented in fiscal year 2012. Whereas municipalities are expected in the future to continue updating their databases based on individual audit/inspection plans in each municipality.

Municipal Tax Office in Mamusha has two Inspectors employed for registering tax objects and they cover two municipal zones. During 2009 number of registered tax objects was 754 with total amount billed 9,553 euros while in



2010 number of registered tax objects was increased with 23 new objects with total of 13,922 and total amount billed for 2010 was 12,547 which is more for 2,994 Euros comparing with 2009.

#### Score C

PI-14	Explanation	Score-M2
(i) Controls in the taxpayer registration system.	<b>Score A</b> (i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations	<b>B</b>
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	<b>Score B</b> (ii) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	
(iii) Planning and monitoring of tax audit and fraud investigation programs.	<b>Score C</b> (iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria	

#### 7.4.3 PI-15 Effectiveness in Collection of Tax Payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

In the municipality of Mamusha municipal debt stock from 2001 until 2008 amounted at 26,500 Euros or 0.06% of total debt stock.

In 2009 and 2010 tax arrears accumulated have reached 55% - 46% of total collections for each year. Based on data for the past two years, the stock of arrears at the end of 2010 is estimated at a minimum of 4,364 euro or 53% of the total collections.

Table 13: Property Tax Collection Statistics, 2008-2010

	euro	2009	2010
<b>Tax Assessment</b>	<b>(A)</b>	<b>9,553</b>	<b>12,547</b>
<b>Total Tax Collection</b>	<b>(B)</b>	<b>7,908</b>	<b>8,277</b>
of which:			
Current year collection	(C=D+E+F)	3,630	4,524
Tax assessment	(D)	3,589	4,479
Interests	(E)	29	31
Penalties	(F)	12	14
Past years arrears	(G=B-C)	4,278	3,753
Current Arrears	(H=B-D)	4,319	3,798
<b>Current Arrears as % of Total Collection</b>	<b>(I=H/B)</b>	<b>55%</b>	<b>46%</b>
Stock of Arrears	(J=sumH-G)		4,364
<b>Stock of Arrears as % of Total Collection</b>	<b>(K=J/B)</b>		<b>53%</b>

Source: Property Tax System Database, Property Tax Department, MF, May 2011.

Table 14: Property Tax Debt Collection Ratio, 2009-2010

	2009	2010	Average
Arrears (beginning of year)	26,468	26,509	26.4
Arrears Collected (during year)	4,278	3,753	4.01
<b>Annual Debt Collection Ratio</b>	<b>16.1</b>	<b>14.1</b>	<b>15.1</b>

Total amount of property tax arrears in Mamusha Municipality is significant, while average debt collection ratio for the last two years amounted to 15.1%.

Score D

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration**

Property Tax bills are issued with a unique code – UniRef Code – which allows the identification of municipality, tax category, and tax payer. Payments by taxpayers are paid into commercial banks and consequently reported to the Central Bank. Based on UniRef, they are later transferred to the municipality’s sub-account in the Treasury. Commercial banks are required to transfer tax receipts to the Central Bank within 24 hours. Property Tax Department in MFE receives daily reports from the Treasury revenue module.

Score A

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

Reconciliation of revenues from commercial banks is done on a daily basis. A daily revenue report from the KFMIS is provided to the Property Tax Department, which with the use of specially designed software selects and identifies payments against property tax obligations. These are then reconciled against property tax database.

Score A

PI-15	Explanation	Score-M1
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	<b>Score D</b> (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e., more than 2% of total annual collections)	<b>D+</b>
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	<b>Score A</b> (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	<b>Score A</b> (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month	

#### **7.4.4 P-16 Predictability in the Availability of Funds for Commitment of Expenditures**

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

At the beginning of each fiscal year, the Treasury issues an Administrative Directive to guide all budget organizations in preparing their cash flow plan and to set a deadline for the submission of the plan to the Treasury.

Mamusha Municipality – as a general practice for all municipalities and following the Treasury procedures – prepares annual cash flow forecast in January of the fiscal year. This forecast is built on and complies with the total municipal budget appropriations as approved in the Budget Law. Cash flow plan is prepared separately for the following sources of financing:

- a) government grants; and
- b) municipal own source revenues (based on the availability of funds in accordance with the actual collection trends). MOSR are appropriated upon their receipt and deposited in the STA in accordance with the approved budget expenditure plan for this source of funding. In the event that during the fiscal year, municipality's own source revenue amounts, which have been deposited and recorded in KFMIS, exceed the budgeted revenue amounts, an automatic appropriation is authorized for such excess revenue based on a budget adjustment approved by the Municipal Assembly. Subsequently, a cash flow plan is prepared and submitted to the Treasury with the request for allocation of additional MOSR amounts. MOSR, which were carried forward from the past fiscal years are automatically re-appropriated at the beginning of a fiscal year and cash flow plan is prepared accordingly.

Cash flow plan takes account for the main economic categories of expenditure across municipal programs/Departments and is updated in accordance with the following schedule:

1. Wages and Salaries: default monthly forecast based on 1/12 of total budget appropriations and adjustments can be introduced in accordance with anticipated employment forecast. However, an ongoing issue is the lack of control in preparing the payroll, where despite internal controls for changes to the personnel records and the payroll (see PI-18), the sufficiency of budget allocations is not determined until the final payroll is transmitted to the Treasury for processing. In recent years, the Treasury has regularly held back payment to specific organizations, including municipalities, until necessary adjustments were introduced to ensure that budget allocations or staff limits were not exceeded.
2. Goods and Services: quarterly update based on the actual trends in expenditure and funding availability.
3. Capital Outlays: quarterly update based on the requirements of projects' procurement and implementation plans and the actual trends in expenditure and funding availability.

Cash flow plan is also prepared for individual spending units in the education sector (i.e., schools).

Score A

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

Treasury manages allocations through the year to ensure that the Budget is executed within the available cash amount.

Cash flow forecast prepared by Mamusha Municipality, including its periodic updates according to the schedule described in PI 16 (i) above, serves as the base for the allocation of funds by the Treasury. In accordance with cash flow plans submitted, Treasury allows to commit allocated amounts from government grants up to 12 months in advance within budget appropriation limits. Similarly, there is no time limit imposed by Treasury for the commitment of funds from MOSR carried forward, which can be committed for up to 12 months. Current year MOSR funds, when actually deposited and recorded in the KFMIS, can be committed in accordance with allocation limits for the remainder of fiscal year. Information on allocations and commitments is disseminated to the heads of municipal Departments and can be automatically derived and seen in the KFMIS.

Table 15: Structure of Funding Sources, 2008-2010

	Commitment Horizon	2008		2009		2010		Average
		thou euro	%	thou euro	%	thou euro	%	%
Government Grants	Up to 12 months	41.6	92.1%	67.0	92.9%	75.2	97.8%	<b>94.3%</b>
MOSR Carried Forward	Up to 12 months	2.1	4.6%	3.5	4.9%	1.7	2.1%	<b>3.9%</b>
MOSR Current	Up to 12 months subject to collection	1.5	3.2%	1.6	2.2%	0.0	0.0%	<b>1.8%</b>
<b>Total</b>		<b>45.2</b>	<b>100.0%</b>	<b>72.1</b>	<b>100.0%</b>	<b>76.9</b>	<b>100.0%</b>	<b>100.0%</b>

Source: KFMIS

Score A

**(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs**

The Treasury, which manages budget allocations, has been making changes to budget allocations only when initiated and requested by Budget Organizations through the submission of adjustment to their cash flow plans. For municipal budget organizations, internal changes in budget allocations most often originate from in-year or mid-year review changes introduced to the original budget appropriations, which have to be conducted in accordance with internal municipal budget process procedures established in the LPFMA, including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly. Subsequently, changes to budget allocations resulting from such process have to be reflected in the adjustment to municipal cash flow forecast.

During 2010 the Municipality of Mamusha had 2 transfers in the amount of 54.765 euro and 6 budget lines have been affected.

Score A

PI-16	Explanation	Score-M1
(i). Extent to which cash flows are forecast and monitored.	<b>Score A</b> (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows	<b>A</b>
(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment	<b>Score A</b> (i) MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgetary appropriations	
(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.	<b>Score A</b> (iii) significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way	

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

##### (i) Quality of debt data recording and reporting

From the legal stand point, at the beginning of 2010, municipalities acquired access to external financing in the form of borrowing – both short and long term -, when the Law on Public Debt entered into force. However, in practice this form of financing has not been utilized by municipalities yet, due to access restrictions, namely the requirement of two consecutive unqualified audit reports of municipal financial statements.

However, it is worth stressing that Kosovo authorities has already undertaken the necessary steps to establish an adequate legal framework and system for debt management, including State debt and municipal debt. A Debt Management Unit was established in Treasury with appropriate staff in place. Debt management software (CS-DRMS) was purchased in December 2008. Training for debt management units in the Treasury and the Kosovo Central Bank has taken place.

Score Not Applicable

##### (ii) Extent of consolidation of government cash balances

The Government has created a Single Treasury Account, which is used to manage all transactions of the Government and these are consolidated on a daily basis.

Score A

##### (iii) Systems for contracting loans and issuance of guarantee

In accordance with the Law on Public Debt No. 2009/03-L-175 dated December 2009, a Mayor of a Municipality may incur short-term debt, with notification to the Municipal Assembly and the MFE. A Municipality may also incur

long-term debt and issue guarantees to finance capital improvements within the limits established in the law and subject to the authorization by Municipal Assembly. Upon approval by the Municipal Assembly, long-term debt shall be subject to the prior written approval of the Ministry limited to the validation of compliance with the procedural requirements and debt limitations. Mamusha Municipality has not contracted any loans yet.

Score Not Applicable

PI-17	Explanation	Score-M2
(i) Quality of recording and reporting of arrears data	Not Applicable	<b>A</b>
(ii) Extent of consolidation of government cash balances	<b>Score A</b> All cash balances are consolidated on daily basis.	
(iii) Loan contracting and guarantee issuance systems	Not Applicable	

#### 7.4.6 PI-18 Effectiveness of Payroll Controls

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

Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Administration. In January 2009, new software on Personnel was developed and delivered to the MPA, however the two databases have not as yet been integrated. The link and communication between the two databases have not been established.

Each municipality manages the personnel data separately. As there is no link between human resource information held by individual municipalities and the payroll, the possibility arises of discrepancies between the two. Administrative Instruction, issued by the MPA, regulates update procedures, with the provision and reconciliation of electronic and physical copies of changes into records on monthly basis.

Mamusha Municipality maintains human resource records, including information on the description of position, job description, qualifications, and salary grades. The register is kept regularly updated, with information on changes transmitted to the MPA, but the systems are not linked electronically or directly.

Score B

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

Mamusha Municipality complies with general procedures for the management of changes established by the MPS. MPS collects the personnel lists from all budget organizations until the 11th of each month. By the 18th these data are processed and inputted into the payroll database. Between the 20th and 23rd of the month, the payroll is calculated and payment lists are prepared. By the 23rd Treasury is provided with the final payroll list to process salary payments.

Any changes that occurred after the closer of payroll lists are accounted for during the next pay period. However, if any changes occurred after the 23rd-27th period, budget organization may request the introduction of adjustment to already prepared payroll list. In such case the actual payment will be made in accordance with requested adjustment, while reconciliation of records takes place next month.

As budget organizations update the payroll monthly, prior to the execution of the payroll, the changes are made on a timely basis, and retroactive adjustments to the payroll are rare. In accordance with the transactions recorded in the KFMIS, total retroactive adjustments to the payroll in Mamusha Municipality amounted to only 576 euro in 2010.

Score A

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

Mamusha Municipality has well- functioning internal procedures for the management of changes to personnel records. Changes to personnel records (additions/deletions/amendments) are approved by the Personnel Administration Department and transmitted to the Human Resource Department for concurrence and recording. The amendments are usually processed internally within a week.

Municipality maintains an archive of personnel records and data. Municipality is also responsible to timely notify and request any changes in the personnel database kept by the MPS based on a written form request – signed by the head of Personnel Administration and the Mayor – to introduce changes to the payroll.

In 2008, the MPS payroll software was upgraded. One of the features of the new software is the ability to record the audit trail of any changes, which ensures that any change to a particular record is recorded and can be traced back to its authorized originator. Access to the system requires authorization.

Score A

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

The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively. As compared with 2007, following the Auditor General's recommendations MPS achieved the following improvements:

- Downsized the number of employees who receive more than two salaries;
- Eliminated employees older than 65 years from the pension contribution scheme;
- Improved the quality of database by including all data in payroll system.

The 2008 audit highlighted the existence of the following weaknesses in the administration of payroll system for all budget organizations:

- Inaccurate reconciliation between payroll system and Treasury General Ledger leading to expenditures out of payroll list;
- Inadequate controls in the application of salary grades and respective management of payroll system;
- Lack of written procedures in regard to entering employees within the payroll system;
- Discrepancies in data in payroll system with data in the contracts for Civil Servants;
- Inadequate control of retroactive payments.

Mamusha Municipality employed 141 (or 0.3% of total local government employment) staff in 2010 (data according to the Treasury Annual Budget Report for 2010). There has been no formal payroll audit performed in Mamusha Municipality either within the internal audit activities or externally by the Auditor General during the last three years.

In 2010, the Auditor General audited Mamusha's payroll on a sample basis on the occasion of the audit of the 2009 Financial Statements. However, this was not an in-depth and only sample-based analysis focused on compliance issues in terms of staff recruitment, contracts, and legal procedures enforcement. In addition, the audit of payroll system in the MPA conducted by the Auditor General as described above did not identify any irregularities in Mamusha Municipality. Given the size of the municipality, such an audit serves as a proxy for a dedicated payroll audit.

Score B

PI-18	Explanation	Score-M1
(i) Degree of integration and reconciliation between personnel records and payroll data.	<b>Score B</b> (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.	<b>B+</b>
(ii) Timeliness of changes to personnel records and the payroll	<b>Score A</b> (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments)	
(iii) Internal controls of changes to personnel records and the payroll.	<b>Score A</b> (iii) Authorization to introduce changes to personnel records and payroll is limited and results in an audit trail	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	<b>Score B</b> (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)	

#### 7.4.7 PI-19 Competition, Value for Money and Controls on Procurement

**(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)**

During the last two years (2009 and 2010) there were a total of 10 contracts worth over 10,000 euro each and with a total value of 496.392 euro. According to the procurement report for the past two years (2009 and 2010), open competition procedures were used for all these 10 contracts

A summary of data on the use of open competition for contracts with the value exceeding €10,000 is presented below:



Table 16: Procurement Procedures, 2009-2010

Year	Number of Total Contracts	Number of Total Contracts > 10,000 euro	Number of Open Competition Procedure for Contracts > 10,000 euro)	Number of Open Competition Procedure as % of Total Contracts (> 10,000 euro)
2009	39	6	6	100%
2010	34	4	4	100%

Source: Mamusha Municipality Annual Procurement Reports

The open competition procurement method was used for the award of 100% of contracts with value exceeding 10.000 euro for 2009 and 2010. Two contracts were extension of already existing contracts which had already followed the open competition procedures.

All contract awards of Mamusha Municipality are published in the official website of the Public Procurement Regulatory Commission (PPRC).

Score A

#### **(ii) Justification for use of less competitive procurement methods**

The conditions for the use of less competitive public procurement methods are defined in the Law on Public Procurement No. 2010/03-L-241 dated September 2010. Procurement method other than the open competition can only be utilized with the authorization of the Kosovo Public Procurement Agency.

For contracts up to 10,000 euro the following criteria have to be followed during the procurement process: (a) prequalification of suppliers; (b) minimum 3 offers qualified.

For purchases of value up to 1,000 euro an offer quotation and minimum 3 offers are required.

Municipality maintains complete documentation for each procurement contract award.

Score A

#### **(iii) Existence and operation of a procurement complaints mechanism**

The Law on Public Procurement provides for a centralized procurement complaints mechanism using the Procurement Review Body (PRB) (Title IX of the Law: Procurement Review Procedures). The PRB is an independent institution that has the mandate from the Assembly of Republic of Kosovo to address complaints relating to procurement.

The PRB is a public authority and a budget organization, which consists of a Board of Directors and a Secretariat led by Head of the Secretariat. The PRB is comprised of five members appointed for a term of five years, and may be reappointed only once. Each member of the PRB is nominated by the Government and appointed by the Assembly based on a recommendation made by an independent selection body established by the Assembly. The independent selection body shall be comprised of three duly appointed judges designated by the Kosovo Judicial Council.

The PRB organizes its work in a number of review panels. Depending on the value, size, difficulty or importance of the case, the President of PRB shall be responsible for establishing internal rules concerning the appointment of PRB members for such review panels. The review panel may consist of one, three or five members.

A complaint can be filed at any stage of procurement activity and with respect to any act concerning contracting process. If the contract has been awarded, a complaint may be filed only within the ten day period from the publication of municipal contract award.

During the last two years (2009 and 2010) no complaint was filed in the PRB on Mamusha Municipality procurements.

All complaints, together with decisions, are published on the website of Procurement Review Body: <http://oshp.rks-gov.net/?cid=1,71>.

Score A

PI-19	Explanation	Score-M2
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>Score A</b> (i) Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition	<b>A</b>
(ii) Justification for use of less competitive procurement methods	<b>Score A</b> (ii) Other less competitive methods when used are justified in accordance with clear regulatory requirements	
(iii) Existence and operation of procurement complaints mechanism	<b>Score A</b> (iii) A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complains accessible to public scrutiny.	

#### 7.4.8 PI-20 Effectiveness of Internal Controls for Non-salary Expenditure

##### (i) Effectiveness of expenditure commitment controls

Financial rules and consolidated guidance for the expenditure of public money by the Kosovo public sector, including municipalities, are based on the LPFMA and set in the Treasury “Financial Rule 02 – Expenditure of Public Money”. Approved budget appropriations are recorded in the KFMIS. Budget appropriations can be spent through the process of allocation as described in Pi-16 (i). The Treasury – based on cash flow forecast prepared by budget organizations – determines all allocations in order to ensure that adequate funds are available for expenditure. The LPFMA requires that all expenditure must be made from allocated appropriations. As a result, expenditure cannot be made where appropriations are not sufficient for such expenditure – commitment control. Any current or future contractual payment obligation must be reflected in a form of commitment registered by a budget organization in the KFMIS. Commitments in the current year can be legally made only against both appropriations and allocations. Funds must be committed prior to the commencement of any procurement process. However, there are reported cases when budget organizations circumvent the above described procedures and enter into obligations without a prior commitment of necessary funds. As Treasury strictly enforces expenditure control, the risk is shifted to contractors and suppliers, while the budget is effectively protected as the resulting invoices cannot be honored without a commitment to spend being in place and funds allocated for that purpose.

Commitment controls for expenditures are in place both procedurally and technically in Mamusha Municipality in accordance with LPFMA and Treasury's Financial Rule 02 - Expenditure of Public Money has not entered into any financial obligation before committing funds. However, in the last report on Financial Statements for 2009 by the Office of the Auditor General for Mamusha municipality, list of outstanding obligations is presented (PI-4).

The list of outstanding obligations is largely dominated by utility bills for December that are billed in January of the coming year.

Score B

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

The framework for internal control procedures is established in the following legislation:

- Law on Public Financial Management and Accountability
- Law on Local Government Finances
- Law on Local Self-Government
- Law on Appropriations
- Financial Rule 01 – Public Internal Financial Control
- Financial Rule 02 – Public Money Expenditure
- Administrative Instruction No.02/2009 Delegation of Expenditure Management to the Budget Organizations
- Internal Procedures

The internal control regime is comprehensive and relevant, with harmonization achieved between the legislation, subordinate legislation and the application of the KFMIS (including procedures and manuals) through: (1) the development of Treasury rules and procedures in conjunction with KFMIS implementation and (2) through ongoing revisions to the Law on Public Financial Management and Accountability. A Central Harmonization Unit (CHU) was established through a regulation issued in May 2006 by the Treasury. It is responsible for coordinating the implementation and further development of the principles of financial management and control in all budget organizations, with emphasis on<sup>49</sup>:

- developing the legislative framework to support FMC through guidance and manuals;
- promoting the development of FMC through networking of practitioners and training program;
- monitoring and reporting on the implementation of FMC.

In 2009, Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. This brought a number of advantages to municipalities, including improvements in the efficiency in payment processing, elimination of travel expenses to the central/regional Treasury offices, higher internal control, greater autonomy and accountability of municipalities.

Mamusha Municipality participated in this process in 2009 and its key public finance officers were trained and certified. Mamusha Municipality is now certified as a budget organization by the Minister of Finance, which demonstrates the strength of its internal controls and compliance with standards established by MFE for the delegation of expenditure management (including successful implementation of the KFMIS; certification of Goods Receiving Officers, Expenditure Officers, Certifying/Approval Officers; implementation and independent functioning of expenditure and approvals functions within the management and organizational structure of municipality; establishment of dedicated archives).

Score A

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<sup>49</sup> Treasury Financial Rule 01/2010 – Financial Management and Control

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

There is a high level of compliance in terms of processing and identifying transactions within the municipality of Mamusha, however in the last report on Financial Statements for 2009 by the Office of the Auditor General, a list of outstanding obligations is presented (PI-4). As described in dimension (i) within this indicator as well as in (PI-4) in general, large number of these cases is related to December utility bills that are billed in January next year.

Also in the Audit Report for 2009, auditor identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management and control. The Auditor concluded that the level of financial control needs improving (Audit Report 2009, p. 8). The following areas lacked adequate management:

- Completeness and accuracy of the financial information;
- Integrity of data;
- Assets safeguard; and
- Non-recording of payments from third parties may result in such assets/services being used rent-free by parties other than the Municipality.

Score B

PI-20	Explanation	Score M1
(i) Effectiveness of expenditure commitment controls	<b>Score B</b> (i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception	<b>B+</b>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	<b>Score A</b> (ii) Other internal control rules and procedures are relevant, incorporate a comprehensive and generally cost effective set of controls, which are widely understood	
(iii) Degree of compliance with rules for processing and recording transactions	<b>Score B</b> (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification	

#### 7.4.9 PI-21 Effectiveness of Internal Audit

##### (i) Coverage and quality of the internal audit function

Internal Audit Unit in the municipality of Mamusha is established in October 2010, where one auditor was employed. So far there was no audit made in any of the municipal departments by the Internal Audit Unit.

Internal Auditor Unit has prepared a strategic plan as required by the Central Harmonization Unit and submitted within the time deadline as prescribed by law in CHU in MEF.

Mamusha Municipality has not established an Audit Committee.

Internal Auditor Unit has not been operating long enough to assess.

Score Not Applicable

**(ii) Frequency and distribution of reports**

There was no report performed by the Internal Audit Unit for any of the municipal departments.

Score Not Applicable

**(iii) Extent of management response to internal audit findings**

Senior management in the municipality so far had no meetings with internal auditor and no comment / report or a recommendation was made by the Internal Audit Unit.

Score Not Applicable

PI-21	Explanation	Score- M1
(i) Coverage and quality of the internal audit function	Not Applicable	<b>Not Applicable</b>
(ii) Frequency and distribution of reports	Not Applicable	
(iii) Extent of management response to internal audit findings	Not Applicable	

## **7.5 Accounting, Recording and Reporting**

### **7.5.1 PI-22 Timelines s and Regularity of Accounts Reconciliation**

**(i) Regularity of bank reconciliation**

Collection, saving and spending of public money are implemented through a Single Treasury Account (STA) – including sub-accounts for each budget organization - which are reconciled on a monthly basis. Municipal revenues are identified by an individual UniRef code for each category of revenue. Payments from taxpayers are made in all licensed commercial banks in Kosovo with CBK sub-account as the destination account. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting municipalities, which enables them to enter revenue collected into the KFMIS classified by revenue type, economic code, and department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation.

All municipal expenditures are made by the "main account" the STA and this account is reconciled daily. In addition to the daily and monthly reconciliation of bank accounts, all budget organizations are required to perform a quarterly revenue and expenditure reconciliation with Treasury in order to confirm matching between the KFMIS and CBK account.

Mamusha Municipality operates within the STA arrangements and complies with the above described reconciliation procedures. However, it is important to record some weaknesses in the revenue reconciliation and record keeping pointed out by the Auditor General in the audit of the 2009 financial statements.

In 2009, Municipality has not implemented a comprehensive and automated billing system and does not maintain separate sub ledgers or lists of all its debtors regarding various taxes. Instead only cash collections from revenue streams are recorded. Whilst receivables are not required to be disclosed in the financial statements, lack of accuracy and completeness will impact revenues that Municipality can earn and the ability to prepare a reliable and accurate budget, to report an accurate collection ratio, and to monitor the collection of the own source revenues on a timely basis.

Score A

**(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments**

Advances, including for petty cash and official travel purposes, are managed from the budget category Goods and Services. The opening of the advance for petty cash is based on the request for petty cash expenditure needs. The advances for travel are based on official and approved travel agendas and are reconciled upon the presentation of documents from the completed travel.

At the end of fiscal year, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier and the breakdown of expenditure by economic classification is performed and recorded. In a case that the allocated advance is not fully spent the funds are returned to the consolidated fund, with supporting evidence.

Score B

PI-22	Explanation	Score- M2
(i) Regularity of bank reconciliation	<b>Score A</b> (i) Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.	<b>B+</b>
(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments	<b>Score B</b> (ii) Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.	

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

Recent budget decentralization to the level of individual schools – supported by World Bank in 10 Kosovo Municipalities<sup>50</sup> – has contributed to the availability and scope of information on resources received by the service delivery units. Information on resources is now available at the stage of budget planning and budget execution:

1. Budget Plans, including proposed expenditure allocation by economic category, are prepared by each individual school in the Municipality. Associated cash flow forecasts and updates are also prepared in order to manage the allocation of budgetary funds.
2. Actual Budget Expenditures are recorded (and can be reported) in the KFMIS in accordance with the Chart of Accounts, which provides for a separate administrative code for each spending unit in pre-primary, primary, and secondary education programs.
3. Similarly, although budget plan is not explicitly broken down to the level of spending units in the primary health care sector, actual budget expenditure is recorded in accordance with the Chart of Accounts in the KFMIS, which facilitates generation of data for individual health houses.

Primary and secondary education is a municipal competency assigned by the LLSG; however the Ministry of Education still retains some part of investment and capital formation program in this sector with a part of school construction managed centrally. Details of associated capital expenditure can again be derived from the Budget documentation and the KFMIS at the central level.

Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units. Some concerns remain to what extent this data is consolidated.

While information and data on resources made available in cash to service delivery units is recorded and can be processed from the KFMIS there have been no attempts undertaken by Mamusha Municipality to compile comprehensive and aggregate reports. However, the Department of Education and Department of Health respectively maintain internal reconciliation reports on resources allocated to individual spending units which constitute such a report on spending by primary service delivery units.

In principle, conditions (in particular the strengths and advantages of the KFMIS) appear in place for an A score; however reliable evidence on the consolidated annual reports is lacking thus the score is downgraded to B.

PI-23	Explanation	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and functioning of those units	<b>Score B</b> (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across the most of the SN's governance jurisdiction with information compiled into reports at least annually.	<b>B</b>

<sup>50</sup> The program was initiated in 2009 with three pilot municipalities, including Istog, Gjiçane, and Kacanik, In 2010 it was extended to ten municipalities, including Shtime, Podujeve, Prishtine, Gjakovë, Peje, Klinë, Prizren, Suhareke, Mitrovicë, and Ferizaj.

### 7.5.3 PI-24 Quality and Timeliness of in- year Budget Reports

#### (i) Quality and timeliness of in-year budget reports

The Municipality prepares budget reports in accordance with the Law on Public Financial Management and Accountability. Reports are prepared on a quarterly basis which includes a report on budget execution and on progress on the implementation of capital projects. These reports are made according to the budget and present commitments of the fund balance for each month and every three months for each category of economic and municipal program. These reports are based on KFMIS data which are reconciled monthly with STA account.

No special reports are prepared internally for the mayor or for the municipal assembly.

Score A

#### (ii) Timeliness of the issue of reports

Municipality of Mamusha prepares quarterly reports on budget execution within 4 weeks after the end of the quarter. This report is distributed to MEF, the office of Mayor, municipal departments and the Municipal Assembly.

Score A

#### (iii) Quality of Information

Information provided in reports produced during the year is of good quality. Reports during the year using KFMIS data equated with STA account and the quarterly reconciliation process are used to produce consolidated reports on and for the Municipality of Mamusha.

Score A

PI-24	Explanation	Score-M1
(i) Quality and timeliness of in-year budget reports	<b>Score A</b> (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	<b>A</b>
(ii) Timeliness of the issue of reports	<b>Score A</b> (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	
(iii) Information's quality	<b>Score A</b> (iii) There are no material concerns regarding data accuracy.	



## **7.5.4 PI-25 Quality and Timeliness of Annual Financial Statements**

### **(i) Completeness of the financial statements**

The LPFMA requires each budget organization to produce financial statements by January 31 for the past fiscal year. Treasury at MEF provides a generic template for annual financial statement reporting as well as the system from where data is generated by all Municipalities. Municipalities have no impact on the format of financial statements as it is determined at the central government - Treasury/MFE- however what makes a difference is the level of completeness of this template by each Municipality and how good available data is presented.

A step forward with financial statements was made in 2010 when the template given by the Treasury/MEF to all Municipalities for reporting has required additional information from them to include a table to reflect the progress in the implementation for external audit recommendations from the previous year. This is yet to be seen how well is being filled with information by all municipalities.

Municipality of Mamusha did submit Financial Statements as required by Administrative Instruction. Municipality's Financial Statement as of 31 of December 2009 covered information on revenues, expenditure and financial obligations.

However Financial Statement 2009 did not provide a comprehensive picture for the Office of Auditor General which was not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. OAG had a disclaimer of opinion, or did not express an opinion on the Municipality's financial statements for the year ended 31 December 2009 (Audit Report 2009, p.2.), due to the significance of the matters described below:

- Non-financial assets Financial Statements as of 31 December 2009 on disclosures in note 27 regarding property, plant and equipment are not reconciled with its assets registry.
- The Municipality does not have still certifying officer for recording data within accounting data in Financial Management Information System in Kosovo.
- Own source revenue Administrative Tax Revenue, which details administrative tax revenue, was not completed as per administrative instruction, as the revenue from certificates is recorded as total and total and not recorded as total and not detailed as per different certificates.
- There may be significant payments from third parties (for example when another party such as ministry or foreign donor buys / contributes an asset for use by the municipality) which could not be recorded in the financial statements because they are not recorded in the Freebalance.
- Contingent Liability is not completed.

Score B

### **(ii) Timeliness of submission of the financial statements**

Mamusha Municipality in accordance with the Administrative Instruction No. 02-2009 for annual reporting of budget organizations has made the submission of financial statements to the Treasury.

Over the last three years financial statements are filed on these dates:

- 1) February 4, 2011
- 2) March 22, 2010
- 3) February 6, 2009

Mamusha municipality respects the request for preparation and timely submission of its financial statements.

The financial statements were submitted for external audit within less than 6 months after the end of the fiscal year.

Score A

### (iii) Accounting standards used

In accordance with Administrative Instructions in place, and Treasury/MEF requirements (template provided) Mamusha Municipality is responsible for the preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

In 2010, the Auditor General Audit report (Audit Report 2009, p.2) disclaimed an opinion on Municipality’s financial statements due to the reasons given above in Dimension (i), therefore OAG highlighted that Financial Statement for 2009 were not in full compliance with IPSAS requirements.

Score D

PI-25	Explanation	Score-M1
(i) Completeness of the financial statements	<b>Score B</b> (i) A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenues, expenditure and financial assets/liabilities	<b>D+</b>
(ii) Timeliness of submission of the financial statements	<b>Score A</b> (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	
(iii) Accounting standards used	<b>Score D</b> (iii) Statements are presented in consistent format over Time or accounting standards are not disclosed.	

## 7.6 External Scrutiny and Audit

### 7.6.1 PI-26 Scope and Nature of Follow-up of External Audit

#### (i) Scope/nature of audit performed (incl. adherence to auditing standards)

Financial statements for the municipality of Mamusha are audited annually by the Auditor General. The last audit was conducted in connection with financial statements for the year ended December 31, 2009. The audit was conducted in accordance with international auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

The report by Auditor General for municipality of Mamusha can be downloaded from the web site of the Auditor General (PI-10). However this audit did not include performance audit of management and operational efficiency and effectiveness which would score this dimension a highest grade. Instead the score is downgraded to B.

Score B

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

Audit Report of the Office of the Auditor General to the Financial Statements for the last year (2009) was submitted to the Mayor's office and a copy to the CFO, but report was not delivered to the municipal assembly.

Score D

#### (iii) Evidence of follow up on audit recommendations

Audit Reports for Mamusha municipality in the last two years from the Office of the Auditor General have made 10 recommendations in certain areas. In the table below recommendations are presented for last two years and the response in terms of implementation.

Table 17: Status of External Audit Recommendations, 2008-2009

Audited year	Total Recommendations	Implemented	Partially Implemented	Outstanding	Outstanding as % of total
2008	5	4	1	0	0%
2009	5	4	1	0	0%

Source: Auditor General Reports

Mamusha Municipality has fully addressed and implemented audit recommendations for the past two years.

Score A

PI-26	Explanation	Score- M1
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	<b>Score B</b> (i) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	<b>D+</b>
(ii) Timeliness of submission of audit reports to legislature	<b>Score D</b> (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).	
(iii) Evidence of follow up on audit recommendations	<b>Score A</b> (iii) There is clear evidence of effective and timely follow up.	

## 7.6.2 PI-27 Legislative Scrutiny of the Annual Budget Law

### (i) Scope of Assembly's Scrutiny

Mamusha's Municipal Assembly is actively engaged in the municipal budget process, including key stages of budget proposal development and approval. During the 2011 Budget process, the Assembly was involved in the following:

- The review and approval of municipal medium term budget framework, including projection of the key municipal budget parameters;
- The conduct of one budget hearings with citizens regarding budget priorities and capital program;
- The review, debate, and approval of municipal budget proposal.

Assembly is sufficiently informed and involved in the budget process, with the possibility to make key decisions. The process is open and transparent, with the Assembly's debates recorded and documented in publicly available minutes from meetings.

Score A

### (ii) Extent to which the Assembly's procedures are well-established and respected

The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The primary responsibility for budget review rests with the Policy and Finance Committee before the budget proposal goes for the general Assembly debate. Professional input and consultations are sought from other two specialized committees, which analyze specific budget aspects in accordance with their respective expertise area.

Score A

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

The Municipal Assembly is allowed one month – since September 1<sup>st</sup> to September 30<sup>th</sup> – to conduct the review and approval of municipal budget proposal. These deadlines are provided in the legislative framework and embodied in the LPFMA.

The 2011 Budget calendar assessed in PI-11 suggests that the Municipal Assembly received budget proposal from the executive branch in mid-September 2010, which provided only three weeks for the Assembly review and approval. Subsequently, criteria for score D would be met. However, in light of an extensive Assembly's involvement during the budget process as described above in PI-27(i) a score B can be justified.

Score B

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

The LPFMA provides for rules governing in-year amendments to the municipal budget. In accordance with this legislative framework all amendments and adjustments to the budget require prior review and approval of the Municipal Assembly. Mamusha Municipality fully adhered to this requirement during 2010.

Score A

PI-27	Explanation	Score-M1
(i) Scope of Assembly's scrutiny	<b>Score A</b> (i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue	<b>B+</b>
(ii) Extent to which the Assembly's procedures are well-established and respected	<b>Score A</b> (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committee, and negotiation procedures	
(iii) Adequacy of time for the Assembly to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	<b>Score B</b> (iii) The legislature has at least one month to review the budget proposals	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Assembly	<b>Score A</b> (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected	

### 7.6.3 PI-28 Legislative Scrutiny of External Audit Reports

#### (i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)

During the last three years (2007, 2008 & 2009), there was no report from Auditor General submitted to Policy and Finance Committee.

Not Applicable

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

Municipal Assembly has not discussed the report of the Auditor General during the last three years (2007, 2008 & 2009).

Not Applicable

#### (iii) Issuance of recommendations by the Assembly and implementation by the Government

Municipal Assembly has not recommended any action to implement recommendations from the report of the Auditor General.

Not Applicable

PI-28	Explanation	Score-M1
(i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)	Not Applicable	Not Applicable
(ii) Extent of hearings on key findings undertaken by the Assembly.	Not Applicable	
(iii) Issuance of recommendations by the Assembly and implementation by the Government	Not Applicable	

## 7.7 Donor practices

### 7.7.1 D-1 Predictability of Direct Budget Support

#### (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)

Municipalities are not recipients of direct budget support from donors.

Score Not Applicable

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

Score Not applicable

<b>D – 1</b>	<b>Explanation</b>	<b>Score- M1</b>
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	Not Applicable	<b>Not Applicable</b>
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Not Applicable	

**7.7.2 D-2 Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme Aid**

**(i) Completeness and timeliness of budget estimates by donors for project support**

During 2010, Mamusha Municipality did not receive any direct donor support and therefore only 2009 will be assessed.

There were total of 55,000 Euros of donation received in 2009 from three donor agencies.

USAID donated 32,000 Euros and this donation was awarded by USAID to municipality as an incentive fund for collecting own source revenues and these funds were used for the construction of the sidewalks. This donation was direct donation and did not go through Treasury Single account and donor conducted procurement process as well. Project for construction of the sidewalk was approved in the municipal assembly.

A second donation was from Municipality of Bursa from republic of Turkey which donated the waste containers in total value of 20.000 Euros. Third donation was from OSCE which was donated 3.000 Euros for Municipal Archive.

Score A

**(ii) Frequency and coverage of reporting by donors on actual donor flows for project support**

Joint oversight commission was established for the USAID project which took three weeks to accomplish and report was produced. Also the acceptance of waste containers from the Municipality of Bursa was delivered in the presence of municipal commission and the receiving report with accompanying documentation was prepared and signed by the donor and by the municipal officials.

Score A

D – 2	Explanation	Score- M1
(i) Completeness and timeliness of budget estimates by donors for project support.	<b>Score A</b> (i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursements of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification	<b>A</b>
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	<b>Score A</b> (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification	

### 7.7.3 D-3 Proportion of Aid that is Managed by Use of National Procedures

#### (i) Overall proportion of aid funds to central government that are managed through national procedures

Procurement and implementation of project assistance described in D-2 above was wholly conducted in accordance with the Kosovo procedures and rules. Score A

D-3	Explanation	Score- M1
(i) Overall proportion of aid funds to central government that are managed through national procedures.	<b>Score A</b> (i) 90% or more of aid funds to SN government are managed through national procedures	<b>A</b>

### 7.8. HLG-1 Predictability of Transfers from Higher Level of Government

#### (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

There are three main categories of transfers from the Kosovo Central Government to Municipalities:

- Unconditional general grant that municipalities may use in the discharge of any of their municipal competencies;
- Specific (earmarked) education grant to finance the cost of providing a minimum standard services in pre-primary, primary and secondary education;
- Specific (earmarked) health grant to finance the cost of providing a minimum standard services in public primary healthcare.

The LLGF foresees specific additional transfers for the implementation of enhanced and delegated competencies by the selected municipalities. The intergovernmental body – Grants Commission – is responsible for the determination of aggregate amounts of government transfers and allocation criteria to individual municipalities. The allocation is determined annually and based on objective and transparent formulae, which take into account such factors as municipal population, size, ethnicity, school enrollment. Transfer estimates are then communicated to municipalities



at the beginning of budget process through Budget Circular issued by MFE. Unspent appropriation of grants' amounts lapses on December 31.

During the analyzed period of 2008-2010 Mamusha Municipality was a recipient of general grant, education grant, and health grant, which in total amounted to approximately 95% of municipal financing (i.e., residual funded by MOSR). During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Mamusha Municipality original budget. Additional allocations of grants determined during mid-year review processes contributed to such developments.

Table 18: Annual Deviation in the Allocation of Total HLG Transfers, 2008-2010, euro

	Original Grants Allocation	Actual Grants Used	Difference	Variance
2008	409,093	416,057	6,964	2%
2009	661,870	669,906	8,036	1%
2010	755,505	752,171	-3,334	0%

Source: KFMIS

Score A

#### (ii) Annual variance between actual and estimated transfers of earmarked grants

Deviations in earmarked grants as recorded for the last three years in Mamusha Municipality are relatively large but did not exceed 10%.

Score C

Table 19: Variance in Actual and Estimated Earmarked Grants, 2008-2010

	Total Grants Deviation	Earmarked Grants Variance	Variance beyond total deviation
2008	2%	3%	1%
2009	1%	7%	6%
2010	0%	10%	10%

Source: KFMIS

Table 20: Total Grants Deviation and Grants Variance for the Main Categories of HLG Transfers, 2008-2010

	Original Grant Allocation (Budget Schedule)	Actual Grant Used (Expended Dec 31)	Difference	Absolute	Variance
<b>2008</b>					
General Administration (Unconditional Grant)	203,931	212,012	8,081	8,081	4%
Education (Earmarked Education Grant)	164,613	165,131	518	518	0%
Health (Earmarked Health Grant)	40,549	38,914	-1,635	1,635	4%
<b>Total Deviation</b>	<b>409,093</b>	<b>416,057</b>	<b>6,964</b>	<b>6,964</b>	<b>2%</b>
<b>Composition Variance</b>	<b>409,093</b>	<b>416,057</b>		<b>10,234</b>	<b>3%</b>
<b>2009</b>					
General Administration (Unconditional Grant)	418,322	385,765	-32,557	32,557	8%
Education (Earmarked Education Grant)	181,857	209,878	28,021	28,021	15%
Health (Earmarked Health Grant)	61,691	74,263	12,572	-12,572	-20%
<b>Total Deviation</b>	<b>661,870</b>	<b>669,906</b>	<b>8,036</b>	<b>8,036</b>	<b>1%</b>
<b>Composition Variance</b>	<b>661,870</b>	<b>669,906</b>		<b>48,006</b>	<b>7%</b>
<b>2010</b>					
General Administration (Unconditional Grant)	464,289	425,074	-39,215	39,215	8%
Education (Earmarked Education Grant)	217,545	238,875	21,330	21,330	10%
Health (Earmarked Health Grant)	73,671	88,222	14,551	14,551	20%
<b>Total Deviation</b>	<b>755,505</b>	<b>752,171</b>	<b>-3,334</b>	<b>-3,334</b>	<b>0%</b>
<b>Composition Variance</b>	<b>755,505</b>	<b>752,171</b>		<b>75,096</b>	<b>10%</b>

Source: KFMIS

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)**

There is no specific timetable agreed between levels of government for the in-year distribution of grant disbursements. Cash liquidity has not been a problem in Kosovo, and allocation of funds for expenditure financed from grants is done in accordance with monthly and quarterly allocation schedule requested by a municipal budget organization in its cash flow plan submitted to the Treasury (see PI-16). Given that legislative framework foresees provides for appropriations from grants to laps at the end of fiscal year (i.e., only unspent MOSR are automatically carried forward), there is a strong incentive for municipalities to spend all grants' funds in order not to lose financing allocated from the central government.

Score A

HLG-1	Explanation	Score-M1
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	<b>Score A</b> (i) In no more than one out of the last three years have HLG transfers fallen short of the estimated by more than 5%	<b>C+</b>
(ii) Annual variance between actual and estimated transfers of earmarked grants	<b>Score C</b> (ii) Variance in the provision of grants provided has exceeded overall deviation in the total transfers for no more than 10 percentage points in no more than one of the last three years	
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	<b>Score A</b> (iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years	

**8. Shterpce Municipality PEFA Performance Report**  
**Overview of the indicator set**

A. PFM-OUT-TURNS: Credibility of the budget		Score 2011
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	N/A
PI-10	Public access to key fiscal information	A
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	B+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+
PI-21	Effectiveness of internal audit	B+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	A
PI-25	Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D
HLG-1	Predictability of Transfers from Higher Level of Government	C+

## Municipality Background Information

Shtërpçë Municipality estimates that some 14.000<sup>51</sup> inhabitants live in 16 villages/towns in the municipality, with 65% of the population Serbs and the rest - Albanian.

As a Serb dominated municipality, Shtërpçë developed in a specific political context, after the 1999 conflict, determined by the central government politics for the Serb community living in Kosovo.

In Shtërpçë Municipality first local elections, as in all other municipalities, were organized in 2000, but Serbian community did not take part. Later, in 2002 on the second local elections organized in Kosovo, majority Serb community elected their local representatives for Municipal Assembly, and local government was established. As the mandate of these elected institutions expired in 2007, and Serb community did not participate in local elections, organized that year, the former Special Representative of UN Secretary General extended the mandate of the sitting Municipal Assembly.

In 2008, after Kosovo declared independence, all municipal staff members from the Serb community abandoned their work and refused to work within the umbrella of Kosovo Republic institutions. For couple of months, the municipality worked with reduced capacities and was almost paralyzed. The situation changed when Serb community took part in local government elections at the end of 2009, with the new Municipal Assembly and Government established at the beginning of 2010. Nevertheless there is another (mini) municipal structure that runs a parallel Serb administration but this is not recognized by Kosovo Institutions. This structure still uses some offices in the Municipal Building and provides some services such as personal documents, cadastre, and also health (1 main health center and two sub stations with all employees paid by Serbian Ministry for Health) and education. Primary and secondary schools get paid from Kosovo Consolidated Budget as well as from Serbian Ministry of Education. The Kosovo Serbian civil servants deal almost exclusively with administration matters for the Kosovo Serb community and are connected to Serbia administratively. These “parallel” municipal employees have been reluctant to sign Kosovo Government contracts.

Shtërpçë is a rural and agricultural area. Most of the businesses are small and medium-sized enterprises; and there are ten small socially-owned enterprises. The municipality is known for the ski resort in Brezovica and the Sharr National Park - the only national park in Kosovo that extends over 4 municipalities - with more than 60 per cent of its area is located in Shtërpçë.

The administration of Municipality of Shtërpçë is organized around a Head Quarter and two other offices located in Drekoc and Brod village. Considerable institutional reforms at the municipality level resulted from the Law on Local Self Government promulgated in 2008 and changes to the electoral system. The Mayor is now directly elected, while the Assembly members are elected through a proportional voting system based on open election lists. The organizational structure of the Municipality is shown below.

The 2011 Municipal Budget is around 2 million euro. However, the Municipality benefits from central government policies towards better integration of the Serb community. Last year municipality was a beneficiary of in-year transfers (to fund capital projects) which tripled the municipal budget. Municipality considers the budget insufficient to be able to address the immediate social, infrastructural and public services challenges of a growing population.

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<sup>51</sup> According to the last census in 1981

**SHTËRPECË LOCAL GOVERNMENT**  
Organizational Structure for Municipal Administration 2009-2011

Mayor 1					
Deputy Mayor 1		Human Resources	Office for Civil Protection	Procurement Office	Chairman of Munucipal Assembly 1
Deputy Mayor for Community 1		Head of Human Resources 1	Civil Protection Coordinators 2	Procurement Menager 1	Deputy Chairman for Communi 1
Assistants 2		Human Resources Officer, Secretary and Library 1	Fire - Fighters 5	Legal Officer in Procurement 1	Municipal Assembly Members 19
Mayor's Driver 1					
		Office for Local Communit		Office for Returnees	
Internal Auditor 1		Head of the Office 1		Officer for Returnees 1	
General Administration		Econo. & Finance	Education	Health	Urban Planning
Director 1		Director 1	Director 1	Director 1	Director 1
Common Services		Unit for Economy, Agriculture and Forestry	Head of Unit 1	Head of Unit 1	Unit for Planning and Projectiong
Head of Unit 1		Head of Unit 1	Finance Officer 1	Sanitary Inspector 1	Head of Unit 1
Translator 1		Unit Coordinator 1			Unit for Urbanism
Receptionists 4		Business Licencensing Officer 1	Education Employee 265	Health Employee 23	Inspector for bulding permits 1
Cleaning 2		Unit for Budget and Finance			Architect for Urban Planning 1
IT 1		Head of Unit 1			Inspk.ndrëtim. 1
Maintanace 1		Property Tax Menager 1			Office for Projects
Driver 1		Data Collector 1			Unit for Public Services
Stop Shop/Reception		Inspector 1			Environment inspector 1
Archive Administrator 1		Operator at Property Tax Unit 1			
Archive Officer 1		Revenue Officer 1			
Legal Office		Budget Officer 1			
Senior Legal Officer 1		Treasury Officer 1			
Officer for Human Rights and European Integration 1		Accountant 1			
Junior Legal Officer 1		Financial Inspector 1			
Registrar Services					
Registrar Coordinator 1					
Registrar Officer 1					
Officer for Gender Balance 1					
TOTAL 28					
GRAND TOTAL: 381 employee planned for 2009-2011		TOTAL 16	TOTAL 276	TOTAL 29	TOTAL 27

## Assessment of the PFM systems, processes and Institutions

### 8.1 Budget Credibility

#### 8.1.1 PI-1 Aggregate Expenditure Out-Turn

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

Total expenditures showed an increase in each year from that budgeted. In 2008 this was 4.1 percent and in 2009 this was just 0.4 per cent. However in 2010 the deviation was 121.5 per cent which was due to increased central government transfers during the fiscal year. The transfer was dedicated for capital projects under the Mayor's Office as indicated in Table 3.

Table 1: Shtërpçë Municipality Budget Plan and Outturn, 2008-2010

	2008	2009	2010
Original budget plan (euro)	953,671	1,643,373	1,712,869
Actual budget expenditure (euro)	993,085	1,649,363	3,794,334
Difference (euro)	39,414	5,990	2,081,465
<b>Difference (%)</b>	<b>4.1</b>	<b>0.4</b>	<b>121.5</b>

Source: KFMIS

PI-1	Explanation	Score – M1
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	<b>Score C</b> (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.	<b>C</b>

#### 8.1.2 PI-2 Composition of Expenditure Out-Turn

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years

This indicator assesses whether current budget expenditure reflect budget plan/policies. In cases where the composition of expenditure deviates significantly from the original budget then the budget does not reflect budget plan/policies.

For 2008-2010, the results in the difference in the composition of expenditure and total expenditure deviation are mixed (see table).

This variance in expenditure composition is attributed to two factors, almost on equal basis:

- a) Re-allocations between programs during the year: there have been re-allocations between three programs (functional heads): Office of the Mayor, Budget and Finance, and Health and Social Welfare, which have affected the composition of budgeted expenditure.
- b) Carry forward OSR from previous year are not included in the initial budget plan: municipal OSR carry forwards from previous years are not included in the budget plan (budgeted expenditure) due to time constraints. Municipal own source revenues are recorded as actual expenditure. Municipal budget planning is done in the August-September period when the municipality does not have credible data on the balance of unspent OSR, for them to be able to include any projections in their budget plan. As such, carry forward OSR are authorized for expenditure by the Treasury / MFE through KFMIS during the first quarter of the year and then distributed to various budget programs for implementation of capital projects, which in 2008 have been mainly in Education and Science, Office of Returns and Communities, and the Office of the Chief Executive Officer.
- c) In 2008 when the municipality introduced the property tax it collected only 27.68% of what was billed.

Table 2: Total deviation and expenditures deviation, 2008 – 2010

Year	Total expenditure deviation (PI-1)	Total variance in expenditure	Variance beyond total deviation (PI-2)
2008	4.1%	15.3%	11.2%
2009	0.4%	3.5%	3.1%
2010	121.5%	123.4%	1.9%

Score: C

PI-2	Explanation	Score – M1
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during last three years	<b>Score C</b> (i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.	<b>C</b>

Table 3: Total Deviation and Expenditure Deviation for the Main Budget Program Lines, 2008-2010

Functional head	2008				
	Budget	Actual	Difference	Absolute	Percent
Mayors' Office	58,198	43,741	-14,457	14,457	24.8%
Administration	43,221	38,992	-4,229	4,229	9.8%
Budget and Finance	44,233	34,089	-10,144	10,144	22.9%
CEO' Office	124,686	147,885	23,199	23,199	18.6%
LCO	6,408	5,580	-828	828	12.9%
Communities and returns	3,274	2,725	-549	549	16.8%
Firefighters	15,630	14,907	-723	723	4.6%
Geodesy, Cadastre and Property	15,915	14,891	-1,024	1,024	6.4%
Urbanism	20,744	18,793	-1,951	1,951	9.4%
Health and Social Welfare	89,451	69,892	-19,559	19,559	21.9%
Education and Science	531,911	601,591	69,680	69,680	13.1%
<b>Total expenditure</b>	<b>953,671</b>	<b>993,085</b>	<b>39,414</b>	<b>39,414</b>	<b>4.1%</b>
<b>Variance in composition</b>	<b>953,671</b>	<b>993,085</b>		<b>146,343</b>	<b>15.3%</b>



Functional head	2009				
	Budget	Actual	Difference	Absolute	Percent
Mayor and Municipal Assembly	604,678	614,706	10,028	10,028	1.7%
Administration and Personnel	102,297	102,917	620	620	0.6%
Budget and Finance	43,774	46,641	2,867	2,867	6.6%
SP, MC, Emergency	16,236	15,323	-913	913	5.6%
LCO	2,854	800	-2,054	2,054	72.0%
Cadastral and Geodesy	18,440	19,128	688	688	3.7%
Urbanism	23,568	24,419	851	851	3.6%
Health – Administration	52,418	51,173	-1,245	1,245	2.4%
Health – FHC	56,196	58,657	2,461	2,461	4.4%
Health - Performance payment	5,386	2,154	-3,233	3,233	60.0%
Education – Administration	72,879	81,684	8,805	8,805	12.1%
Primary education	469,446	451,483	-17,963	17,963	3.8%
Secondary education	175,201	180,276	5,075	5,075	2.9%
<b>Total expenditure deviation</b>	<b>1,643,373</b>	<b>1,649,363</b>	<b>5,990</b>	<b>5,990</b>	<b>0.4%</b>
<b>Variance in composition</b>	<b>1,643,373</b>	<b>1,649,363</b>		<b>56,803</b>	<b>3.5%</b>

Functional head	2010				
	Budget	Actual	Difference	Absolute	Percent
Office of Mayor	629,275	2,656,369	2,027,094	2,027,094	322.1%
Municipal Assembly	57,075	55,602	-1,473	1,473	2.6%
Administration and Personnel	108,515	127,985	19,470	19,470	17.9%
Budget and Finance	39,780	44,612	4,832	4,832	12.1%
Public services, Civil protection, emergency	20,803	29,094	8,291	8,291	39.9%
Local Community Office	3,059	3,231	172	172	5.6%
Economic development	21,041	20,609	-432	432	2.1%
Cadastral and Geodesy	20,741	21,615	874	874	4.2%
Urbanism and environment	27,047	28,841	1,794	1,794	6.6%
Health – Administration	57,800	56,737	-1,063	1,063	1.8%
Health – FHC	62,776	57,849	-4,927	4,927	7.8%
Health – Social work centre	0	34,192	34,192	34,192	
Health – Performance payment	5,810	0	-5,810	5,810	100.0%
Education – Administration	27,713	28,870	1,157	1,157	4.2%
Primary education	456,085	454,540	-1,545	1,545	0.3%
Secondary education	175,349	174,187	-1,162	1,162	0.7%
<b>Total expenditure deviation</b>	<b>1,712,869</b>	<b>3,794,334</b>	<b>2,081,465</b>	<b>2,081,465</b>	<b>121.5%</b>
<b>Variance in composition</b>	<b>1,712,869</b>	<b>3,794,334</b>		<b>2,114,288</b>	<b>123.4%</b>

Source: KFMIS

### 8.1.3 PI-3 Aggregate Revenue Out-Turn

#### (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

With the exception of fiscal year 2008 when the collection of OSR was lower against the budget revenue plan, the OSR collection trends have been positive and above plan. Considerably higher collection of OSR than budgeted in last two years suggests that forecasting needs to be less conservative.

In 2008 Municipality employees were reluctant to sign contracts with Kosovo institutions (after the independence), they boycotted work. For couple of months municipality operations were reduced in absence of majority of administration workers. The latter contributed to under collection during 2008 fiscal year.

Table 4: MOSR Budget Plan and Actual Out-Turn, 2008-2010, thousand euro

	2008			2009			2010		
	Budget	Actual	Differ.	Budget	Actual	Differ.	Budget	Actual	Differ.
Administration	2,200.00	2,350.00	106.82%	2,200.00	11,268.00	512.18%	2,570.00	11,465.50	446.13%
Revenue from cadastre	9,240.00	4,378.00	47.38%	8,240.00	12,723.90	154.42%	10,240.00	18,020.00	175.98%
Use of public areas	9,020.00	0.00		10,000.00	145.00	1.45%	11,671.00	0.00	
Business licenses	8,360.00	116.91	1.40%	7,170.00	447.00	6.23%	5,170.00	6,138.50	118.73%
Revenue from construction permits	1,200.00	955.79	79.65%	3,000.00	419.27	13.98%	2,060.00	19,835.87	962.91%
Property tax	7,030.00	2,817.30	40.08%	7,030.00	24,630.47	350.36%	15,000.00	18,025.35	120.17%
Health co-payments	990.00	292.90	29.59%	900.00	708.20	78.69%	900.00	359.20	39.91%
Road Tax							5,000.00	1,332.00	26.64%
Other Revenue	1,100.00	0.00		1,100.00	0.00		2,200.00	0.00	
Total	39,140.00	10,910.90	27.88%	39,640.00	50,341.84	127.00%	54,811.00	75,176.42	137.16%

Source: KFMIS

Score: A

PI-3	Explanation	Score – M1
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget	<b>Score A</b> (i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	<b>A</b>

### 8.1.4 PI-4 Payment Arrears

**(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock**

Any outstanding obligations of the Municipality at the end of each fiscal year must be a) reported to the Treasury/MFE, b) reported in year-end financial reports, and c) any commitments and arrears immediately recorded in the KFMIS in order to reflect these arrears.

Based on Municipal Financial Statements, in the end of year, the stock of arrears against total expenditures of the municipality is relatively high especially in 2009, as shown in the table below. It is worth highlighting the significant improvement in 2010.

Table 5: Assessment of Expenditure Arrears, 2008-2010

Description	Comment	2008 (euro)	2009 (euro)	2010 (euro)
Total budget appropriation	As of 31 December	953,671.00	1,643,373.00	3,864,263.79
Total budget expenditure	As of 31 December	993,085.00	1,649,363.00	3,794,333.77
Total arrears	Cumulative, as of 31 December	11,690.30	355,245.84	174,221.62
Arrears as a % of total expenditure	D=C/B, %	1.18%	21.54%	4.59%

Source: 2010 financial statements, list of arrears

The stock of arrears at the end of 2009 is related to capital projects undertaken by the municipality in that year, without necessary funding. In the municipality itself, entry into these obligations is attributed to the fact that 2009 was a year of local elections and that they were trying to implement as many major infrastructure projects as possible thus causing the resulting budget deficit.

Based on the stock of expenditure payment arrears as reported at the end of the fiscal year, stock of arrears represents fluctuates considerably ranging from just over one percent to almost 22 percent with an average of just over 8 per cent of expenditure. However there is evidence of a meaningful decline in 2010, but only for the one year.

Score C

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

The municipality maintains data on expenditure in a simple excel spreadsheet which includes invoice number, invoice date, payment date, description, amount due / paid, and the supplier. In 2009 the Treasury in MFE introduced the requirement for all budget organizations, including municipalities, to have this data recorded in the KFMIS which would eliminate the need for the spreadsheet.

Within KFMIS, the purchase order monitors the execution of payments by entering the invoice date, invoice registration date, and the date of payment which allows the monitoring of arrears over 30 days. In practice the requirement to enter invoice dates in the KFMIS and/or to register the invoice on the day of receipt by the municipality. However, this practice is as yet not fully applied by the municipality with respect to KFMIS which undermines the effectiveness of monitoring and measurement of arrears via KFMIS.

The municipal data reported at the end of year in the financial statements contain a list of arrears generated by the excel spreadsheet remain a reliable source of information for the purposes of assessing this dimension.

It remains to be seen how the KFMIS module could be better utilized by the Municipality, therefore a B score is justified.

<b>PI-4</b>	<b>Explanation</b>	<b>Score – M1</b>
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	<b>Score C</b> (i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years	<b>C+</b>
(ii) Availability of data for monitoring of stock of expenditure payment arrears	<b>Score B</b> (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions	

## 8.2 Comprehensiveness and Transparency

### 8.2.1 PI-5 Classification of the Budget

#### (i) The classification system used for formulation, execution and reporting of the central government's budget

Municipal budget planning, execution, and reporting is performed through the Chart of Accounts<sup>52</sup> based on classifications provided by the central government using the KFMIS, which is administered by Treasury /Ministry of Economy and Finance. Central classification system includes:

- Functional classification (6 main functions and related sub-functions)
- Economic classification (5 main codes)
- Administrative classification (16 main codes)

Municipality may only request – with the consent of Treasury - some adjustments to the system in use which is provided by the Treasury / Ministry of Economy and Finance on the basis of specific administrative requirements they have, but it has no control over the design or structure of the system. Documentation is prepared according to GFS 2001 and is in line with COFOG. Budget execution can be compared against original budget by functions.

Municipal budget documentation is compiled in a consistent manner for these classifications:

1. Budget formulation: detailed budget plans are developed based on administrative and functional codes. Budget documentation does not include a separate plan which would explicitly present the functional classification, however it may be produced since functional codes stand close to administrative classifications and are available in the budget documentation.
2. Budget execution: actual outturn, including authorization for expenditure of funds, allocations, commitments, and daily-annual expenditure, are all recorded based on the three classifications.
3. Budget reporting: Reports may be generated electronically based on the three classifications, and this enables the comparison between original budget plan and the budget outturn; these reports are routinely generated based on economic and administrative classifications for the purposes of budget execution reports and financial statements.

Score: A

PI-5	Explanation	Score – M1
The classification system used for formulation, execution and reporting of the local government's budget.	<b>Score A</b> Budget formulation and execution is based on functional, economic and administrative classifications according to GFS/COFOG standards	<b>A</b>

<sup>52</sup> Based on Government Financial Statistics (GFS) 2001 and is in line with COFOG

## 8.2.2 PI-6 Comprehensiveness of Information Included in Budget Documentation

(i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)

Municipal budget documentation used for the evaluation purposes of this indicator are the 2011 and 2010 budget documents, and the relevant budget circulars issued by the MFE.

Table 6: Elements Included in the Budget Documentation

	Actually used	Comments
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation as representative for Kosovo	No	Main macroeconomic indicators are available in the national MTEF document; Municipal Budget Circular issued by MFE instructs the use and presentation of economic and budgetary fiscal assumptions for the purpose of municipal MTEF
2. Fiscal balance, defined according to GFS or other internationally recognized standard	Yes	Municipal budget plan submitted to the Municipal Assembly includes data on fiscal balance that (for this reason alone) are defined as total revenue minus total expenditure.
3. Deficit financing, describing anticipated composition	Yes	Municipal Budget is presented as balanced; unspent OSR are not foreseen in the budget plan, neither is other expenditure or revenue, as they are automatically carried forward to the current year in accordance with the Budget Law.
4. Debt stock, including details at least for the beginning of the current year	Yes	The municipality currently has no registered debt since the Law on Public Debt which would allow borrowing for the municipalities has entered into force only in 2009.
5. Financial Assets (such as MOSR carry forward), including details at least for the beginning of the current year	No	The municipality does not include any statement on financial assets in the budget documentation. This is only reflected in the financial statement.
6. Prior year's budget outturn, presented in the same format as the budget proposal	Yes	In 2011 municipal budget proposal schedules the following information is included (a) Summary of total revenue and expenditures, (b) budget expenditure based on administrative and economic classification (for capital and operational budget). Functional classification can be extracted manually by looking at included codes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Information included for the current year's budget present (a) a summary of total revenue and expenditures, (b) budget expenditure based on administrative and economic classification (for capital and operational budget). Functional classification can be extracted manually by looking at the included codes

8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	Summarized budget data, presented on a separate budget schedule, includes information on the main categories of revenues and expenditure aggregates by economic classification. However, summary budget data by administrative and functional classifications are not produced and presented in budget document.
9. Explanation of budget implications of new policy initiatives (respectively by central and municipal level), with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	New policy initiatives and their costing are included in budget schedules only, however no narrative description is provided.

Source: Shtërpçë Municipality Budget Proposal Submission, September 2010

The 2011 Municipal Budget documents marked significant improvements in the quality of content, coverage, and presentation format as compared with the budget schedules produced for years 2009 and 2010. The level of budgetary details improved transparency and Municipal Assembly's access to budget information.

Part IV Preparation and Contents of the Proposed Kosovo Consolidated Budget and Part XI Chapter 2 Development of a Municipality's Proposed Budget and Appropriations Request contained in the Law on Public Financial Management and Accountability imposes a much more demanding set of requirements than contained in this PEFA indicator. However, meeting these requirements is yet to be fully achieved and will also be dependent on MFE further strengthening and adjusting municipal developing procedures, including mandated budget presentation format, instructed to municipalities.

Score: B

PI-6	Explanation	Score – M1
(i) Share of below listed information in the budget documentation most recently issued by the local government.	<b>Score B</b> Recently issued budget documentation meets 5-6 out of 9 information benchmarks	<b>B</b>

### 8.2.3 PI-7 Unreported Government Operations

(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports

Kosova Consolidated Budget is managed through Single Treasury Account ("STA"). There are no extra-budgetary activities, and extra-budgetary activities that are not reported. Revenues generated from Education or Health sectors are all reported through the system. The Law on Public Financial Management and Accountability requires that all public money that is collected by all Budget Organizations – Central and Local - be deposited in the STA and cannot be spent until it is appropriated. There is no evidence of violation of this legal requirement by the Municipality.

Score: A

**(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports**

All donor funding received by the Kosovo Government – both Central and Local Governments - from donors in cash is channeled through the Treasury/MFE STA accounts at the Central Bank and accounted for through the KFMIS. There are no bank accounts operated outside of the STA by Project Implementation Units or Budget Organizations for the implementation of donor-funded projects. All Designated Donor Grants are appropriated as they are received from donors in the Treasury accounts. Consequently, all expenditures of Designated Donor Grants are included in the regular in-year execution reports and year-end fiscal reports.

Municipality of Shtërpçë was a recipient of donor funding during 2009 and 2010. For the purposes of assessing this indicator, community participation and foreign donations are considered as external donor funding (i.e. foreign organizations as donors, EC IPA funds, citizen participation for certain projects).

Based on the table below, donor funding spent by the Municipality are calculated as a % of total municipal expenditure, as generated from Municipality's financial statements for 2009 and 2010. In 2009, there was no donor funding while in 2010 it was insignificant.

Table 7: Designated Donor Grants, 2009-2010

	2009		2010	
	Received external donor funding (euro)			
	Community participation	International organization	Community participation	International organization
	0.00	0.00	0.00	7,130.00
Total external donor funding received (euro)	0.00		7,130.00	
Total external donor funding spent (euro)	0.00		7,130.00	
Total budget expenditure (euro)	0.00		3,794,334	
Total external donor funding spent as a % of total budgeted expenditure	0%		0.18%	

Source: Shtërpçë Municipality Financial Statements

Score: A

PI-7	Explanation	Score – M1
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports, is insignificant (under 1% of total expenditure)	<b>Score A</b> (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports, is insignificant (under 1% of total expenditure)	<b>A</b>
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	<b>Score A</b> (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).	

### 8.2.4 PI-8 Intergovernmental Fiscal Relations

**(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)**

Not applicable to the Municipality

**(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year**

Not applicable to the Municipality

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories**

Not applicable to the Municipality

PI-8	Explanation	Score-M2
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	Not applicable	Not applicable
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	Not applicable	
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	Not applicable	

### 8.2.5 PI-9 Fiscal Risk

**(i) Extent of SN government monitoring of AGAs and PEs**

Not applicable to the Municipality

**(ii) Extent of SN government monitoring of SN governments' fiscal position**

Not applicable to the Municipality

PI-9	Explanation	Score-M1
(i) Extent of central government monitoring of AGAs and PEs.	Not applicable	Not Applicable
(ii) Extent of central government monitoring of SN governments' fiscal position.	Not applicable	



## 8.2.6 PI-10 Access to Fiscal Information

(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)

The municipality provides the following information to the public in all local languages in order to enable easy access to non-majority communities. The Municipality has produced its website only in the beginning of 2010 and it is recognized that Shtërpçë's own efforts to ensure public access to its key fiscal documents could be strengthened.

Table 8: Availability of Fiscal Information

Key fiscal information	Availability	Comments
1. Annual Budget Documentation (complete set as listed under PI-6, to the extent information exists)	Yes	Annual municipal budget documentation is available to the public upon request and on Municipality's website: <a href="http://kk.rks-gov.net/Shterpce/Projects/Budget.aspx">http://kk.rks-gov.net/Shterpce/Projects/Budget.aspx</a>  In 2010, Municipality produced a budget book which was then distributed at the municipality administrative building.
2. In-Year budget execution reports (made available within one month of completion)	Yes	OSR reports are produced monthly, and budget execution reports quarterly, in some cases even more frequently if there are higher expenditure, and then submitted to the Municipal Assembly, and also used for internal purposes. Reports are not yet posted on Municipality's website; however the discussions of Municipal Assembly members in the Assembly, in the presence of media, are considered as public access to information. These reports are published quarterly by the Treasury Department of MFE, as per requirements of the LPFMA, the report being produced at Kosovo level, including budget execution by Municipalities. Quarterly budget execution reports are available on MFE website: <a href="http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq">http://www.mef-rks.org/download/raportet-e-buxhetit-dhe-pasqyrat-financiare/2804-2010?lang=sq</a>
3. Year-end financial statements (made available within six months of completion or completed audit)	Yes	Municipality produces financial statements by the end of January of each fiscal year and submits them to the Treasury Department of MFE and Auditor General Office; however, there are no efforts by the Municipality to make them publicly available except upon request.
4. External audit reports (made available within six months of completed audit)	Yes	Municipality makes no effort in making public external audit reports available at local government level. However, annual audit reports on municipal financial statements are published on General Auditor Office website: <a href="http://www.ks-gov.net/oag/shqip/raportet%20financiare.htm">http://www.ks-gov.net/oag/shqip/raportet%20financiare.htm</a>
5. Contract awards (above 10,000 euro value; published quarterly)	Yes	In compliance with the Law on Public Procurement, the Municipal Procurement Office is obliged to publish all high value contracts. This information is submitted for publication to the Public Procurement Regulatory Commission which then makes it publicly available on its website: <a href="http://www.ks-gov.net/krpp/Default.aspx?PID=Notices&amp;LID=1&amp;PCID=-1&amp;CtlID=SearchNotices&amp;stat=2&amp;PPRCMenu_OpenNode=114">http://www.ks-gov.net/krpp/Default.aspx?PID=Notices&amp;LID=1&amp;PCID=-1&amp;CtlID=SearchNotices&amp;stat=2&amp;PPRCMenu_OpenNode=114</a> .  As well, the Municipal Procurement Office is obliged to publish such contract awards in the newspapers, and in this way also provides public access.  Municipality makes public all contracts and related on its own official web site: <a href="http://kk.rks-gov.net/shterpce/Prokurimi/Njoftim-per-kontrate.aspx">http://kk.rks-gov.net/shterpce/Prokurimi/Njoftim-per-kontrate.aspx</a>

6. Resources available to primary service units (available on request)	Yes	Devolution of budget process to the level of schools in 2009 contributed to the improvements in key information on budget parameters. Budgets are now prepared and executed at the level of individual schools. Information on resources available to individual schools can be obtained on request from municipal administration Department of Education and Health.
7. Information on Municipal Fees and Charges (rates and coverage)	Yes	<p>Information on property tax, and on municipal fees and charges are published on municipality's website: <a href="http://kk.rks-gov.net/Shtërpcë/Projects/Budget.aspx">http://kk.rks-gov.net/Shtërpcë/Projects/Budget.aspx</a></p> <p>In addition, MFE Property Tax Department has developed a separate website on property tax for each municipality, which includes all necessary information: <a href="http://tatimineprone-rks.org/">http://tatimineprone-rks.org/</a>. Property Tax Department in the MFE, for three consecutive years, has sponsored the municipality for the annual tax bill along with an informative leaflet providing general information about the property tax.</p> <p>An additional source for public information are two local media "TV Herz" and "City Radio" that continuously cover the activities of the Municipal Assembly, and discussions on the level of municipal charges, fines, and taxes.</p>

Source: Shtërpcë Municipality

It should be noted that during the time of assessment, the Municipality has made public only a portion of the information contained in the table on its own website which it has been developing.

Score: A

PI-10	Explanation	Score – M1
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	<p><b>Score A</b></p> <p>(i) The Government makes available to the public 6-7 of the 7 listed types of information</p>	<b>A</b>

## 8.3 Policy-Based Budgeting

### 8.3.1 PI-11 Orderliness and Participation in Budget Process

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

Municipality respects the budget calendar issued and provided by the MFE, through two budget circulars issued for the purposes of 2010 and 2011 budget planning. Municipal internal budget development process is conducted according to a clear calendar, not necessarily presented formally, on which all involved parties are well informed, and is implemented based on the agenda presented below. During 2011 budget process, the Municipality has developed two internal budget circulars in line with respective ceilings as provided on the relevant budget circulars issued by the MFE. Both municipal internal circulars are the result of discussions held with each of the municipal departments individually and in joint meetings (with the Mayor and Board of Directors), and with the approval from the Policy and Finance Committee of the Municipal Assembly. Municipal department heads were involved in budget preparation process immediately after first budget circular issued by the Ministry of Finance until the draft was prepared, first week of September. 2011 draft budget proposal was approved by the Municipal Assembly and submitted to MFE within prescribed deadlines. In addition, during this process the Municipality has issued the Medium Term Expenditure Framework 2011-2013, approved by the Policy and Finance Committee, and the Municipal Assembly.

Table 9: Municipal Budget Planning Calendar for 2011-2013 Period

Activity	Deadlines
Initial budget circular 2011/13 issued by the MFE	05.05.2010
Issuance of initial internal budget circular 2011/13	17.06.2010
Approval of the Municipal Medium Term Expenditure Framework	09.07.2010
Public hearings on 2011 budget	25.07.2010
Second budget circular 2011/13 issued by the MFE	03.08.2010
Issuance of second internal budget circular 2011/13	31.08.2010
Preparation of 2011-2013 budget proposal	08.09.2010
Discussion and approval of the 2011-2013 draft budget proposal in the Policy and Finance Committee	15.09.2010
Approval of the 2011/13 budget in the Municipal Assembly	24.09.2010
Submission of the 2011/13 municipal budget to the MFE	30.09.2010

Source: Shtërpçë Municipality

Score: A

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

Municipal Departments receive sufficient information and instructions on the budget process through the initial budget circular and final ceilings which are provided with the second circular budget, according to the timeframe and dates specified in dimension (i). Municipal Departments plan their expenditure in response to parameters received through the initial budget circular (as explained above) whereas the second budget circular provides final ceilings. The Mayor, along with the Chief Financial Officer, has approved the 2011 budget ceilings before circulating the budget circular to municipal departments. Head of Policy and Finance Committee was also involved in the process.

It should recognize the fact that the budget process is informal as indicated in dimension (i) and it works fine with small municipalities like Shtërpçë. However, for the future, as the budget organization (municipality) becomes bigger this issue should be addressed as a concern.

Score: B

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

Approval of the municipal budget for 2009 and 2010 was formalized by the signature of the Mayor since the Municipal Assembly was not functional for a period of almost two years (2008 - 2010). As a result of political problems in the Municipality, the 2011 budget was approved (24/09/2010) in the Municipal Assembly which was consolidated after local elections held at the end of 2009. In the three years (2008, 2009, 2010), however, the municipality has complied with the deadlines for submission of budget proposal to the MFE.

Score: A

PI-11	Explanation	Score – M1
(i) Existence of and adherence to a fixed budget calendar	<b>Score A</b> (i) A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time	<b>B+</b>
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	<b>Score B</b> (ii) A comprehensive and clear budget circular is issued to MDAs which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission	
(iii) Timely budget approval by the legislature	<b>Score A</b> (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year	

### 8.3.2 PI-12 Multi-Year Perspective

#### (i) Preparation of multi -year fiscal forecasts and functional allocations

There have been efforts to institutionalize a multi-year approach in the municipal budget process since the 2007 budget cycle. The Municipal budget instructions through budget circulars issued by MFE envisage a municipal Medium Term Budget Framework (MTBF) and the preparation of multi-year forward estimates for the main budget aggregates as a part of the annual municipal budget process<sup>53</sup>.

The Municipality made attempts to prepare forward estimates of total budget revenues and expenditures, and presented them according to programs or functional categories for three years (budget plan + 2 out years). 2011-2013 Budget includes data on total revenues and expenditures and the data are presented according to functional titles (6 for 2011). Determination of budget ceilings for the 2011 budget is based on actual expenditure and revenues in 2010.

However the information on municipal financing from central government grant transfers contained in MFE budget circular and underpinning municipal budget process provided only grants estimates for 2011 (i.e., no information on grant forward estimates was officially provided by MFE to the Municipality) and this undermined the feasibility of multi-year budget planning as government grants account for about 60-65% of total municipal budget.

In addition the capital investment program included in the budget documentation provides the details of capital project allocations for the current year only; however in principle the PIP system – facilitating the management of capital planning - was set-up to accept multi-year projects and multi-year ceilings.

Score D

<sup>53</sup> Municipal Budget Circular 2011/01, MFE, May 5, 2010

## **(ii) Scope and frequency of debt sustainability analysis**

Not applicable

## **(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure**

At the time of assessment of this dimension, Municipality together with the Regional Development Agency - East (financed by EU funds) was completing the Draft Strategy on Municipal Economic Development 2011-2013, by respective sectors. In addition, the Municipality together with the Swiss Agency for Development is in the process of drafting a Municipal Development Plan (2012-2014) which is expected to be submitted to the Municipal Assembly for approval in late 2011.

Based on the above-mentioned initiatives, Municipality will have all the necessary preconditions in place to prepare the 2012 budget based on sector development strategies as contained in the Economic Development Strategy for the Municipality, which will be ready in March 2011.

The municipality had no sector development strategy in place before, as in light of the political context in recent years this has not been attempted.

Score D

## **(iv) Linkages between investment budgets and forward expenditure estimates.**

Kosovo has a Public Investment Program (PIP) which central and municipal budget organizations must use to assess potential viability and prioritisation of capital projects. In principle, the system is designed to facilitate for each investment priority to be analyzed as to its financial requirements and available funding over the construction phase as well as the recurrent cost. In practice, the recurrent cost implications are rarely factored into subsequent budgets, with some estimates and numerical assumptions entered into the system but without real relation to future budgetary implications and compliance.

It is generally considered that the PIP system and procedures are understood by municipal stakeholders following know-how transfer and training of municipal officers<sup>54</sup>. Despite this claim, the understanding of the PIP, its purpose and utilization to benefit budget planning is not clear and is consequentially deficient in its application. There are deficiencies in the timely and orderly application of the system during the course of budget process, which undermines its usefulness for the investment prioritization and its full integration into budget plan. Currently, the PIP system appears to serve as a recording tool rather than a mechanism for budgetary decision making process.

Score D

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<sup>54</sup> Interview with EU-PIP "EU Support to improving the quality of public investments in Kosovo and preparing the ground for EU funds" project experts on the application of the PIP system by municipal budget organizations during the 2011 budget development process, MFE, January 19, 2011

PI-12	Explanation	Score – M2
(i) Multi-year fiscal forecasts and functional allocations	<b>Score D</b> (i) No forward estimates of fiscal aggregates are undertaken	<b>D</b>
(ii) Scope and frequency of debt sustainability analysis (where applicable)	N/A	
(iii) Existence of costed sector strategies (or development plans)	<b>Score D</b> (iii) Statements of sector strategies exist for several major sectors but none have comprehensive substantial cost attached for investments and recurrent expenditure	
(iv) Linkages between investment budgets and forward expenditure estimates	<b>Score D</b> (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	

## 8.4 Predictability and Control in Budget Execution

### 8.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities

#### (i) Clarity and comprehensiveness of tax liabilities

Property tax is the only local tax administered and collected by the Municipality, and revenues from this tax are spent 100% at the municipal level. Property taxation is regulated by the Law on Property Tax No. 03/L-204 which replaces (and amends) Regulation 2003/29 on property tax. The law establishes standards and procedures to be followed by the municipality for tax administration, supported by secondary legislation, administrative instructions issued by the MEF, as follows:

- Administrative Instruction no. 2004/7 – Registration of property
- Administrative Instruction no. 2003/11 – Procedures on property tax appeals
- Administrative Instruction no. 2003/1- determination of market value and assessment standards
- Administrative Instruction no. 2005/2 – Organization and functioning of the Permanent Property Tax Office
- Administrative Instruction no. 2004/3- On introduction of service conditioning subject to payment of property tax bills

In 2010, property tax revenues amounted to 18.025 Euro (or 34.14% of annual tax assessment as compared with 46.08% in 2009). Of 18.025 Euro, only 3.703 Euro were collected from 2010 tax assessment (or 7% of annual tax assessment) as the rest of collection was from past year debts.

Municipality has designated five tax areas with values per square meter (closer to the center the higher price) for each category of buildings (residential, commercial, industrial, etc.). The value of the object is determined by the square meters, the category of the building and the tax area in which the facility is located. In addition, each year Municipality sets property tax rates based on categories of objects, which can be changed each year by the Municipal Assembly. The latter decides on tax rates for different categories of buildings (residential, commercial, industrial, etc.) within the limits of the Law on Property Tax. Calculation of annual tax for each object is based on the following formula: *assessed tax = tax value \* tax rate*.

Property tax data are administered through a centralized database in the Property Tax Department within the MFE, which is fed by data from all Municipalities in Kosovo.

It may be ascertained that the Municipality has established the legislation and clear procedures on the administration of property tax, with a limited possibility for application of hidden administrative decisions.

Score: A

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

Shtërpçë Municipality established property tax in 2002. At the end of 2007 property tax office was closed due to political developments and work boycott by the administration. After this period, in 2009, municipal property tax office was re-established and consolidated further under the umbrella of Kosovo institutions and started to update tax data and offer taxpayers available information.

Municipality possesses comprehensive, up to date, and easily accessible information by the taxpayers regarding property tax (including the provision of these data in all official languages: Serbian, Albanian and English). Municipality admits that most taxpayers boycotted municipal tax authorities and the outreach that municipality tried was not well received and accepted.

Citizens can find all basic tax information in their tax bills which was delivered to them each year through the Post of Kosovo, with a booklet containing all the necessary information. Municipal internal reports highlighted the fact that many taxpayers did not even open tax bill envelopes leaving most of them all over in front of their entrances, which municipal authorities have witnessed.

Given the centralized nature of some aspects of this tax, a large number of related information can be found on the web site for the property tax maintained by Property Tax Department of Property Tax within the MFE: <http://tatimineprone-rks.org/al/TAX>. Also, in the last two years, the MFE has conducted campaigns through television and billboards, reminding taxpayers of important timelines for payment of property tax bills in two installments, and timeliness for complaints, applicable penalties and interest for possible delays in payment.

This concludes that the information is available made and outreach activities are tried but the level of interest of taxpayers is very low.

Score: A

## **(iii) Existence and functioning of a tax appeals mechanism**

Municipality in 2007 received 37 appeals against property tax invoice, all of them approved in favor of taxpayers. Most of them were mistakes made by municipality in counting square meters. In 2009, 21 appeals were received from which 18 were approved in favour of Municipality and the rest were objected as non valid. Those appeals were mainly made by new property owners/users which for the first time were included in the tax base (and for the first time received a tax bill). These properties are located in skiing area of Shtërpçë, not necessarily newly built, they have been there for some time and generated discussion whether to be included in the tax base as they were not legalized buildings.

Municipality implemented correctly applicable legislation in 2009 which taxes all properties, with or without building permits and without prejudice towards their future legality issue. This caused a reaction of taxpayers who appealed in 2009.

Taxpayer complaints, as provided by legislation, are reviewed once a year by the Independent Board of Appeals within the municipality which is appointed each year until 31 March, and is comprised of officials from other municipal departments (other than the tax office) in order to ensure their independence.. Within 30 days from the date of receiving the tax bill, taxpayers should exercise their right to appeal before the relevant municipality. Independent Board of Appeals, within 30 days should decide on the complaint and reply to the taxpayer in question. The latter could complain about property assessment, calculated square meters, and the area in which their property is located (if municipal authorities have made a mistake, etc.).

Each year, the Board of Appeals is established in the municipality and it has reviewed and resolved each complaint, and has responded to taxpayers claims within legal deadlines. The Board provides information on the number of complaints, their nature, how many of them were approved in favour of taxpayers, how many were rejected etc. The Board reports to the Mayor.

Until 1 January 2011, in cases when taxpayers are not satisfied with the decision of the Independent Board of Appeals within the Municipality, they can address their case to the Constitutional Court, based on Regulation 2003/29.

Having in mind municipal circumstances and non-possibility of extended municipal tax office authority with taxpayers, due to the fact that taxpayers have refused whatever contact with local authorities, the number of appeals is not significant and all of them are solved at municipal level. There are no cases reported to have used higher level institutions to address their appeal.

In early 2011, the Law on Property Tax, adopted recently, envisaged two instances for appealing decisions of the Municipal Board of Appeals: i) competent body for the review of complaints within the MFE, and ii) the Supreme Court.

Score A

PI-13	Explanation	Score – M2
(i) Clarity and comprehensiveness of tax liabilities	<b>Score A</b> (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved	<b>A</b>
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	<b>Score A</b> (i) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns	
(iii) Existence and functioning of a tax appeals mechanism	<b>Score A</b> (iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	



## **8.4.2 PI-14 Effectiveness of Measures for Taxpayer Registration and Tax Assessment**

### **(i) Controls in the taxpayer registration system**

In 2009 property tax office in Shtërpçë was re-established, with new staff hired after a two year absence due to political developments and work boycott by the administration. Tax office was left with an old database (not updated for two years) which was then migrated by the Department of Property Tax at the MEF, in to a new centralized database developed and maintained recently by the MFE, where all municipal databases were migrated.

Taxpayer registration system is now centralized in one property tax database containing information for all Kosovo municipalities and maintained by Property Tax Department in MFE. Municipality constantly feeds the database with new taxpayer data. It is a legal obligation of each municipality to maintain and update data such as property addresses, names of owner / users, tax rates, property values, payments, etc. Also, under the legislation in force, every 3-5 years municipalities should update all data on the value of properties in order to adjust with market value and tax rates approved annually by the Municipal Assembly.

In late 2009 Municipality was focused in hiring and training new staff. Only in 2010 did the resurvey (inspection) of properties start. In 2009 Municipality registered only 1 new property into their database, in 2010 the total number of properties registered into database was 2,675 and the total tax assessed was 52,793€. A resurvey of all properties in Kosovo is being assisted and led by the MEF.

Centralized database for the management of property tax data has a direct connection (interface) with the Treasury KFMIS for the import, to the property tax system, of all payments, and reconciliation of accounts.

All hardcopy files that were in the possession of property tax office before 2008 (e.g. completed property registration application) are kept at the office where municipal parallel structures even today do their work and are holding these offices as branches of Serbia Government.

Municipality applies passive measures to increase the efficiency of revenue collection; among them is the application of Administrative Instruction 2004/3 on conditioning of services subject to payment of property tax bills. Services which are subject to conditioning are mainly those related to geodesy and cadastre, and annual registration of vehicles. However, based on municipal political context and circumstances under which municipal tax office did work, it is clear that citizens would get a number of services from parallel structures (annual car registration was made with Serbia car plates, and the service was provided by the parallel office) and therefore this initiative was selectively applied only for taxpayers that collaborate and accept local authority structures and therefore newly established country institutions.

Score A

### **(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

Property tax legislation has determined penalties as punitive measures for delays in meeting taxpayers obligations. Based on current legislation which is applicable to all municipalities in Kosovo, the penalty for failure to make timely payment is 15% per annum (5% for the initial delay in payment + 10% if payment is not completed even after 60 days from the deadline for payment) and 12% annual interest (1% monthly interest) applicable over total annual debt. All these rates are calculated automatically by the system that manages property tax records.

Applicable penalties and interest though considered to be high (27% annually) are deemed efficient.

Another option provided for in the legislation that municipality may apply against all delinquent taxpayers is through blocking of bank accounts and confiscation of property. So far none of these measures are applied by the municipality.

In practice, there are no punitive measures applied against taxpayers who do not report their property data to the local tax office.

Municipality has collected Euro 265.05 in 2010 (or 7% of total collected amounts) in penalties and interest, and EUR 220 in 2009 in interest or penalties, or 5.3% of total collected amounts.

Score B

### **(iii) Planning and monitoring of tax audit and fraud investigation programs**

Based on current property tax legislation, every 3-5 years municipalities should plan for a resurvey of all properties within their jurisdiction. This means that municipalities should have a plan for inspection of 1/3 of properties within their jurisdiction, each year.

Annual reports on inspections of local tax offices as compiled by the Property Tax Department in MEF, generally underline the fact that municipalities are faced with a lack of capacity for implementation of property audits/inspections (as provided for by law) on an annual basis. MFE believes that at a country level, there is a considerable number of facilities which remain outside tax base in different municipalities, and inspection of properties that are already registered in the tax base is poor. Thus, it is considered that at Kosovo level properties are understated by about 20% of their market value. This was confirmed by municipal officials.

As a result, the Property Tax Department in MFE, given the centralized nature (in some aspects) of this tax, initiated in 2009 a re-survey of all properties in all municipalities of Kosovo which is being conducted (data collection on the ground, door to door) by external contractors in cooperation with the municipalities. Main objective is to update existing data and modify property assessment model which would result in adjustments of actual values of properties with market value. Modified values of properties are scheduled to be implemented in fiscal year 2012. Whereas municipalities are expected in the future to continue updating their databases based on individual audit/inspection plans in each municipality.

Municipal Property Tax Office based on political context has experienced severe problems associated with the consolidation of the office, hiring and training staff and office organization from scratch. Therefore, Municipality did not show much progress in the area of inspection and auditing and other similar programs due to the lack of capacities, human as well as logistics and organizational which will support the process (no cars for field work, no fuel, no measurement equipments etc). Municipality has hired two surveyors in 2009 and their first year of work was basically trainings and education following the efforts to consolidate this office and capacity building.

Municipal Tax Office during 2009 registered one property, in 2010 has registered 87 new properties and re-visited 11 existing properties. This is far behind of the legal requirement of 1/3 of properties resurveyed on annual basis. Municipality admits lack of organization and planning of comprehensive audits.

Score D

PI-14	Explanation	Score – M2
(i) Controls in the taxpayer registration system	<b>Score A</b> (i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations	<b>B</b>
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	<b>Score B</b> (i) Penalties for non compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	
(iii) Planning and monitoring of tax audit programs	<b>Score D</b> (iii) Tax audits and fraud investigations are undertaken on ad hoc basis if at all	

### 8.4.3 PI-15 Effectiveness in Collection of Tax Payments

**(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)**

Actual debt accumulated during 2009 and 2010 represent 197% and 272% respectively of the total amount collected during each year. Municipality has managed to go back in track and reduce the level of debt in 2009 from 16,365 Euro to 14,322.30 Euro in 2010. Last fiscal year shows significant improvements (12.5% decrease of debt from 2009-2010) in collecting municipal debt. However the municipal stock of arrears as % of total collection remains high to 172%. Municipal debt for the previous period 2001-2008 remains significant at 383,527.34 Euro.

Table 10: Property Tax Arrears, 2009-2010

	Euro	2009	2010
Tax assessment	(A)	52,864.00	52,793.00
Total tax collection	(B)	20,498	18,025
Of which:			
Current year collection	(C=D+E+F)	4,133	3,703.05
Tax assessment	(D)	3,913	3,438
Interest	(E)	177	219.8
Penalties	(F)	43	45.25
Past years arrears	(G=B-C)	16,365	14,322.30
Current arrears	(H=B-D)	16,585	14,587.35
Current arrears as a % of total collections	(I=H/B)	80%	81%
Stock of arrears	(J=sumH-G)		31,172.35
Stock of arrears as a % of total collections	(K=J/B)		172%

Source: Data from the Property Tax System Database, MFE

Table 11: Property Tax Debt Collection Ratio, 2009-2010

	2009	2010	Average
Arrears (beginning of year)	384.000	384.221	384.110
Arrears Collected (during year)	16.585	14.585	15.585
<b>Annual Debt Collection Ratio</b>	<b>4.3</b>	<b>3.8</b>	<b>4.05</b>

Total amount of property tax arrears in Shterpce Municipality is significant, while average debt collection ratio for the last two years amounted to 4%.

Score D

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration**

Property Tax bills are issued with a unique code – UniRef Code – which allows the identification of municipality, tax category, and tax payer. Payments by taxpayers are paid into commercial banks and consequently reported to the Central Bank. Based on UniRef, they are later transferred to the municipality's sub-account in the Treasury. Commercial banks are required to transfer tax receipts to the Central Bank within 24 hours. Property Tax Department in MFE receives daily reports from the Treasury revenue module.

Score A

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury**

Reconciliation of revenues from commercial banks is done on a daily basis. A daily revenue report from the KFMIS is provided to the Property Tax Department, which, with the use of specially designed software, selects and identifies payments against property tax obligations. These are then reconciled against property tax database.

Score A

PI-15	Explanation	Score – M1
(i) Collection ratio for gross tax arrears	<b>Score D</b> (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections)	<b>D+</b>
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	<b>Score A</b> (i) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	<b>Score A</b> (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month	

#### **8.4.4 P-16 Predictability in the Availability of Funds for Commitment of Expenditures**

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

Municipality prepares the cash flow plan for governmental grants and own source revenues for each category, including all spending categories (five economic categories and cash flow for each department separately) together with approved municipal budget.

Cash flow for governmental grants is submitted at the beginning of each fiscal year, based on the approved budget, covering the period January-December. This plan specifies when allocations will be made, commitment plan as well as spending plan. This plan is updated primarily through the budget review as well as needed and is monitored on monthly basis.

Monitoring of own source revenue is made on monthly basis, based on actual collections. Municipality submits separate request for allocation of those funds, to the Treasury/MFE, for the implementation of budgeted projects. Funds are made available in a timely manner except when request is made at the end of the year and MOSR is carried forward. In these cases delays are inevitable for procedural reasons: i) Municipality end of year accounts are reported late January ii) in cases when municipality exceeded collection plan, there must be an Assembly Approval for their spending before the allocation is made accordingly, and in practice this procedure takes time.

Updates in to cash flow plan are made in full coordination with municipal Board of Directors and the Mayor. Cash flow plan is made through software which is made available by the Treasury/MFE.

Score A

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

Cash flow plan is prepared with municipal directors who decide on projects to be implemented in the appropriate timeframe. Based on the annual cash flow plan prepared by municipalities, the Treasury/MFE makes allocations for the entire year, followed by adjustments made with the mid- term budget review. Directors are informed about these allocations in those periods or on ad hoc basis. In many cases, they are informed on the availability of funds for implementation of projects upon their request, and this is a normal practice in small municipalities where circulation of information is often informal and meetings between directors are held on daily basis.

Whereas allocations for OSR are made on a monthly basis and based on specific requests that the municipality sends to Treasury/MFE. Directors are immediately informed about this. It often happens that certain directors are awaiting those planned allocations for implementation of projects, especially ongoing projects, and these remain unfunded until new allocations based on monthly collection of revenue are made available as OSR are the source of financing for such projects.

Score: A

**(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs**

Adjustments in budget allocations are primarily done through budget review process, where unspent funds in various programs, following discussions with municipal departments and with the approval of the Mayor, are shifted to and cover the deficit in other programs. Budget adjustments are also a result of government transfers (i.e. transfers for capital projects), for which the municipality has planned a budget, and thus after the government grant, original funds planned by the municipality are transferred to other projects to cover any funding shortfall. Various budget adjustments initiated by the executive, i.e. municipal departments are submitted to the municipal assembly for discussion and approval, prior to their execution in the system. These movements naturally affect the cash flow plan which must be updated correspondingly.

Transfers are presented to Municipal Assembly for approval before changes can take effect. In 2010 municipality had two large transfers in the category of capital projects, transfers from one project to another amounting to 370,000.00 Euro, all approved at the Municipal Assembly.

There was only one transfer made from unspent funds that covered three months meal allowances for civil servants at the end of the year 2010. The total transfer amount was 10,520 Euro, which took effect with the Mayor's approval. This transfer was not sent to Municipal Assembly for approval due to very limited time for this procedure to be applied. The transfer was discussed and made in late December. This was justified with the fact that this was a late notice for the Municipal Government itself, making impossible a proper discussion and decision by the Municipal Assembly. Instead this amendment was signed by the Mayor.

Otherwise based on their practice, Municipality sends Municipal Assembly for approval every amendment/transfer in budget spending.

Score A

PI-16	Explanation	Score – M1
(i) Extent to which cash flows are forecast and monitored	<b>Score A</b> (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows	<b>A</b>
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	<b>Score A</b> (ii) MDAs are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	<b>Score A</b> (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way	

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

##### (i) Quality of debt data recording and reporting

From the legal stand point, at the beginning of 2010, municipalities acquired access to external financing in the form of borrowing – both short and long term -, when the Law on Public Debt entered into force. However, in practice this form of financing has not been utilized by municipalities yet due to access restrictions, namely the requirement of two consecutive unqualified audit reports of municipal financial statements.

However, it is worth stressing that Kosovo authorities has already undertaken the necessary steps to establish an adequate legal framework and system for debt management, including State debt and municipal debt. A Debt Management Unit was established in Treasury with appropriate staff in place. Debt management software (CS-DRMS) was purchased in December 2008. Training for debt management units in the Treasury and the Kosovo Central Bank has taken place.

Score Not Applicable

##### (ii) Extent of consolidation of government cash balances

The Government has created a Single Treasury Account, which is used to manage all transactions of the Government and these are consolidated on a daily basis.

Score A

##### (iii) Systems for contracting loans and issuance of guarantee

In accordance with the Law on Public Debt No. 2009/03-L-175 dated December 2009, a Mayor of a Municipality may incur short-term debt, with notification to the Municipal Assembly and the MFE. A Municipality may also incur long-term debt and issue guarantees to finance capital improvements within the limits established in the law and subject to the authorization by Municipal Assembly. Upon approval by the Municipal Assembly, long-term debt shall be subject to the prior written approval of the Ministry limited to the validation of compliance with the procedural requirements and debt limitations. Shtërpçë Municipality has not contracted any loans yet. As there is, as yet, no debt, the score is rated not applicable.

PI-17	Explanation	Score-M2
(i) Quality of recording and reporting of arrears data	Not Applicable	A
(ii) Extent of consolidation of government cash balances	<b>Score A</b> All cash balances are consolidated on daily basis.	
(iii) Loan contracting and guarantee issuance systems	Not Applicable	

#### **8.4.6 PI-18 Effectiveness of Payroll Controls**

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

Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. In January 2009, new software on Personnel was developed and delivered to the MPS, however the two databases have not as yet been integrated. The link and communication between the two databases have not been established.

Each municipality manages the personnel data separately. As there is no link between human resource information held by individual municipalities and the payroll, the possibility arises of discrepancies between the two. Administrative Instruction, issued by the MPS, regulates update procedures, with the provision and reconciliation of electronic and physical copies of changes into records on monthly basis.

Municipality maintains complete human resource records, as well as individual records for each member of personnel. Register for individual staff members includes a variety of documents ranging from vacancies for respective job positions, job application documentation, and any other additional documents during the time the individual is employed in the municipality.

The personnel registry update is done as needed depending on whether there any changes in personnel, but are also made twice a year for the fact that staff performance evaluation is done at that and these are attached to the records of each individual. Changes in personnel records are reported only.

Any change in personnel records is submitted in a hardcopy to the Finance Office of the Municipality for them to take all reasonable steps to notify the Ministry of Public Administration to enable necessary payroll updates. The latter is managed by the central government. Since there is no direct linkage between personnel data and payroll, possibilities for discrepancies exist, although this may be minor in this small municipalities where changes are rare. The entire staff documentation exists in hard copy, but not in the electronic format.

Score B

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

Payroll is updated as necessary so as to reflect changes in personnel which are minimal. Changes are done within the month, so the level of retroactive payments or other adjustments is minimal and not relevant. All changes that occur in the personnel records may be entered into the system by the 10th of that month otherwise these changes will be reflected in the coming month together with necessary adjustments.

Score A

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

Based on the Law on Civil Servants (LSC) all personnel records are treated as confidential information and therefore access to these data in the Municipality is limited. Changes to personnel records may be made only by the Chief of staff, as determined by LCS. Access to these data is also secured for auditors and the Independent Review Board. Audits of the personnel records and of relevant documentation are conducted almost every year by the auditor, while payroll is the responsibility of central government, namely the Ministry of Public Administration, therefore audits and controls conducted by them are not a municipal competency.



In 2008, the MPS payroll software was upgraded. One of the features of the new software is the ability to record the audit trail of any changes, which ensures that any change to a particular record is recorded and can be traced back to its originator. This is considered to have contributed towards improvements of inadequate controls in the application of salary grades and respective management of payroll system as highlighted by the audit 2008. However as no recent audit of payroll is being conducted lately (since 2008), scoring of this dimension is rather based on the most recent audit performed for the payroll as indicated in Dimension (iv).

Score B

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

Payroll is the responsibility of central government, namely the Ministry of Public Service, therefore audits and controls conducted by them are not a municipal competency.

However the Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively. As compared with 2007, following the Auditor General's recommendations MPS achieved the following improvements:

- Downsized the number of employees who receive more than two salaries;
- Eliminated employees older than 65 years from the pension contribution scheme;
- Improved the quality of database by including all data in payroll system.

The 2008 audit highlighted the existence of the following weaknesses in the administration of payroll system for all budget organizations:

- Inaccurate reconciliation between payroll system and Treasury General Ledger leading to expenditures out of payroll list;
- Inadequate controls in the application of salary grades and respective management of payroll system;
- Lack of written procedures in regard to entering employees within the payroll system;
- Discrepancies in data in payroll system with data in the contracts for Civil Servants;
- Inadequate control of retroactive payments.

The municipality is a small budget organization with very few changes to the personnel records and payroll, which are updated relatively quickly. Only one person in the personnel office has access and is authorized to update these data which are considered as confidential information of the Municipality. Some type of controls to the personnel records and the payroll is done on monthly basis when the Ministry of Public Administration submits payroll for signature by each employee and where possible changes can be observed.

Municipality also conducts internal auditing of the personnel records (through IAU), where aspects of the job vacancies, competitiveness and meeting the criteria for the respective job positions are examined, selection of staff, existence of valid work contracts etc. IAU has audited the personnel records in 2009 and found that payroll procedures and controls are generally adequate. In addition, the audit of payroll system in the MPS conducted by the Auditor General as described above did not identify any irregularities in Shtërpçë Municipality although 2008 audit highlighted general inadequacies in Kosovo's payroll .

Given the size of the municipality, such an audit serves as a proxy for a dedicated payroll audit.

Score B

PI-18	Explanation	Score – M1
(i) Degree of integration and reconciliation between personnel records and payroll data	<b>Score B</b> (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data	<b>B+</b>
(ii) Timeliness of changes to personnel records and the payroll	<b>Score A</b> (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments)	
(iii) Internal controls of changes to personnel records and the payroll	<b>Score B</b> (iii) Authorization and basis for changes to personnel records and the payroll are clear	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	<b>Score B</b> A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)	

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

##### (i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)

Municipality exercises its procurement activities in accordance with the Law on Public Procurement of Kosovo and the requirements of the Public Procurement Agency of Kosovo (PPA). Based on data available at the Municipal procurement office, in 2009 and 2010 the share of contracts awarded based on open competition procedures in both years was above 90%, see table below. Most of these contracts exceed established monetary threshold of 10.000 Euros, and are medium and large value contracts.

Although not required for assessment within this dimension, it is worth mentioning that in 2010 the Municipality has signed 10 contracts-preapproved (Annex-contracts) with a total value exceeding the threshold of 10% as determined by LPP, in addition to the original signed contract (see table). All these annex-contracts are approved by the PPA. Score A

Table 12: Procurement Information

				% by value of contract and type of procedures	
Years		2009	2010	2009	2010
Total procurement contract awards (in Euro)					
Total number of contract awards	A	34	47		
Total value of contract awards	B	1,146,379.77	4,477,816.80		
Procurement contract awards > 10,000.00					
Number of contract awards	C	10	21		
Total value of contract awards	D	1,054,849.29	3,929,919.48		
Number of contracts based on:	C=E+F+G+H	34			
Open competition	E	12	27		
Total value of open competition contracts		1,061,579.71	4,309,667.99	92,60	96,24
Single source	F	0	0		
Total value of single-source contracts		0	0		
Preapproved suppliers (annex contract)	G	0	10		
Total value of preapproved contracts(annex-contract)		0.00	660,695.46	0	14,75
Other <sup>55</sup>	H	22	20		
Total value of other contracts		84,418.52	168,148.81	7,3	3,7

Source: Shtërpçë Municipality

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

The two other procurement procedures that are used most frequently are minimal quotation and the price quotation which although provided for by law, may nevertheless be considered less competitive procurement methods since they are not subject to open competition and are not published for potential operators.

In 2009 and 2010 Municipality has conducted a number of "Other" procurement procedures (see Table 11) which have been approved by the Public Procurement Agency. The value of the contracts awarded using less competitive procurement methods in 2009 was 7.3% of the total value of awarded contracts) and in 2010 (3.7% of the total value of contracts). However, it should be noted that only 2 out of 10 annex contracts mentioned above exceed the amount of 10% of the total value as LPP requires, although they were all approved by Public Procurement Agency.

Less competitive procurement methods are only used in specific cases as defined by LPP, but in the municipality this procedure is not always utilized in such cases. A part of contracts signed through this procedure are not supplies and renovations as LPP requires, but are pure work contracts (e.g. road construction). The justification used in some cases for the award of such contracts, foreseen only for fuel supplies for the municipality, office supplies, is weak (the supply of asphalt / gravel) and sometimes makes little sense, although it has the consent of Public Procurement Agency.

<sup>55</sup> These include contracts signed with the minimal quotation procedures and price quotation. Minimal quotation includes values under 1000 Euros, whereas price quotation procedure is a procedure for contracts up to 10.000 Euros dedicated for supplies and renovations. Under LPP this procedure requires at least three valid bids to be submitted to the procurement manager and publication is not required.

Although the % of less competitive methods used is low as compare to the total value of contracts, it still remains an area where LPP is not properly implemented and to some extent breached, thus a C score is justified.

### **(iii) Existence and operation of procurement complaints mechanism**

The Law on Public Procurement provides for a centralized procurement complaints mechanism using the Procurement Review Body (PRB) (Title IX of the Law: Procurement Review Procedures). The PRB is an independent institution that has the mandate from the Assembly of Republic of Kosovo to address complaints relating to procurement.

The PRB is a public authority and a budget organization, which consists of a Board of Directors and a Secretariat led by Head of the Secretariat. The PRB is comprised of five members appointed for a term of five years, and may be reappointed only once. Each member of the PRB is nominated by the Government and appointed by the Assembly based on a recommendation made by an independent selection body established by the Assembly. The independent selection body shall be comprised of three duly appointed judges designated by the Kosovo Judicial Council.

The PRB organizes its work in a number of review panels. Depending on the value, size, difficulty or importance of the case, the President of PRB shall be responsible for establishing internal rules concerning the appointment of PRB members for such review panels. The review panel may consist of one, three or five members.

A complaint can be filed at any stage of procurement activity and with respect to any act concerning contracting process. If the contract has been awarded, a complaint may be filed only within the ten day period from the publication of municipal contract award.

The municipality applies the procurement complaints procedures based on LPP. In 2009, it received 1 complaint with regard to Municipal procurement, whereas 3 complaints were received in 2010. In 2009, the economic operator has complained about the fact that the Municipality has decided to award the contract to an economically unfavorable operator. After reviewing the case, the PRB ruled in favour of the original decision of the municipality. Three complaints received in 2010 were related to two different procurements, 2 of them made by the same operator and another complaint by another economic operator. For both procurements, for which complaints were filed, the PRB has suggested that they are re-evaluated while the other re-tendered, and these recommendations were implemented by the municipality. Complaints deposited and respective PRB decisions are published on Public Procurement Regulatory Commission's (PPRC) website.

Score A

PI-19	Explanation	Score-M2
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>Score A</b> Accurate data's on the method used to award public contracts exists and shows that over 75% of contracts that exceed the threshold are awarded on the basis of open competition	<b>B+</b>
(ii) Justification for use of less competitive procurement methods	<b>Score C</b> Justification for use of less competitive methods is weak or missing	
(iii) Existence and operation of procurement complaints mechanism	<b>Score A</b> Defined process within the legislation for submission and timely resolution of complaints regarding procurement process, is operational and is subject to the supervision of an external body with data's on resolution of complaints made available to the public	

#### 8.4.8 PI-20 Effectiveness of Internal Controls for Non-salary Expenditure

##### (i) Effectiveness of expenditure commitment controls

Financial rules and consolidated guidance for the expenditure of public money by the Kosovo public sector, including municipalities, are based on the LPFMA and set in the Treasury "Financial Rule 02 – Expenditure of Public Money". Approved budget appropriations are recorded in the KFMIS. Budget appropriations can be spent through the process of allocation as described in Pi-16 (i). The Treasury – based on cash flow forecast prepared by budget organizations – determines all allocations in order to ensure that adequate funds are available for expenditure. The LPFMA requires that all expenditure must be made from allocated appropriations. As a result, expenditure cannot be made where appropriations are not sufficient for such expenditure – commitment control. Any current or future contractual payment obligation must be reflected in a form of commitment registered by a budget organization in the KFMIS. Commitments in the current year can be legally made only against both appropriations and allocations. Funds must be committed prior to the commencement of any procurement process. However, there are reported cases when budget organizations circumvent the above described procedures and enter into obligations without a prior commitment of necessary funds. As Treasury strictly enforces expenditure control, the risk is shifted to contractors and suppliers, while the budget is effectively protected as the resulting invoices cannot be honored without a commitment to spend being in place and funds allocated for that purpose.

Commitment controls for expenditures are in place both procedurally and technically in Shtërpcë Municipality. However as indicated in (PI-4) municipality did miss out some procedural steps required and therefore faces unpaid liabilities at the end of the year. Municipality has opened tender procedures and selected successful operators without prior commitment of funds in the Free Balance system. Auditor General Report (pg.43) mentions some cases when this occurred:

1. For the project "Asphalting of road in Sushicë village" the commitment of funds was done on 9 September 2009 while the contract with the company was signed on 13 July 2009.

2. For the project “Reconstruction of sewerage system in Shtërpçë” the commitment of funds was done in 4 installments, first installment on 16 September 2009, second and third installment on 29 October 2009 and fourth installment on 02 November 2009 while the contract with the company was signed on 24 August 2009.

3. For the project “Asphalting of road in Firajë village” the commitment of funds was done on 8 October 2009 while the contract with the company was signed on 30 July 2009.

4. For the project “Asphalting of the road in Viçë village” the commitment of funds was done on 9 September 2009 while the contract with the company was signed on 4 June 2009.

While the commitment controls are in place in the IFMIS, there is evidence to suggest controls not being applied in the municipality as consistently as they should be particularly for capital projects.

Score C

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

The municipality operates under a set of rules described in the legislation, procedures and manuals regarding the expenditure of public money and internal controls, as defined by KFMIS. The municipality is certified (its staff) for demonstration of internal controls and implementation of standards for delegation of expenditure management authority as defined by the MFE for all budget organizations.

Score A

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

All issues in registering of financial transactions are addressed in Treasury Financial Rule Number 02 - Spending of Public Finances.

Although compliance with financial regulations is generally satisfactory among municipal budget organizations, internal audits indicate that, municipal internal control is not properly projected and implemented, the rules have not been properly applied, for example in the area of funds commitment or recording of invoices in the KFMIS (PI-4).

The audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls which call for further efforts in improving financial management and control in Municipality. The Auditor concluded that the level of financial control needs improving (Audit Report 2009, p. 4). The following areas lacked adequate management

- Internal control: public procurement law and regulations were avoided in some case of the selection and signing of contracts; recording and management of fixed assets were inadequate; data protection, appropriate backup and security measures in IT access are not properly established
- Follow on commitment control in order to avoid unpaid liabilities from past years
- Establish Audit Committee in order for internal audit and financial reporting process to be functional

Score C

PI-20	Explanation	Score – M1
(i) Effectiveness of expenditure commitment controls	<b>Score C</b> (i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated	<b>C+</b>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	<b>Score A</b> (ii) Other internal control rules and procedures are relevant, incorporate a comprehensive and generally cost effective set of controls, which are widely understood	
(iii) Degree of compliance with rules for processing and recording transactions	<b>Score C</b> (iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern	

#### 8.4.9 PI-21 Effectiveness of Internal Audit

##### (i) Coverage and quality of the internal audit function

Municipality has established the Internal Audit Unit (IAU) on 1 April 2009 and since then this unit has been operational with a head of unit who also has performed the internal auditor function as a certified auditor according to international standards<sup>56</sup>. The Municipality has a strategic audit plan (2010-2013), which is updated every year, and on which annual audit work plans are based. The municipality has prepared the audit report for 2009 and 2010. Audits conducted in the municipality are based on international auditing standards.

In 2009 and 2010, 7 local units were audited based on the annual work plan and strategic plan, among them: the Property Tax Unit, Procurement Office, Department of Cadastre and Geodesy, Department for Urbanism, Local Community Office, Education and Health, which constitute approximately 60% of the total budget of the municipality. The audit was done with respect to practices, procedures and processes conducted in each of these units. Reports are delivered to all audited entities according to annual audit plan and schedule.

Municipality did not establish yet Audit Committee, which is a legal requirement, to ensure the functioning of internal audit and appropriate financial reporting.

Score A

##### (ii) Frequency and distribution of reports

Internal audit in municipal units is based on the strategic plan and annual audit plan as drafted by the Head of IAU. All finalized reports with recommendations, in addition to the Mayor are also distributed to the audited entities and the management of the municipality, according to the time limits determined by annual work plan, except in certain circumstances.

Score A

<sup>56</sup> Pursuant to the Law on Internal Audit, in all budget organizations with a budget up to 3 million euro, one auditor is sufficient to cover that organization.

### (iii) Extent of management response to internal audit findings

In 2010 and 2009 IAU has made 36 recommendations for all units, of which 32 have been implemented, while 4 of them are pending. Work is in progress for the latter and efforts are made for all 4 to be implemented in 2011. In general, there is a high degree of willingness to implement the recommendations.

Score B

PI-21	Explanation	Score – M1
(i) Coverage and quality of internal audit function	<b>Score A</b> (i) Internal audit is operational in all SN government entities, and generally meets the professional standards. It is focused on systemic issues (in at least 50% of staff time)	<b>B+</b>
(ii) Frequency and distribution of reports	<b>Score A</b> (ii) Reports follow a fix timeline and are distributed to the audited entity, Ministry of Finance, and IA	
(iii) Extent of management response to internal audit findings	<b>Score B</b> (iii) Immediate and comprehensive follow up is done by majority (not all) of management members	

## 8.5 Accounting, Recording and Reporting

### 8.5.1 PI-22 Timelines s and Regularity of Accounts Reconciliation

#### (i) Regularity of bank reconciliation

Collection, saving and spending of public money are implemented through a Single Treasury Account (STA) – including sub-accounts for each budget organization - which are reconciled on a monthly basis. Municipal revenues are identified by an individual UniRef code for each category of revenue. Payments from taxpayers are made in all licensed commercial banks in Kosovo with CBK sub-account as the destination account. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting municipalities, which enables them to enter revenue collected into the KFMIS classified by revenue type, economic code, and relevant collecting department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation.

All public expenditure is made through the “main account” in the STA and this account is reconciled daily.

In addition to the daily and monthly reconciliation of bank accounts, all budget organizations are required to perform a quarterly revenue and expenditure reconciliation with Treasury in order to confirm matching between the KFMIS and CBK account.

Shtërpçë Municipality operates within the STA arrangements and complies with the above described reconciliation procedures. All revenue collection is performed with UniRef Code which makes reconciliation easy. There are some cases where reconciliation was difficult since UniRef code was not used, however this is considered minor. Municipality makes daily reports (a template is developed by revenue officer) on all types of revenues which is aggregated in monthly basis based on the template. The daily report (same with monthly) covers the date of payment, purpose, name and last name, the department where the money will be transferred and the amount.



Score A

**(ii) Reconciliation regularity, clearance of suspense accounts and of advance payments**

Advances, including for petty cash and official travel purposes, are managed from the budget category Goods and Services. The opening of the advance for petty cash is based on the request for petty cash expenditure needs. The advances for travel are based on official and approved travel agendas and are reconciled upon the presentation of documents from the completed travel.

At the end of each month, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier and the breakdown of expenditure by economic classification is performed and recorded. In a case that the allocated advance is not fully spent the funds are returned to the consolidated fund, with supporting evidence. Municipality has had no case of advance payment during the year of 2010.

Score A

PI-22	Explanation	Score – M2
(i) Regularity of bank reconciliation	<b>Score A</b> (i) Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period	<b>A</b>
(ii) Regularity of reconciliation and clearance of suspense accounts and of advance payments	<b>Score A</b> (ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly within one month of end of period and with only some balances brought forward	

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

Primary and secondary education is a municipal competency assigned by the LLSG; however the Ministry of Education still retains some part of investment and capital formation program in this sector with a part of school construction managed centrally.

Recent budget decentralization to the level of individual schools – supported by World Bank in 10 Kosovo Municipalities<sup>57</sup> – has contributed to the availability and scope of information on resources received by the service delivery units. Shtërpcë Municipality is not yet part of this project.

These contributions associated with capital expenditure can be derived from the Budget documentation and the KFMIS at the central level. Also Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units.

<sup>57</sup> The program was initiated in 2009 with three pilot municipalities, including Istog, Gjilane, and Kacanik, In 2010 it was extended to ten municipalities, including Shtime, Podujeve, Prishtine, Gjakovë, Peje, Klinë, Prizren, Suhareke, Mitrovicë, and Ferizaj.

Municipal Director for Education and Health receive monthly reports from all schools in their jurisdiction and health centers respectively. This way they get information on all resources, although Municipality makes no effort in producing more comprehensive reports on contributions received. Even if it was made, concerns remains to what extent this data is consolidated.

Score B

PI-23	Explanation	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and functioning of those units	<b>Score B</b> (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the SN's governance jurisdiction with information compiled into reports at least annually; OR special surveys undertaken within the last three years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling)	<b>B</b>

### 8.5.3 PI-24 Quality and Timeliness of in- year Budget Reports

#### (i) Quality and timeliness of in-year budget reports

The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time. Municipalities are connected to the KFMIS, which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly. The system allows for the comparison of original budget estimates with year-to-date information on allocations, commitments, actual expenditure, budget balance, and employment in accordance with three main budget classifications, including administrative, economic, and functional.

Score A

#### (ii) Timeliness of the issue of reports

The LPFMA requires the mayor of a municipality to prepare and submit to the municipal assembly quarterly budget execution reports, including the status of all capital expenditure projects, covering the fiscal year through the end of the quarter just concluded. Such reports shall be submitted by the mayor to the municipal assembly, with a copy to the Minister of Finance, within thirty days from the end of each quarter and then published by the mayor on the municipality's website.

In 2010, Shtërpçë Municipality produced regular periodic Budget Execution Reports as required by the LPFMA and the same were submitted to the Municipal Assembly. The municipal administration prepared and provided also weekly Budget Execution Reports for the purpose of weekly meetings of Board of Directors presenting the current status of budget performance.

Independently from the Municipality, Treasury Department in MFE produces regular Quarterly Budget Reports on the execution of Consolidated Kosovo Budget. These reports are issued within 30 days from the end of each quarter and submitted to the Government and the Kosovo Assembly (also available from the MFE website). The reports provide full coverage of the status of municipal budget execution.

Score A

### (iii) Quality of Information

In-year budget execution information can be derived from the KFMIS and is considered to be accurate and up-to date. Budget reports include all relevant information as required by this indicator and they are produced and distributed regularly.

Score A

PI-24	Explanation	Score-M1
(i) Scope of reports in terms of coverage and compatibility with budget estimates	<b>Score A</b> (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	<b>A</b>
(ii) Timeliness of the issue of reports	<b>Score A</b> (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period	
(iii) Information's quality	<b>Score A</b> (iii) There are no material concerns regarding data accuracy.	

## 8.5.4 PI-25 Quality and Timeliness of Annual Financial Statements

### (i) Completeness of the financial statements

The LPFMA requires each budget organization to produce financial statements by January 31 for the past fiscal year. Treasury at MEF provides a generic template for annual financial statement reporting as well as the system from where data is generated by all Municipalities. Municipalities have no impact on the format of financial statements as it is determined at the central government- Treasury/MFE- however what makes a difference is the level of completeness of this template by each Municipality and how good available data is presented.

A step forward with financial statements was made in 2010 when the template given by the Treasury/MEF to all Municipalities for reporting has required additional information from them to include- a table to reflect the progress in the implementation for external audit recommendations from the previous year. This is yet to be seen how well is being filled with information by all municipalities.

Municipality of Shtërpçë did submit Financial Statements on the required date by law. Municipality's Financial Statement as of 31 of December 2009 according to the report of Auditor General complied partially with Administrative Instruction No. 20/2009 issued by the Ministry of Economy and Finance on Annual Reporting of

Budget Organizations (p.43). The report, among others, indicates that there was no disclosure of budget to actual analysis and no disclosure regarding all fixed assets owned by the municipality. Thus OAG disclaimed giving an opinion for Municipality's financial statements 2009.

Score D

**(ii) Timeliness of submission of the financial statements**

Shtërpcë Municipality in compliance with the requirements of Administrative Instruction 20/2009 has been preparing and submitting to the MFE financial statements annually. The last financial statement is dated January 31, 2011 for the 2010 fiscal year.

Shtërpcë Municipality complies with the requirement of timely preparation and submission of its financial statements. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year.

Score A

**(iii) Accounting standards used**

In accordance with Administrative Instructions in place, and Treasury/MEF requirements (template provided) Shtërpcë Municipality is responsible for the preparation of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

As the financial statements were not completed fully as indicated above in Dimension (i), therefore the use of applicable accounting standards (IPSAS) in financial statement reporting, as highlighted by OAG was incomplete as well. In other words there was some disclosure of accounting standards.

Score C

PI-25	Explanation	Score – M1
(i) Completeness of the financial statements	<b>Score D</b> (i) A consolidated government statement is not prepared annually, or essential information is missing from the financial statements or financial records are too poor to enable audit	<b>D+</b>
(ii) Timeliness of submission of the financial statements	<b>Score A</b> (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year	
(iii) Accounting standards used	<b>Score C</b> (iii) Statements are presented in consistent format overtime with some disclosure of accounting standards	

## 8.6 External Scrutiny and Audit

### 8.6.1 PI-26 Scope and Nature of Follow-up of External Audit

#### (i) Scope/nature of audit performed (incl. adherence to auditing standards)

Municipality's financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with respect to the financial statements for the year ended 31 December 2009. The audit was carried out in accordance with international auditing standards issued by INTOSAI (Audit Report 2009, p.4) and represented a regularity audit defined as an attestation of financial accounting involving the examination and evaluation of financial statements, regularity of underlying financial transactions, and financial management including the appropriateness of internal controls and internal audit functions (Audit Report 2009, p.5). However this audit did not include performance audit of management and operational efficiency and effectiveness which would score this dimension a highest grade. Instead the score is downgraded to B.

Score B

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

Financial statements are submitted to the Office of Auditor General by March 31. The latest external audit report received by the Municipal Assembly was the one for the fiscal year 2009, received in September 17, 2010. Due to the fact that Municipal Assembly was not functional during the year of 2008 and 2009, they never received and discussed audit reports for financial statements of 2007 and 2008, although audit was performed.

Score B

#### (iii) Evidence of follow up on audit recommendations

Municipality does not have an action plan for the implementation of recommendations provided by the auditor general. Neither does have an assigned person or group to monitor the all process. This is basically left under the discretion of each Department Head (for those that were provided with recommendations) to address and implement. The fact that majority of recommendations were repeated in years shows a non systematic and serious delays in addressing and implementing of those recommendations.

Score D

PI-26	Explanation	Score – M1
(i) Scope/nature of audit performed (incl. Adherence to auditing standards)	<b>Score B</b> (i)SN government entities representing at least 75% of total expenditures are audited annually at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systematic issues. There is a clear delegation of responsibilities between audit entities.	<b>D+</b>
(ii) Timeliness of submission of audit reports to legislature	<b>Score B</b> (ii) Audit Reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office	
(iii) Evidence of follow up on audit recommendations	<b>Score D</b> (iii) There is little evidence of response or follow up	

## **8.6.2 PI-27 Legislative Scrutiny of the Annual Budget Law**

### **(i) Scope of Assembly's Scrutiny**

Although Shtërpçë Municipal Assembly was newly established only in late 2009, after almost two years of boycott due to political situation, it has actively engaged in the municipal budget process, including key stages of budget proposal development and approval. During the 2011 Budget process the Assembly was involved in the following:

- The review and approval of municipal medium term budget framework, including projection of the key municipal budget parameters;
- The conduct of two budget hearings with citizens regarding budget priorities and capital program2;
- The review, debate, and approval of municipal budget proposal.

According to the Chairman of Municipal Assembly, the Assembly is sufficiently informed and involved in the budget process, with the possibility to influence key decisions. The process is open and transparent, with Assembly's debates recorded and documented in publicly available minutes from meetings.

Score A

### **(ii) Extent to which the Assembly's procedures are well-established and respected**

The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The primary responsibility for budget review rests with the Policy and Finance Committee (comprised of seven members out of 19) before the budget proposal goes for the general Assembly debate. Professional input and consultations are sought from other four specialized committees, which analyze specific budget aspects in accordance with their respective expertise area.

Score A

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

The Municipal Assembly is allowed one month – since September 1<sup>st</sup> to September 30<sup>th</sup> – to conduct the review and approval of municipal budget proposal. These deadlines are provided in the legislative framework and embodied in the LPFMA.

The 2011 Budget calendar assessed in PI-11 suggests that the Municipal Assembly received budget proposal from the executive branch in September 15, 2010, which provided less than two weeks for the Assembly review and approval. Subsequently, criteria for score D would be met. However, in light of an extensive Assembly's involvement during the budget process as described above in PI-27(i) a score B can be justified.

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

The LPFMA provides for rules governing in-year amendments to the municipal budget. In accordance with Article 31 up to 5% can be transferred except in the case of wages and salaries between categories. However, even though the legislation allows virement without reference to the Assembly, the Municipality requires that all amendments and adjustments to the budget require prior review and approval of the Municipal Assembly. Municipality adhered to these rules.

Score A

PI-27	Explanation	Score-M1
(i) Scope of Assembly's scrutiny	<b>Score A</b> (i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue	<b>B+</b>
(ii) Extent to which the Assembly's procedures are well-established and respected	<b>Score A</b> (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committee, and negotiation procedures	
(iii) Adequacy of time for the Assembly to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	<b>Score B</b> (iii) The legislature has at least one month to review the budget proposals	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Assembly	<b>Score A</b> (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected	

### 8.6.3 PI-28 Legislative Scrutiny of External Audit Reports

#### (i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)

In the last three years Municipal assembly received and discussed only once External Audit Report, as the assembly was not functional for almost two years. Municipal Assembly received Audit Report on September 17, 2010 (for 2009 financial statements) and discussed on September 24, 2010.

Score A

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

Shtërpcë Municipal Assembly in 2010 conducted dedicated hearing on audit report for financial statement of 2009. The audit report was given in advance to all assembly members; on the day when report is reviewed and debated at the Assembly, the budget/finance director is present for further explanations to cover basic questions from the assembly members. The chairman of the assembly recalls that the debate in 2010 lasted in three sessions due to major findings reported by the Auditor General, especially budget deficit.

The Assembly lacks specialized professional capacity to review, analyze, and assess audit reports, thus such hearings are usually limited on major findings. The Assembly generally relies on independent auditor's findings and opinion. Municipal Assembly of Shtërpcë has 19 members, 9 of them representing Serbian community and the rest Albanian. Fifteen of them have entered politics for the first time, and for most of them this is their first such experience. Nevertheless the Assembly has taken the Audit Report seriously and debated it to the best of its ability with the budget/finance director in attendance

Score A

### **(iii) Issuance of recommendations by the Assembly and implementation by the Government**

Given the fact that Municipal Assembly members generally lack expertise and professional capacity Municipal Assembly did not issue own recommendations following the review of audit reports. It reinforced and concurred with the recommendations issued by the Auditor General. No action plan to follow up on auditor's recommendations was presented by the Mayor. The Assembly does not require Municipality to present an action plan and also does not monitor the implementation of recommendations.

Evidence from audit reports for the last three years (see PI-26) suggests that there are serious delays in addressing and implementing auditor recommendations. In addition, Municipality did not issue recommendation itself.

Score D

<b>PI-28</b>	<b>Explanation</b>	<b>Score-M1</b>
(i) Timeliness of examination of audit reports by the Assembly (for reports received within the last 3 years)	<b>Score A</b> (i)Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports	<b>D+</b>
(ii) Extent of hearings on key findings undertaken by the Assembly	<b>Score A</b> (ii)In-depth hearings on key finding take place consistently with responsible officers from all or most audited entities which receive a qualified or adverse audit opinion.	
(iii) Issuance of recommendations by the Assembly and implementation by the Government	<b>Score D</b> (iii) No recommendations are being issued by the legislature	

## **8.7 Donor practices**

### **8.7.1 D-1 Predictability of Direct Budget Support**

**(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)**

Score Not Applicable

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

Score Not Applicable



D – 1	Explanation	Score- M1
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	Not Applicable	Not Applicable
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Not Applicable	

## 8.7.2 D-2 Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme Aid

### (i) Completeness and timeliness of budget estimates by donors for project support

During 2010 Shtërpçë Municipality signed several MOU-s with three different donors, United States of Agency for International Development, European Commission and Swiss Caritas from which the municipality benefited a number of capital projects. Most of the projects, shown below, are improvements to municipality infrastructure with the total cost 781,109.03 Euro.

The project IT equipments for Municipality Administration, is an award for the municipality given from USAID from their municipal incentive program for good performance in property tax collection.

Municipality participated with 13,000 Euro in only one project, Building Sewage System in Gotovushë village. Municipality's contribution was made as a result of shortage in funds (not properly budgeted) committed by the donor organization Swiss-Caritas, as the cost of the project was higher than planned. Municipality closed this funds gap during the year from own source revenues. This case shows that Municipality did not have the information in place for the budget year, (as otherwise it would have planned co-funding), although it had to complete the project from their own funds although not planned in the budget.

The rest of the projects were completely funded by donor organizations, none of them incorporated into, and approved in the 2010 Budget as Municipality was not given the information appropriately about the timing of the flow of funds. Municipality admits that most of the donor projects come in ad hoc basis, not following the budget calendar as they prepare. Municipality includes the list of municipal recipient funds in their financial statements. Score D

Table 13: Donor Funded Capital Projects During 2010

Nr	Project Description	Donor organization	Amount
1	IT Equipments for Municipal Administration	USAID	24,956.38 €
2	Garbage Collectors 96	USAID	23,904.00 €
3	Garbage Collector Trucks 2	USAID	77,920.00 €
4	Software for Billing for Municipal Enterprise	USAID	3,390.00 €
5	Improving green market	USAID	81,636.00 €
6	Building Road Sevce village	USAID-AED	30,072.65 €
7	Sewage System in Gotovushe village	Swiss-Caritas	24,000.00 €
8	Building school in Brod village	European Commission	171,170.00 €
9	Building school in Sevce village	European Commission	336,930.00 €
<b>Total:</b>			<b>773,979.03 €</b>

Source: Shtërpçë Financial Statements 2010

**(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.**

Donor projects do not provide reports to the Municipality to inform them on the progress of project implementation. The only case when donors would provide periodically reports is when other than donor funds, Municipal funds are included or the project is co-funded such as the one mentioned above (Building sewage System in Gotovushë village). Otherwise, if projects are completely implemented by donor funds most of the reporting from their side to Municipality, even if it happens, is done out of courtesy.

Score D

D-2	Explanation	Score-M1
(i) Completeness and timeliness of budget estimates by donors for project support	<b>Score D</b> (i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start	<b>D</b>
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	<b>Score D</b> (ii) Donors do not provide quarterly reports within one two month of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget	

### 8.7.3 D-3 Proportion of Aid that is Managed by Use of National Procedures

**(i) Overall proportion of aid funds to central government that are managed through national procedures**

All donor projects are implemented by different donor contractors mention above in D-2 and therefore not managed by national procedures. The only exception would be when Municipal funds are used to co-fund donor projects. In most of these cases national procedures are applicable.

Score D

D-3	Explanation	Score-M1
(i) Overall proportion of aid funds to SN government that are managed through national procedures.	<b>Score D</b> (i) Less than 50% of aid funds to SN are managed through national procedures	<b>D</b>

## 8.8. HLG-1 Predictability of Transfers from Higher Level of Government

### (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

There are three main categories of transfers from the Kosovo Central Government to Municipalities:

- Unconditional general grant that municipalities may use in the discharge of any of their municipal competencies;
- Specific (earmarked) education grant to finance the cost of providing a minimum standard services in pre-primary, primary and secondary education;
- Specific (earmarked) health grant to finance the cost of providing a minimum standard services in public primary healthcare.

The LLGF foresees specific additional transfers for the implementation of enhanced and delegated competencies by the selected municipalities. The intergovernmental body – Grants Commission – is responsible for the determination of aggregate amounts of government transfers and allocation criteria to individual municipalities. The allocation is determined annually and based on objective and transparent formulae, which take into account such factors as municipal population, size, ethnicity, school enrollment. Transfer estimates are then communicated to municipalities at the beginning of budget process through Budget Circular issued by MFE. Unspent appropriation of grants' amounts lapses on December 31.

During the analyzed period of 2008-2010 Shtërpçë Municipality was a recipient of general grant, education grant, and health grant, which in total amounted to approximately 97% of municipal financing (i.e., residual funded by MOSR). In 2008, and especially in 2010 the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Shtërpçë Municipality original budget. Additional allocation of grants determined during the mid-year review processes contributed to such developments.

Table 14: Annual deviation in the allocation of total HLG transfers, 2008-2010, euro

	Original Grants Allocation	Actual Grants Used	Difference	Variance
<b>2008</b>	923,192	954,695	-31,503	<b>3%</b>
<b>2009</b>	1,597,633	1,593,905	3,728	<b>0%</b>
<b>2010</b>	1,654,051	3,645,103	-1,991,052	<b>120%</b>

Source: KFMIS

Score A

### (ii) Annual variance between actual and estimated transfers of earmarked grants

Deviations in earmarked grants as recorded for the last three years in Shtërpçë Municipality are as shown below.

Score C

Table 15: Variance in actual and estimated earmarked grants, 2008-2010

	Total Grants Deviation	Earmarked Grants Variance	Variance beyond total deviation
<b>2008</b>	3%	15%	<b>12%</b>
<b>2009</b>	0%	8%	<b>8%</b>
<b>2010</b>	120%	120%	<b>0%</b>

Source: KFMIS

Table 16: Total grants deviation and grants variance for the main categories of HLG transfers, 2008-2010

General Administration (Unconditional Grant)	316,256	283,465	-32,791	32,791	10%
Education (Earmarked Education Grant)	518,385	601,591	83,206	83,206	16%
Health (Earmarked Health Grant)	88,551	69,639	-18,912	18,912	21%
<b>Total Deviation</b>	923,192	954,695	31,503	31,503	<b>3%</b>
<b>Composition Variance</b>	923,192	954,695		134,909	<b>15%</b>
<b>2009</b>					
General Administration (Unconditional Grant)	811,814	748,618	-63,196	63,196	8%
Education (Earmarked Education Grant)	672,719	713,303	40,584	40,584	6%
Health (Earmarked Health Grant)	113,100	131,984	18,884	18,884	17%
<b>Total Deviation</b>	1,597,633	1,593,905	-3,728	3,728	<b>0%</b>
<b>Composition Variance</b>	1,597,633	1,593,905		122,664	<b>8%</b>
<b>2010</b>					
General Administration (Unconditional Grant)	884,507	2,839,097	1,954,590	1,954,590	221%
Education (Earmarked Education Grant)	639,450	657,597	18,147	18,147	3%
Health (Earmarked Health Grant)	130,094	148,410	18,316	18,316	14%
<b>Total Deviation</b>	1,654,051	3,645,103	1,991,052	1,991,052	<b>120%</b>
<b>Composition Variance</b>	1,654,051	3,645,103		1,991,053	<b>120%</b>

Source: KFMIS

**(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)**

There is no specific timetable agreed between levels of government for the in-year distribution of grants' disbursements. Cash liquidity has not been a problem in Kosovo, and as a rule the allocation of funds for expenditure financed from grants is done in accordance with monthly and quarterly allocation schedule requested by a municipal budget organization in its cash flow plan submitted to the Treasury (see PI-16). Treasury in managing allocations adheres to this schedule agreed with a municipality. Given that legislative framework foresees provides for appropriations from grants to laps at the end of fiscal year (i.e., only unspent MOSR are automatically carried forward), there is a strong incentive for municipalities to spend all grants' funds in order not to lose financing allocated from the central government.

Score A

HLG-1	Explanation	Score-M1
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	<b>Score A</b> (i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%	<b>C+</b>
(ii) Annual variance between actual and estimated transfers of earmarked grants	<b>Score C</b> (ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in no more than one of the last three years	
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	<b>Score A</b> (iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years	

## Annex 1: Summary and Explanation of Indicator Scores

	Pristina		Mamusha		Shtërpçë		Podujevo		Vushtri	
	Score & Explanation		Score & Explanation		Score & Explanation		Score & Explanation		Score & Explanation	
PI-1 Aggregate expenditure out-turn compared to original approved budget	B i)B	The actual out-turn deviated from the original plan by 1.0% in 2008, 11.8% in 2009, and 6.7% in 2010 with an under-spend in each of the three years.	B i)B	The actual out-turn deviated from the original plan by 6.0% in 2008, 0.3% in 2009, and 9.6% in 2010 with an under-spend in each of the three years.	C i)C	Total expenditures showed an increase in each year from that budgeted. In 2008 this was 4.1 percent and in 2009 this was just 0.4 per cent. However in 2010 the deviation was 121.5 per cent which was due to increased central government transfers during the fiscal year.	A i)A	The actual out-turn deviated from the original plan by 2.4% in 2008, 3.8% in 2009, and 4.9% in 2010 with an under-spend in each of the three years.	C i)C	Total Expenditure deviate in the three years analyzed with a maximum expenditure deviation of 12.0% in 2008 and a minimum of 2.7% in 2009 and 11.6% in 2010.
PI-2. Composition of expenditure out-turn compared to original approved budget	D i)D	Relatively high level of variance in expenditure composition was recorded for each of the last three years and is primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations	D i)D	Relatively high level of variance in expenditure composition was recorded for each of the last three years and is primarily attributed to the method of budget formulation, presentation, and execution rather than the existence of actual in-year budget reallocations.	C i)C	For 2008-2010, the deviation is mixed and due to two factors - re-allocations between programs during the year and carry forward of OSR from previous year not included in the initial budget.	A i)A	Relatively low levels of variance in expenditure composition relating to administrative categories were recorded for each of the last three years.	A i)A	Variance in primary expenditure composition is not high, for the each of three year of analysis 2008-2010, variance is under 5%
PI-3. Aggregate revenue out-turn compared to original approved	A i)A	Actual revenue performance was better than forecast for two years and amounted to 94% of the plan in the third year.	D i)D	Actual revenue collection was lower than budget forecast for 2008, 2009 and 2010.	A i)A	With the exception of fiscal year 2008 when the collection of OSR was lower against the budget revenue plan, the OSR collection trends have been positive and above plan.	A i)A	Actual revenue collection was lower than budget forecast for 2008 and 2010, however did not fall below 97% of budgeted revenue. In 2009 actual revenue collection was higher than budget forecast.	A i)A	Collection of Municipal own source revenues for the each of last three years was much greater than original budget by 70%, 88% and 36% in 2008, 2009 and 2010

budget.										respectively.
PI-4. Stock and monitoring of expenditure payment arrears.	B+ i)A ii)B	The percentage of arrears in relation to expenditure is less than 2%. Data on the stock of arrears is generated through routine procedures at the end of each fiscal year.	B+ i)A ii)B	The percentage of arrears in relation to expenditure is less than 2%. Data on the stock of arrears is generated through routine procedures at the end of each fiscal year	C+ i)C ii)B	The stock of arrears against total expenditures of the municipality is relatively high especially in 2009 and is related to capital projects undertaken without necessary funding. Data is generated through routine procedures at the end of each fiscal year.	C+ i)C ii)B	The percentage of arrears in relation to expenditure more than 2%. Data on the stock of arrears is generated through routine procedures at the end of each fiscal year.	B+ i)A ii)B	The percentage of arrears in relation to expenditure is less than 2%. Data on the stock of arrears is generated through routine procedures at the end of each fiscal year.
PI-5. Classification of the budget	A i)A	The Budget Classification/Chart of Account is based upon GFS 2001 and is COFOG compliant and reporting is by functional, economic and administrative classifications.	A i)A	The Budget Classification/Chart of Account is based upon GFS 2001 and is COFOG compliant and reporting is by functional, economic and administrative classifications.	A i)A	The Budget Classification/Chart of Account is based upon GFS 2001 and is COFOG compliant and reporting is by functional, economic and administrative classifications.	A i)A	The Budget Classification/Chart of Account is based upon GFS 2001 and is COFOG compliant and reporting is by functional, economic and administrative classifications.	A i)A	The Budget Classification/Chart of Account is based upon GFS 2001 and is COFOG compliant and reporting is by functional, economic and administrative classifications.
PI-6. Comprehensiveness of information included in budget documentation.	B i)B	Recent budget documentation fulfils 5 of the 9 information benchmarks	B i)B	Recent budget documentation fulfils 5 of the 9 information benchmarks	B i)B	Recent budget documentation fulfils 5 of the 9 information benchmarks	B i)B	Recent budget documentation fulfils 5 of the 9 information benchmarks	B i)B	Recent budget documentation fulfils 6 of the 9 information benchmarks
PI-7. Extent of unreported government operations	A i)A ii)A	The Government has a Single Treasury Account and has no extra-budgetary activities and all	A i)A ii)A	The Government has a Single Treasury Account and has no extra-budgetary activities and all donor funds in cash	A i)A ii)A	The Government has a Single Treasury Account and has no extra-budgetary activities and all donor funds in cash is channelled through	A i)A ii)A	The Government has a Single Treasury Account and has no extra-budgetary activities and all donor funds in cash is channelled	A i)A ii)A	The Government has a Single Treasury Account and has no extra-budgetary activities and all donor funds in cash is

		donor funds in cash is channelled through STA.		is channelled through STA.		STA.		through STA.		channelled through STA.
PI-8. Transparency of Inter-Governmental Fiscal Relations	N/A	Not relevant to Kosovo Municipality PEFA	N/A	Not relevant to Kosovo Municipality PEFA	N/A	Not relevant to Kosovo Municipality PEFA	N/A	Not relevant to Kosovo Municipality PEFA	N/A	Not relevant to Kosovo Municipality PEFA
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C i)C ii)N/A	While Pristina Municipality is in a possession of annual financial information from its individual POEs, the consolidation into a dedicated report has not yet been produced.	N/A	Not relevant to the Municipality.	N/A	Not relevant to the Municipality.	N/A	Not relevant to the Municipality.	N/A	Not relevant to the Municipality.
PI-10. Public Access to key fiscal information	A i)A	The municipality makes available to the public 6 of the 7 listed types of information. The seventh is published on the OAG site.	A i)A	The municipality makes available to the public 6 of the 7 listed types of information. The seventh is published on the OAG site.	A i)A	The municipality makes available to the public 6 of the 7 listed types of information. The seventh is published on the OAG site.	A i)A	The municipality makes available to the public 6 of the 7 listed types of information. The seventh is published on the OAG site	A i)A	The municipality makes available to the public 5 of the 7 listed types of information. The remaining two are published on the MFE (Property Tax Department) and OAG websites
PI-11. Orderliness and participation in the annual budget process	B+ i)B ii)B iii)A	A general budget calendar has been now instituted for at least three years and municipality is well familiar with the process. The Mayor was involved in the review of draft	A i)B ii)A iii)A	A annual budget calendar exists, is communicated to and understood by the key participants and is generally adhered to with municipal Departments allowed 3 weeks to complete	B+ i)A ii)B iii)A	A general budget calendar has been now instituted for at least three years and municipality is well familiar with the process. The Mayor was involved in the review of draft budget proposals and the reconciliation of funding envelopes with aggregate	A i)B ii)A iii)A	A general budget calendar has been now instituted for at least three years and municipality is well familiar with the process. The Mayor was involved in the review of draft budget proposals and the reconciliation of funding envelopes with aggregate	B+ i)A ii)B iii)A	A general budget calendar has been now instituted for at least three years and municipality is well familiar with the process. The Mayor was involved in the review of draft budget proposals and the



		budget proposals and the reconciliation of funding envelopes with aggregate financing resources, and the determination of final budget submission. The budget approval by Municipal Assembly. was timely		and consolidate budget requests. The 2011 Municipal Budget Proposal was approved within the statutory deadline. The Mayor and Chief Financial Officer, and all directors of municipal departments are involved in determining and approving budget ceilings.		financing resources, and the determination of final budget submission. The budget approval by Municipal Assembly. was timely		financing resources, and the determination of final budget submission. The budget approval by Municipal Assembly. was timely		reconciliation of funding envelopes with aggregate financing resources, and the determination of final budget submission. The budget approval by Municipal Assembly. was timely
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+ i)D ii)N/A iii)C iv)D	The 2011 Budget presents only a <i>two</i> year forecast of revenue and expenditure, but not on a rolling basis. The Development Strategy does not identify fiscal forecast and mid-term aggregate resource envelop available for the implementation of the Strategy consistent with the affordable fiscal targets. The PIP system serves as a recording tool rather than a mechanism for budgetary decision making.	D i)D ii)N/A iii)D iv)D	The 2011-2013 MTEF presents the projections of budget expenditure for one year only and capital investment plan is presented only for 2011. It does not include projection of own revenues. There is no well formulated official document in relation to multi-year strategy whose absence is justified by the size of the municipality and its small budget. The PIP system serves as a recording tool rather than a mechanism for budgetary decision	D i)D ii)N/A iii)D iv)D	The Municipality made attempts to prepare forward estimates of total budget. However the information on central transfers provided only grants estimates for 2011 and this undermined the feasibility of multi-year budget planning. The capital investment program provides the details of capital project for the current year only. The municipality had no sector development strategy as yet but is working on one. The PIP system serves as a recording tool rather than a mechanism for budgetary decision making.	B i)B ii)N/A iii)A iv)D	Revenue and expense forecasts are made for two years on a rolling basis. During the third quarter of 2010, Podujevo Municipality has prepared a strategic document, which was approved by the Assembly. This strategy presents 3-year forecast of total municipal expenditure and revenues including government grants. The PIP system serves as a recording tool rather than a mechanism for budgetary decision making.	D i)D ii)N/A iii)D iv)D	There was an attempt to prepare forward estimates of total budget. However the information on central transfers provided only grants estimates for 2011 and this undermined the feasibility of multi-year budget planning. The capital investment program provides the details of capital project for the current year only. The municipality sector development strategy is outdated but is looking to produce a new one. The PIP system serves as a recording tool rather than a mechanism for budgetary decision

				making.						making.
PI-13 Transparenc y of Taxpayer Obligations and Liabilities	A  i)A  ii)A  iii)A	The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. Information on property tax is disseminated annually. The Municipality has a well established Board of Appeals, which acts independently from Municipal Property Tax Office.	A  i)A  ii)A  iii)A	The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. Information on property tax is disseminated annually. The Municipality has a well established Board of Appeals, which acts independently from Municipal Property Tax Office.	A  i)A  ii)A  iii)A	The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. Information on property tax is disseminated annually. The Municipality has a well established Board of Appeals, which acts independently from Municipal Property Tax Office.	A  i)A  ii)A  iii)A	The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. Information on property tax is disseminated annually. The Municipality has a well established Board of Appeals, which acts independently from Municipal Property Tax Office.	A  i)A  ii)A  iii)A	The legislation in place, the centralized property tax database and valuation procedures constitute a comprehensive framework for property taxation. Information on property tax is disseminated annually. The Municipality has a well established Board of Appeals, which acts independently from Municipal Property Tax Office.
PI-14 Effectivenes s of measures for taxpayer registration and tax assessment	B  i)A  ii)B  iii)C	Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. Each	B  i)A  ii)B  iii)C	Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. Each municipality is obliged to manage	B  i)A  ii)B  iii)D	In 2009 property tax office was re-established. Tax office was left with an old database which was then migrated by the Department of Property Tax at the MEF, in to a new centralized database Taxpayer registration system is now centralized in one property tax database Municipality constantly feeds the database with new taxpayer data. The penalties system is determined in the property	B  i)A  ii)B  iii)C	Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. Each municipality is obliged to manage the entry of property tax information within the database. The penalties system is determined in the	B  i)A  ii)B  iii)C	Taxpayer registration system is centralized in a single property tax database containing information for all Kosovo municipalities and maintained by the Property Tax Department in MFE. Each municipality is obliged to manage the entry of property tax

		municipality is obliged to manage the entry of property tax information within the database. The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes. Although there is a program of tax audits established, audits are actually far less than the legal requirement of 1/3 of properties resurveyed on an annual basis.		the entry of property tax information within the database. The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes. The Tax Office has two Inspectors employed for registering tax objects and they cover two municipal zones.		tax legislation and is applicable to all Kosovo municipalities. The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes. Municipality admits lack of organization and planning of comprehensive audits.		property tax legislation and is applicable to all Kosovo municipalities. The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes. The Tax Office has three Inspectors employed for registering tax objects and they cover four municipal zones.		information within the database. The penalties system is determined in the property tax legislation and is applicable to all Kosovo municipalities. The penalty rates are considered to be high and effective but only apply to non-payment of assessed taxes. The Municipal Tax Office in Vushtrri, has stalled in the development of inspection plans and for the registration of new ones. This is due to the fact that in 2010 the office has been operating with only one surveyor and it was impossible for him to perform the field work on his own and thus to fulfil the legal obligation for the re-survey of 1/3 of properties each year.
PI-15 Effectiveness in collection of tax payments	D+ i)D ii)A iii)A	Arrears are increasing on an annual basis. Receiving banks transfer tax receipts to the Central Bank within 24 hours,	D+ i)D ii)A iii)A	Arrears are increasing on an annual basis. Receiving banks transfer tax receipts to the Central Bank within 24 hours, which are transferred	D+ i)D ii)A iii)A	Arrears are increasing on an annual basis. Receiving banks transfer tax receipts to the Central Bank within 24 hours, which are transferred to the municipality account in the Treasury. Property Tax Department receives	D+ i)D ii)A iii)A	Arrears are increasing on an annual basis. Receiving banks transfer tax receipts to the Central Bank within 24 hours, which are transferred to the municipality account in the Treasury. Property Tax	D+ i)D ii)A iii)A	Arrears are increasing on an annual basis. Receiving banks transfer tax receipts to the Central Bank within 24 hours, which are transferred to the municipality

		which are transferred to the municipality account in the Treasury. Property Tax Department receives daily reports and reconciliation of is daily. A daily revenue report is provided to the Property Tax Department. Payments against obligations are identified and then reconciled against property tax database.		to the municipality account in the Treasury. Property Tax Department receives daily reports and reconciliation of is daily. A daily revenue report is provided to the Property Tax Department. Payments against obligations are identified and then reconciled against property tax database.		daily reports and reconciliation of is daily. A daily revenue report is provided to the Property Tax Department. Payments against obligations are identified and then reconciled against property tax database.		Department receives daily reports and reconciliation of is daily. A daily revenue report is provided to the Property Tax Department. Payments against obligations are identified and then reconciled against property tax database.		account in the Treasury. Property Tax Department receives daily reports and reconciliation of is daily. A daily revenue report is provided to the Property Tax Department. Payments against obligations are identified and then reconciled against property tax database.
PI-16. Predictability in the availability of funds for commitment of expenditures	A i)A ii)A iii)A	The Treasury guides all municipalities in preparing their cash flow plan and sets a deadline for its submission. The plan takes account of revenues and expenditure for Departments and is updated regularly. Treasury manages allocations to ensure that the Budget is executed	A i)A ii)A iii)A	The Treasury guides all municipalities in preparing their cash flow plan and sets a deadline for its submission. The plan takes account of revenues and expenditure for Departments and is updated regularly. Treasury manages allocations to ensure that the Budget is executed within the available cash. Changes to budget allocations are only	A i)A ii)A iii)A	The Treasury guides all municipalities in preparing their cash flow plan and sets a deadline for its submission. The plan takes account of revenues and expenditure for Departments and is updated regularly. Treasury manages allocations to ensure that the Budget is executed within the available cash. Changes to budget allocations are only when initiated by the municipality through the submission of adjustment to their cash flow plans. Internal changes in originate from in-year or	A i)A ii)A iii)A	The Treasury guides all municipalities in preparing their cash flow plan and sets a deadline for its submission. The plan takes account of revenues and expenditure for Departments and is updated regularly. Treasury manages allocations to ensure that the Budget is executed within the available cash. Changes to budget allocations are only when initiated by the municipality through the submission of adjustment to their cash flow plans.	A i)A ii)A iii)A	The Treasury guides all municipalities in preparing their cash flow plan and sets a deadline for its submission. The plan takes account of revenues and expenditure for Departments and is updated regularly. Treasury manages allocations to ensure that the Budget is executed within the available cash. Changes to budget allocations are only

		within the available cash. Changes to budget allocations are only when initiated by the municipality through the submission of adjustment to their cash flow plans. Internal changes in originate from in-year or mid-year review which are conducted in accordance with the municipal budget process including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly.		when initiated by the municipality through the submission of adjustment to their cash flow plans. Internal changes in originate from in-year or mid-year review which are conducted in accordance with the municipal budget process including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly.		mid-year review which are conducted in accordance with the municipal budget process including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly.		Internal changes in originate from in-year or mid-year review which are conducted in accordance with the municipal budget process including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly.		when initiated by the municipality through the submission of adjustment to their cash flow plans. Internal changes in originate from in-year or mid-year review which are conducted in accordance with the municipal budget process including the review by the Board of Directors, prioritization, approval by the Mayor, review by the Policy and Finance Committee, and approval by the Municipal Assembly.
PI-17 Recording and management of cash balances,	A  i)N/A  ii)A	There is a Single Treasury Account, which is used to manage all transactions and these are	A  i)N/A  ii)A	There is a Single Treasury Account, which is used to manage all transactions and these are	A  i)N/A  ii)A	There is a Single Treasury Account, which is used to manage all transactions and these are consolidated on a daily basis. The Mayor may incur short-term debt, with	A  i)N/A  A	There is a Single Treasury Account, which is used to manage all transactions and these are consolidated on a daily basis. The Mayor may incur short-term debt, with	A  i)N/A  A	There is a Single Treasury Account, which is used to manage all transactions and these are consolidated on a

debt and guarantees.	iii)N/A	consolidated on a daily basis. The Mayor may incur short-term debt, with notification to the Assembly and the MFE. Long-term debt and guarantees to finance capital improvements are within the limits established in the law and subject to the Assembly and then be subject to the prior written approval of the Ministry of Finance.	iii)N/A	consolidated on a daily basis. The Mayor may incur short-term debt, with notification to the Assembly and the MFE. Long-term debt and guarantees to finance capital improvements are within the limits established in the law and subject to the Assembly and then be subject to the prior written approval of the Ministry of Finance.	iii)N/A	notification to the Assembly and the MFE. Long-term debt and guarantees to finance capital improvements are within the limits established in the law and subject to the Assembly and then be subject to the prior written approval of the Ministry of Finance.	ii)A iii)N/A	notification to the Assembly and the MFE. Long-term debt and guarantees to finance capital improvements are within the limits established in the law and subject to the Assembly and then be subject to the prior written approval of the Ministry of Finance.	ii)A iii)N/A	daily basis. The Mayor may incur short-term debt, with notification to the Assembly and the MFE. Long-term debt and guarantees to finance capital improvements are within the limits established in the law and subject to the Assembly and then be subject to the prior written approval of the Ministry of Finance.
PI-18. Effectiveness of payroll controls	B+ i)B ii)A iii)A iv)B	Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. Each municipality manages the personnel data separately on monthly basis with information on changes transmitted to the MPS. The payroll is updated monthly, prior to the execution of the payroll and the	B+ i)B ii)A iii)A iv)B	Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. Each municipality manages the personnel data separately on monthly basis with information on changes transmitted to the MPS. The payroll is updated monthly, prior to the execution of the payroll and the changes are timely with rare retroactive adjustments. The	B+ i)B ii)A iii)B iv)B	Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. Each municipality manages the personnel data separately on monthly basis with information on changes transmitted to the MPS. The payroll is updated monthly, prior to the execution of the payroll and the changes are timely with rare retroactive adjustments. The system maintains an audit trail of any change and access to the system requires authorization. The Auditor General's office conducts periodical audits of the	B+ i)B ii)A iii)A iv)B	Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. Each municipality manages the personnel data separately on monthly basis with information on changes transmitted to the MPS. The payroll is updated monthly, prior to the execution of the payroll and the changes are timely with rare retroactive adjustments. The system maintains an audit trail of any	B+ i)B ii)A iii)A iv)B	Personnel database and payroll database are maintained and managed centrally by the Ministry of Public Services. Each municipality manages the personnel data separately on monthly basis with information on changes transmitted to the MPS. The payroll is updated monthly, prior to the execution of the payroll and the changes are timely with rare retroactive adjustments. The system maintains an audit trail of any

		changes are timely with rare retroactive adjustments. The system maintains an audit trail of any change and access to the system requires authorization. The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively.		system maintains an audit trail of any change and access to the system requires authorization. The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively.		payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively.		periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively.		change and access to the system requires authorization. The Auditor General's office conducts periodical audits of the payroll system in the MPS; the last two audits were conducted for years 2007 and 2008 respectively.
PI-19 Competition, value of money and controls in procurement .	A i)A ii)A iii)A	The 2009 and 2010 annual procurement reports provide a comprehensive database on public procurement. Open competition procurement method was used for the award of more than 90% of contracts. The conditions for the use of less competitive public procurement are defined and can only be used if authorized by the Kosovo Public	A i)A ii)A iii)A	The 2009 and 2010 annual procurement reports provide a comprehensive database on public procurement. Open competition procurement method was used for the award of 100% of contracts. The conditions for the use of less competitive public procurement are defined and can only be used if authorized by the Kosovo Public Procurement Agency. A complaint can be	B+ i)A ii)C iii)A	The 2009 and 2010 annual procurement reports provide a comprehensive database on public procurement. Open competition procurement method was used for the award of more than 90% of contracts. The conditions for the use of less competitive public procurement are defined but have been ignored at times (though approved by PPA).. A complaint can be filed at any stage of procurement using the Procurement Review Body (PRB) which is an independent institution.	A i)A ii)A iii)A	The 2009 and 2010 annual procurement reports provide a comprehensive database on public procurement. Open competition procurement method was used for the award of 100% of contracts. The conditions for the use of less competitive public procurement are defined and can only be used if authorized by the Kosovo Public Procurement Agency. A complaint can be filed at any stage of procurement using the Procurement Review Body (PRB) which is an	A i)A ii)A iii)A	The 2009 and 2010 annual procurement reports provide a comprehensive database on public procurement. Open competition procurement method was used for the award of more than 90% of contracts. The conditions for the use of less competitive public procurement are defined and can only be used if authorized by the Kosovo Public Procurement Agency. A complaint can be filed at any stage of

		Procurement Agency. A complaint can be filed at any stage of procurement using the Procurement Review Body (PRB) which is an independent institution.		filed at any stage of procurement using the Procurement Review Body (PRB) which is an independent institution.				independent institution.		procurement using the Procurement Review Body (PRB) which is an independent institution.
PI-20. Effectiveness of internal controls for non-salary expenditure	B+ i)B ii)A iii)B	Commitment controls for expenditures are in place both procedurally and technically in Pristina Municipality. In 2009, Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. Pristina Municipality participated in this process in 2009 and its key public finance officers were trained and	B+ i)B ii)A iii)B	Commitment controls for expenditures are in place both procedurally and technically in the Municipality. Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. Mamusha Municipality participated in this process and its key public finance officers were trained and certified. The Municipality operates in compliance with the set of financial rules. However, the	C+ i)C ii)A iii)C	Commitment controls for expenditures are in place both procedurally and technically in Shtërpçë Municipality. However the municipality did miss out some procedural steps required and therefore faced unpaid liabilities at the end of the year. The municipality has opened tender procedures and selected successful operators without prior commitment of funds in the Free Balance system. Notwithstanding this, The municipality operates under a set of rules and its staff is certified (for demonstration of internal controls and implementation of standards as defined by the MFE. The audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls.	B+ i)B ii)A iii)B	Commitment controls for expenditures are in place both procedurally and technically in the Municipality. Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. Mamusha Municipality participated in this process and its key public finance officers were trained and certified. The Municipality operates in compliance with the set of financial rules. However, the audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management	B+ i)B ii)A iii)B	Commitment controls for expenditures are in place both procedurally and technically in the Municipality. Treasury decentralized the final point of expenditure control to municipalities based on risk assessment process for the application of internal controls with each municipality. Vushtri Municipality participated in this process and its key public finance officers were trained and certified. The Municipality operates in compliance with the set of financial rules. However, the audit of the 2009 financial statements identified and pointed



		certified. Pristina Municipality operates in compliance with the set of financial rules. However, the audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management and control.		audit of the 2009 financial statements identified and pointed to a number of examples of weak internal controls which call for further efforts in improving its financial management and control.				and control.		to a number of examples of weak internal controls which call for further efforts in improving its financial management and control.
PI-21. Effectiveness of Internal Audit	C i)C ii)Not Assessed iii)Not Assessed	Internal Audit is a recently established function and The Internal Audit Unit commenced operations in 2009 and it now is staffed with three professionals. In 2010, the Unit developed a strategic annual audit plan which was adopted by the Audit Committee. However, due to extensive training	Not Applicable	Internal Auditor Unit has not been operating long enough to assess.	B+ i)A ii)A iii)B	The Internal Audit Unit (IAU) was set up on 1 April 2009 with a certified auditor as head of unit. There is a strategic audit plan (2010-2013), which is updated every year, and on which annual audit work plans are based. In 2009 and 2010, 7 local units were audited based on the annual work plan and strategic plan. All finalized reports with recommendations are also distributed to the audited entities and the management of and Mayor. The IAU has made 36 recommendations for all units, of which 32	D i)D ii)N/A iii)N/A	Although Internal Audit Unit in the Municipality of Podujevo had employed one auditor for number of years, there was no Audit conducted until 2010 when a Director of the Unit was appointed. Since then, there have been two audits. Senior management (mayor) in the Municipality of Podujevo had two meetings with internal auditor and where reports were submitted. Regarding the findings of the internal audit unit a letter was sent by the mayor to all departments to implement	B+ i)A ii)A iii)B	Internal Audit Unit has been operating since 2002. Its operations are based on the 2009-2011 Strategic Plan as approved by the Audit Committee and senior management and the annual work plan for the respective years (2009-2011), based on risk assessment. Internal audits are carried out according to a regular annual plan and are assessments of the existence and

		and certification program the Unit only completed an internal audit report on the Department of Health which was submitted to the Audit Committee and Mayor. This was less than planned.				have been implemented, while 4 of them are pending.		internal audit recommendations. The outcome of the management response remains to be seen.		functioning of systems based internal controls, performance and financial aspects. IAU reports on quarterly and annual basis. The management of audited departments provides comments on recommendations given by the internal auditor which are then incorporated into the final report. Total number of recommendations issued during 2008 - 2010 period is 72, of which until the end of 2010 54 or 75% were implemented. The remaining recommendations are under implementation and this process will continue during 2011 in accordance with action plans.
PI-22 Timeliness and regularity of accounts reconciliation	B+ i)A ii)B	All public expenditure is made through the "main account" in the STA and this account is reconciled daily. The Municipality operates within the STA	B+ i)A ii)B	Mamusha Municipality operates within the STA arrangements and complies with the reconciliation procedures. However, there are some weaknesses in the revenue	A i)A ii)A	All public expenditure is made through the "main account" in the STA and this account is reconciled daily. The Municipality operates within the STA arrangements and complies with the reconciliation procedures. Travel advances are based on approved travel	B+ i)A ii)B	All public expenditure is made through the "main account" in the STA and this account is reconciled daily. The Municipality operates within the STA arrangements and complies with the reconciliation procedures. Travel advances are based on	A i)A ii)A	All public expenditure is made through the "main account" in the STA and this account is reconciled daily. The Municipality operates within the STA arrangements and complies with the reconciliation

		arrangements and complies with the reconciliation procedures. Travel advances are based on approved travel and are reconciled on the presentation of documents from the completed travel. At the end of fiscal year, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier.		reconciliation and record keeping. Travel advances are based on approved travel and are reconciled on the presentation of documents from the completed travel. At the end of fiscal year, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier.		and are reconciled on the presentation of documents from the completed travel. At the end of each month, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier.		approved travel and are reconciled on the presentation of documents from the completed travel. At the end of fiscal year, petty cash advance is reconciled.		procedures. Travel advances are based on approved travel and are reconciled on the presentation of documents from the completed travel. At the end of each month, petty cash advance is reconciled and closed based on expenditure evidence submitted by the cashier.
PI-23. Availability of information on resources received by service delivery units	B i)B	Information on resources at the school level is available at the stage of budget planning and budget execution. although budget plan is not explicitly broken down to the level of spending units For primary health, actual expenditure is recorded which facilitates generation of data	B i)B	Information on resources at the school level is available at the stage of budget planning and budget execution. although budget plan is not explicitly broken down to the level of spending units For primary health, actual expenditure is recorded which facilitates generation of data for individual health houses.. Information and	B i)B	Municipal Director for Education and Health receive monthly reports from all schools in their jurisdiction and health centers respectively. This way they get information on all resources, although Municipality makes no effort in producing more comprehensive reports on contributions received. Even if it was made, concerns remains to what extent this data is consolidated.	B i)B	Information on resources at the school level is available at the stage of budget planning and budget execution. although budget plan is not explicitly broken down to the level of spending units For primary health, actual expenditure is recorded which facilitates generation of data for individual health houses.. Information and details on resources made available in kind distributed to individual schools and health houses can be obtained from the register		Municipal Director for Education and Health receive monthly reports from all schools in their jurisdiction and health centers respectively. This way they get information on all resources, although Municipality makes no effort in producing more comprehensive reports on contributions received. Even if it was made, concerns remains to what extent this data is consolidated. capital

		for individual health houses.. Information and details on resources made available in kind distributed to individual schools and health houses can be obtained from the register of goods receiving reports Some concerns remain to what extent this data is consolidated.		details on resources made available in kind distributed to individual schools and health houses can be obtained from the register of goods receiving reports Some concerns remain to what extent this data is consolidated.				of goods receiving reports Some concerns remain to what extent this data is consolidated.	B i)B	expenditure can be derived from the Budget documentation and the KFMIS at the central level. Also Information and details on resources made available in kind – such as centrally managed pharmaceutical program or bulk purchases of heating oil distributed to individual schools and health houses – can be obtained from the register of goods receiving reports signed by spending units.
PI-24. Quality and Timeliness of in-year budget execution reports	C+  i)A ii)C iii)A	The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly	A  i)A ii)A iii)A	The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly	A  i)A ii)A iii)A	The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly	A  i)A ii)A	The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly	A  i)A ii)A iii)A	The Single Treasury Account and the KFMIS allows access to and production of up-to-date live budget data at any point in time which enables the production of accurate in-year budget reports for management purposes and statutory reporting to the Municipal Assembly

PI-25. Quality and timeliness of annual financial statements.	B+ i)B ii)A iii)A	Financial statements prepared by Pristina Municipality are presented in accordance with Treasury's administrative instruction for financial statements and cover all activities in the municipality and directories. The financial statements are prepared with data from the KFMIS and contain enough information about the types of revenues, payments, assets, financial liabilities, comparisons with previous years,	D+ i)B ii)A iii)D	The Municipality of Mamusha did submit Financial Statements on the required date. The Office of Auditor General was not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. OAG had a disclaimer of opinion, or did not express an opinion on the Municipality's financial statements. The Municipality complied with the reporting requirements in a timely manner. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year. The	D+ i)D ii)A iii)C	The Municipality submitted Financial Statements on the required date. The OAG report indicates that there was no disclosure of budget to actual analysis and no disclosure regarding all fixed assets owned. The OAG disclaimed giving an opinion for Municipality's financial statements 2009. The Municipality complied with the reporting requirements in a timely manner. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year. The financial statements were not completed fully with the use of applicable accounting standards (IPSAS).	D+ i)B ii)A iii)D	The Municipality submitted Financial Statements on the required date. The OAG report indicates that there was no disclosure of budget to actual analysis and no disclosure regarding all fixed assets owned. The OAG disclaimed giving an opinion for Municipality's financial statements 2009. The Municipality complied with the reporting requirements in a timely manner. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year. The financial statements were not completed fully with the use of applicable accounting standards (IPSAS).	C+ i)B ii)A iii)C	The Municipality submitted Financial Statements on the required date. The OAG report indicates that there was no disclosure of budget to actual analysis and no disclosure regarding all fixed assets owned. The OAG disclaimed giving an opinion for Municipality's financial statements 2009. The Municipality complied with the reporting requirements in a timely manner. Financial statements are submitted for the external audit within less than 6 months of the end of the fiscal year. The financial statements were not completed fully with
PI-26. Scope, nature and follow-up of external audit.	C+ i)B ii)A iii)C	Pristina Municipality's financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with	D+ i)B ii)D iii)A	The financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with respect to the financial statements	D+ i)B ii)B iii)D	The financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with respect to the financial statements for the year ended 31 December 2009. The audit was carried out in accordance with international auditing	D+ i)B ii)D iii)C	The financial statements are audited annually by the independent external auditor - Office of Auditor General. The latest available audit was performed with respect to the financial statements for the year ended 31 December 2009. The audit was carried out in	D+ i)B ii)D iii)B	The financial statements are audited annually by the independent external auditor - Office of Auditor General. Performance audit has not been performed. Financial statements are submitted to the Office of Auditor General by March 31. The latest external

		respect to the financial statements for the year ended 31 December 2009. The audit was carried out in accordance with international auditing standards issued by INTOSAI. Performance audit has not been performed. For the last two years, the audit reports were completed and submitted by the Auditor General to the Mayor within 6 months from the receipt of financial statements. In 2010, the audit report was submitted within 3 months. The evidence suggests that there is a lack of reasonable and systematic measures to follow up on audit recommendations.		for the year ended 31 December 2009. The audit was carried out in accordance with international auditing standards issued by INTOSAI. Performance audit has not been performed. Audit Report the Mayor's office and a copy to the CFO, but report was not delivered to the municipal assembly.		standards issued by INTOSAI. Performance audit has not been performed. Municipality does not have an action plan for the implementation of recommendations. Neither does have an assigned person or group to monitor the all process.		accordance with international auditing standards issued by INTOSAI. Performance audit has not been performed. Audit Report the Mayor's office and a copy to the CFO, but report was not delivered to the municipal assembly. The municipality has implemented partially recommendations for the past two years but failed to fully address issues raised by the Auditor General.		audit report received by the Municipal Assembly was the one for the fiscal year 2007, received in October 22, 2008. Municipal Assembly did not receive Audit Reports for fiscal year 2008 and 2009, although Audit reports were completed and submitted to Municipal Administration. Municipality of Vushtrri did not make an action plan to address recommendations submitted with audit report 2009, 2008 and 2007. Each Department Head is responsible in addressing respective recommendations however there is no clear evidence that rests with municipality as how many of them were implemented or partially implemented and what remains outstanding. The status of external audit recommendations is reported to the Mayor. The evidence presented suggests there are reasonable measures to follow up on audit recommendations in Vushtrri Municipality.
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PI-27. Legislative scrutiny of the annual budget law.	B+  i)A ii)A iii)B iv)A	The Municipal Assembly is actively engaged in the municipal budget process, including key stages of budget proposal development and approval and performs the review of budget in accordance with established procedures and timetable. The Assembly received budget proposal and had only two weeks for its review and approval. However there is extensive Assembly involvement during the budget process.	B+  i)A ii)A iii)B iv)A	The Assembly is sufficiently informed and involved in the budget process, with the possibility to influence key decisions. The process is open and transparent, with Assembly's debates recorded and documented in publicly available minutes from meetings. The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The Assembly received budget proposal and had only two weeks for its review and approval. However there is extensive Assembly involvement during the budget process.	B+ i)A ii)A iii)B iv)A	The Assembly is sufficiently informed and involved in the budget process, with the possibility to influence key decisions. The process is open and transparent, with Assembly's debates recorded and documented in publicly available minutes from meetings. The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The Assembly received budget proposal and had only two weeks for its review and approval. However there is extensive Assembly involvement during the budget process.	B+ i)A ii)A iii)B iv)A	The Assembly is sufficiently informed and involved in the budget process, with the possibility to influence key decisions. The process is open and transparent, with Assembly's debates recorded and documented in publicly available minutes from meetings. The Municipal Assembly performs the review of budget in accordance with established procedures and timetable. The Assembly received budget proposal and had only two weeks for its review and approval. However there is extensive Assembly involvement during the budget process.	B+ i)A ii)A iii)B iv)A
PI-28. Legislative scrutiny of external audit report	D+  i)A ii)C iii)D	The review of audit reports by the Assembly coincides with the presentation of mid-year report on the status of municipal financial affairs by the Mayor. Usually, the review and debate on audit reports takes 1 – 1.5	Not Applicable	During the last three years (2007, 2008 & 2009), there was no report from Auditor General submitted to Policy and Finance Committee so it could be debated in the Assembly and recommendations issued.	D+ i)A ii)A iii)D	The Assembly in 2010 conducted dedicated hearing on audit report for financial statement of 2009. The audit report was given in advance to all assembly members; on the day when report is reviewed and debated at the Assembly, the budget/finance director is present for further explanations to cover basic questions from the assembly members. The Assembly	Not Applicable	During the last three years, there was no report from Auditor General submitted to Policy and Finance Committee nor municipal assembly.	D+ i)A ii)D iii)D

		months (at most 3 months). The audit report on the 2009 Financial Statement was debated during two Municipal Assembly sessions. Such hearings are usually limited to issues motivated by political debate rather than technical ones generated by the audit report. The Assembly generally relies on the auditor's findings and opinion, and does not issue recommendations nor monitors the implementation of action plan and recommendations.				did not issue own recommendations following the review of audit reports. No action plan to follow up on auditor's recommendations was presented by the Mayor and also does not monitor the implementation of recommendations. There are serious delays in addressing and implementing auditor recommendations.				sessions. The audit report was given in advance to all assembly members; on the day when report is reviewed and debated, the budget/finance director is present for further explanations to members. Due to no controversial findings and the lack of expertise and capacity Vushtrri Municipal Assembly did not issue its own recommendations. Evidence from audit reports for the last three years suggests that follow up on audit recommendations is only partial.
D-1 Predictability of Direct Budget Support	N/A	Not applicable to the Municipality	N/A	Not applicable to the Municipality	N/A	Not applicable to the Municipality	N/A	Not applicable to the Municipality	N/A	Not applicable to the Municipality
D-2 Financial information provided by donors for budgeting and reporting on project and programme	A i)A ii)A	During 2010, Pristina Municipality entered into a bilateral cooperation agreement USAID and information was timely.	A i)A ii)A	Joint oversight commission was established for donor projects with accompanying documentation was prepared and signed by the donor and by the municipal officials	D i)D ii)D	Some projects were completely funded by donor organizations, none of them incorporated into, and approved in the 2010 Budget as Municipality was not given the information appropriately about the timing of the flow of funds. Municipality includes the list of municipal recipient funds	A i)A ii)A	During 2010, Podujevo received one direct donor grant and was informed at the planning stage with frequent reporting during implementation.	D i)D ii)D	During 2010 Vushtrri Municipality signed a MOU to fund road. The project was not incorporated into, and approved in the 2010 Budget as Municipality was not given the information appropriately about the timing of the flow



aid						in their financial statements.				of funds. Municipality admits that most of the donor projects come in ad hoc basis, not following the budget calendar as they prepare
D-3 Proportion of aid that is managed by use of national procedures	A i)A	Procurement and implementation of project assistance was wholly conducted in accordance with the Kosovo procedures and rules.	A i)A	Procurement and implementation of project assistance above was wholly conducted in accordance with the Kosovo procedures and rules.	D i)D	Most donor projects are implemented by different donor contractors and not managed by national procedures.	A i)A	Procurement and implementation of project assistance above was wholly conducted in accordance with the Kosovo procedures and rules.	D i)D	The donor projects are implemented by different donor contractors and not managed by national procedures
HLG-1 Predictability of Transfers from Higher Level of Government	B+ i)A ii)B iii)A	During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Pristina Municipality original budget. Due to additional allocations of grants determined during mid-year review processes. Deviations in earmarked grants as recorded for the last three years in Pristina	C+ i)A ii)C iii)A	Municipality was a recipient of grants, which in total amounted to approximately 95% of municipal financing. During the last three years the actual total HLG transfers exceeded the original total estimated amount included in Mamusha's original budget. Deviations were relatively small and grants were timely	C+ i)A ii)C iii)A	The Municipality was a recipient of grants amounted to approximately 97% of municipal financing. In 2008, and especially in 2010 the actual total HLG transfers exceeded the original total estimated amount included original budget due to additional grants determined during the mid-year review process. Deviations were relatively large and grants were timely	A i)A ii)A iii)A	During the last three years the actual total HLG transfers (i.e., defined as actually expended amounts) exceeded the original total estimated amount included in Podjueva's original budget due to additional allocations of grants determined during mid-year review processes. Deviations in earmarked grants as recorded for the last three years in Podujevo Municipality are relatively small and did not exceed 5%. Grants were timely.	A i)A ii)A iii)A	During the last three years the actual total HLG transfers was 80% of total revenue) and exceeded the original total estimated amount included in Vushtri's original budget due to additional allocations of grants determined during mid-year review processes. Deviations in earmarked grants as recorded for the last three years in Vushtri Municipality are relatively small and did not exceed 5%. Grants were timely.

		Municipality are relatively small and marginally exceed 5% only in one of the last three years. Grants were timely.								
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## **Annex 2: People Interviewed**

### **Prishtina Municipality**

1. Sami Hamit

Chairman of Municipal Assembly, Pristina Municipality

2. Xhelil Bekteshi

Director of Finance and Property, Pristina Municipality

3. Milaim Krasniqi

Manager of Property Tax Office, Chairman of Tax Appeals Commission,  
Pristina Municipality

4. Arianit Mustafa

Head of Internal Audit Unit, Pristina Municipality

5. Shkelzen Morina

Director of Property Tax Department, Ministry of Finance and Economy

6. Agron Cerkini

Property Tax Advisor, USAID Growth and Fiscal Stability Initiative

7. Shpresa Dushi

Head of Payroll Division, Ministry of Public Services

8. Lage Olofsson

Auditor General, Auditor General Office

9. Qerkin Morina

Deputy Auditor General, Auditor General Office

10. Florim Beqiri

Head of Municipal Audit, Auditor General Office

11. David Jankovski

Team Leader EU-PIP, EU Support to Improving the Quality of Public Investments in Kosovo and Preparing the Ground for EU Funding

12. Catriona McHugh

Public Financial Management Expert EU-PIP, EU Support to Improving the Quality of Public Investments in Kosovo and Preparing the Ground for EU Funding

### **Podujevo Municipality**

1. Agim Veliu,  
Mayor, Podujevo Municipality
2. Hazir Raqi,  
Head of the Assembly, Head of Policy and Finance Committee, Podujevo Municipality
3. Sherif Halili,  
Manager of Property Tax Department, Podujevo Municipality
4. Ismet Uka,  
Internal Auditor, Podujevo Municipality
5. Xhevat Llugaliu,  
Education Officer, Podujevo Municipality
6. Ilmie Durmishi,  
Information Officer, Podujevo Municipality
7. Ibrahim Hoxha,  
Procurement Manager, Podujevo Municipality
8. Nexhmi Rudari,  
Director of Education sector, Podujevo Municipality
9. Blerim Nishevcu,  
Personnel Manager, Podujevo Municipality
10. Ajshe Vokrri,  
Revenue Officer, Podujevo Municipality

### **Vushtrri Municipality**

1. Ferit idrizi  
Chairman of Municipal Assembly, Pristina Municipality
2. Bedri Kostanica  
Manager of Property Tax Office, Pristina Municipality
3. Bislim Dushi  
Human Resources, Vushtrri Municipality
4. Blerim Zhabari  
Head of press office and web page maintenance, Vushtrri Municipality

## **Mamusha Municipality**

1. Arif Butuc,  
Mayor of Mamusha Municipality
2. Abdulhadi Krasnic  
Deputy Mayor
3. Serja Mazrek,  
Head of the Assembly, Head of the Policy and Finance Committee, Mamusha Municipality
4. Esat Morina,  
Coordinator for Social Welfare, Mamusha Municipality
5. Besire Gjini,  
Manager of Property Tax Department, Mamusha Municipality
6. Agim Morina,  
Public Services Director, Mamusha Municipality
7. Xhafer Morina,  
Health and Education Director, Mamusha Municipality
8. Gezime Ibrahim,   
Finance and Budget Officer, Mamusha Municipality
9. Derja Kala,  
Personnel Manager, Mamusha Municipality

## **Shtërpçë Municipality**

1. Dejan Mërgjinac  
Chairman of Municipal Assembly, Shtërpçë Municipality
2. Sadik Ymeri  
Chief of Education Department, Shtërpçë Municipality
3. Menderes Hyseni  
Director of Health Department, Shtërpçë Municipality
4. Andrea Millosavlevic  
Actin Chief of Human Resources , Shtërpçë Municipality
5. Goran Nikollcevic  
Internal Auditor, Shtërpçë Municipality