



Republic of Kosovo

K O S O V A

P E F A

Central Government

Public Expenditure and Financial Accountability (PEFA)
Public Finance Management Assessment

October 2013

Abbreviations

AC	Audit Committees
AGA	Autonomous Government Agencies
ANP	Aeroport Nderkombetar i Pristina
BOs	Budget Organizations
CHU	Central Harmonization Unit
CIAHU	Central Internal Audit Harmonization Unit
COFOG	Classification of the Functions of Government
DB	Database
DCF&DM	Division of Cash Flow and Debt Management
DIA	Department of Internal Audit
DMU	Debt Management Unit
EC	European Commission
GDP	Gross Domestic Product
GFS	Government Finance Statistics
HQ	Headquarters
IA	Internal Audit
IAU	Internal Audit Unit
IFAU	Internal Financial Audit Unit
IMF	International Monetary Fund
IPA	Instrument of Pre-Accession
IPSAS	International Public Sector Accounting Standards
IRB	Independent Review Board
ISPPIA	International Standards for the Professional Practice of Internal Auditing
KCB	Kosovo Consolidated Budget
KDSP	Kosovo Development Strategy and Plan
KEK	Korporata Energjtike e Kosoves
KFMIS	Kosovo Financial Management Information System
KPA	Kosovo Privatization Agency
LLGF	Law on Local Government Finances
MDA	Ministries, Departments and Agencies
MoF	Ministry of Finance
MIT	Ministry of Industry and Trade
MPS	Ministry of Public Services
MED	Ministry of Economic Development
MTEF	Medium Term Expenditure Framework
MYR	Mid-Year Review
OAG	Office of the Auditor General
PE	Public Enterprises
PFIC	Public Financial Internal Control
PIP	Public Investment Program
POE	Publicly Owned Enterprise
PPA	Public Procurement Agency

PPL	Public Procurement Law
PPRC	Public Procurement Regulatory Commission
PRB	Procurement Review Body
PTK	Post Telekomis I Kosoves
RTK	Radio and Television of Kosovo
SN	Sub National
SOE	Socially Owned Enterprise
STA	Single Treasury Account
TAK	Tax Administration of Kosovo
ULT	Unit for Large Taxpayers
UNIREF	Unified Reference Payment Code
VAT	Value Added Tax

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Overview of the indicator set

A: PFM Outturn: <i>Budget credibility</i>		2009 score	2013 score
PI-1	Overall (aggregate) expenditure outturn compared to approved budget	C	B
PI-2	Composition of actual expenditure compared to original approved budget	A	B+
PI-3	Overall (aggregate) revenue outturn compared to approved budget	A	A
PI-4	Stock and monitoring of expenditure payment arrears	B+	A
B. KEY CROSS-CUTTING ISSUES: <i>Comprehensiveness and transparency</i>			
PI-5	Budget classification	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 intergovernmental fiscal relations	B	A
PI-9	Oversight of general fiscal risks by other public sector entities	C+	C+
PI-10	Public access to key fiscal information	B	B
C. BUDGET CYCLE			
C(i) Policy-based budgeting			
PI-11	Orderliness and participation in the annual budget process	B	B
PI-12	Multiyear perspective in fiscal planning, expenditure, policies, and budgeting	C	C+
C(ii) Predictability and controls over budget execution			
PI-13	Transparency of taxpayer obligations	B	A
PI-14	Effectiveness of taxpayer registration and tax assessment measures	D+	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability of funds available for expenditure commitment	A	A
PI-17	Recording and management of cash balances, debt and guarantees	A	A
PI-18	Effectiveness of payroll controls	D+	D+
PI-19	Competition, value for money, and procurement controls	B	C
PI-20	Effectiveness of internal controls over non-salary expenditure	B	B+
PI-21	Effectiveness of internal audit	B+	B+
C(iii) Accounting, recording, and reporting			
PI-22	Timeliness and orderliness of account reconciliation	B+	A
PI-23	Availability of information on resources received by service delivery units	D	B
PI-24	Quality and timeliness of in-year budget reports.	B+	A
PI-25	Quality and timeliness for annual financial statements	A	A
C (iv) External controls and audits			
PI-26	Scope and follow-up nature of external audits	B	B
PI-27	Legislative scrutiny of the annual budget law	C	C+
PI-28	Review of external audit reports by the legislature	C+	C+
D. DONOR PRACTICES			
D-1	Predictability of direct budget support	D	D+
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D
D-3	Portion of aid that is managed through the use of national procedures	D	D

Summary Assessment

The report provides an assessment of the Public Financial Management (PFM) systems and processes of Kosovo as of January 2013. Kosovo has now completed 3 PEFA assessments at central level and 12 PEFA assessments at local level, and the process established in 2007 and significantly reinforced in 2009 and has provided a robust platform for an assessment of progress in PFM reform process since 2009. In addition, the report has been produced in accordance with recent version of the internationally recognized Public Expenditure and Financial Accountability (PEFA) methodology and, as such, it provides a direct comparison with PEFA 2009.

The Government has shown commitment in this process in PEFA 2009 and subsequent Public Finance Management Reform Action Plan. Similar to 2009 PEFA process, the Government of the Republic of Kosovo for 2013 assessment implemented PEFA methodology at its own direction. Initially, a Steering Committee and PEFA Secretariat members were appointed through a “Government Decision” which then followed with a training workshop held on April 2013 as a preparation effort to carry out a comprehensive self-assessment of PFM using PEFA methodology. The Government team was supported by in-country advisors on USAID Project with experience in applying PEFA methodology, as well as an external advisor. Moreover, the PEFA assessment work benefited from a 2 day workshop where the PEFA team discussed all the indicators. Subsequently, draft indicator set and assessment report was circulated to Government of Kosovo stakeholders for comments.

The draft report produced as an outcome of above described process was submitted for discussion and review and approval by the Steering Committee prior to circulating for comments to Kosovo’s Development Partners and PEFA Secretariat in Washington DC. That draft and comments have formed the basis of this final report.

(i) Integrated assessment of PFM performance

Credibility of the budget

This dimension is assessed by a group of indicators PI-1 to PI-4. It measures if the budget is planned realistically and is then implemented according to the plan in order to ensure that the government is able to deliver public services as intended in policy statements. It examines the variance between budgeted and actual expenditure, accuracy and credibility of revenue forecasts, and extent to which arrears are accumulated and controlled.

The Kosovo Government has made a noticeable effort to improve the overall rate of budget execution in line with the originally approved budget. Previously persistent and significant under spending has generally been brought under control to an acceptable level of around 5% during each of the last three years. Revenues have flattened out, while medium term potential will depend, to gradually increasing degree, on economic growth rather than difficult to project gains from improvements in administration and collection as was a case several years ago. Budget execution has been closer aligned with the actual availability of annual revenue and gradual disbursement of retained earnings.

A combination of the following factors has led to these developments: (1) introduction of revenue forecasts, which ensured a more accurate envelop for the budget preparation; (2) government commitment to medium term fiscal sustainability reflected in more cautious and conservative spending plans; (3) commencement of the IMF stand-by arrangements, which imposed budget planning and execution benchmarks in attempt to assist in achieving overall fiscal discipline.

Notwithstanding the above positive changes, credibility of the budget has been weakened by relatively high variances in the composition of expenditure as compared to the original plan. This was particularly evident in 2010, when the 2009 unspent funds were carried forward into 2010 in the Ministry of Infrastructure practically almost doubling its original budget. The legacy of underspending, which characterized periods prior to this PEFA assessment (as reflected in the 2009 PEFA), to some extent has continued to negatively affect budget credibility. However, the issue seemed to be addressed by the authorities in the following years, which contributed to a subsequent reduction in variance in expenditure composition.

The arrears occur, but their stock at the end of each assessed years was essentially insignificant. The Treasury monitors and reports the arrears on a regular basis and the authorities are currently implementing an action plan to address remaining shortcomings in arrears' monitoring.

Comprehensiveness and transparency

This dimension is measured by a group of indicators PI-5 to PI-10. It examines the extent to which the budget and fiscal information presents a complete picture of current and past public finances. It assesses the degree of transparency in government's operations as reflected by the availability of key information on fiscal position and performance to the public. Poor scores indicate fiduciary risks.

The Kosovo Government operates Single Treasury Account (STA), while the legislation and systems in place provide for comprehensiveness and completeness of information on public accounts. This is reflected in high scores of related PEFA indicators. All public money that is collected and expended by budget organizations is deposited and processed through the STA. The Local Government finances are fully consolidated within the general fund and subject to the same rules and procedures applicable for the central government. Intergovernmental fiscal relations are formula driven and transparent. Consolidated general government fiscal statistics including municipal data are regularly produced. There are no extra budgetary funds and donor designated grants received in cash are also channeled through the STA.

The Chart of Accounts (CoA) is GFS 2001 and COFOG compliant. Subsequently, the budget - including formulation, execution and reporting - consistently has utilized comprehensive classification systems provided through the CoA. Although information on functional classification is available and can be generated in reports it has not been explicitly and routinely used in budget documentation.

There has been a good use of web-based dissemination of key fiscal information to the public.

The Kosovo Government has taken measures to improve the oversight and management of fiscal risks. The operational and financial performance of public enterprises has been conducted and reported on annual basis by a dedicated unit in the Ministry of Economy. However, considerable deficiencies in Government's oversight still persisted. Although legislative framework is in place, Local Governments have not entered into borrowing arrangements as yet, thus did not generate fiscal risks.

Policy Based Budgeting

This dimension is measured by indicators PI-11 and PI-12. It examines the extent to which budget decisions on resource appropriations are made within an adequate timeliness and with due regard to strategic government policies and priorities. Low scores would indicate inadequate consideration of policy objectives and weak prioritization.

The Kosovo legislation on public finance management provides a well established framework for budget process between April 30 and October 31. Within this timeframe a defined budget calendar and parameters are communicated to budget organizations by the Ministry of Finance (MoF) at the start of each budget cycle.

Recently, the actual adherence of the MoF to budget development calendar has marked a considerable improvement. During the 2013-2015 budget process budget organizations were provided sufficient time (i.e., six weeks) for the preparation and submission of budget proposal requests. Each year, the Parliament approved the budget before the start of the fiscal year, while the 2011 budget was an exception due to a three month political stalemate after elections.

However, the involvement of political leaders in budgetary decisions remains mostly inadequate and continues to weaken the quality of budget process, particularly jeopardizing strategic aspects of the MTEF and budget formulation. Moreover, the MTEF, although produced, has not been effectively used as an integral part of the actual budget formulation process. The MTEF has provided for medium term fiscal outlook, but not on a rolling basis - in practice, the annual budget was to a large extent constructed without regard to multi-year projections (i.e., the budget was different from the first year in the MTEF, discrepancies were not explained, forward years were simple extrapolation of current budget numbers). The MTEF document has presented an abbreviation of sector strategies, including a mission statement and goals for sectors, but these were not uniform in quality and rarely used as guidance in decisions on the allocation of resources. Government has continued to operate with a large number of unconsolidated strategies, which were not adequately costed and moderately useful for policy and budget planning purposes. Consequently, linkages between multi-year planning of public investments and annual budgets have remained weak, which implied the development of projects in isolation. Although progress has been made in terms of system upgrade for the Public Investment Program, its application for medium-term planning was inconsistent, with project documentation often incomplete.

Since 2009, the Kosovo Government has undertaken some initiatives aiming at the creation of preconditions for a more strategic planning of long-term policies, which would also support budget planning. Among others, the Office of Strategic Planning was established within the Office of Prime Minister, which assisted by the European Commission is going to take on drafting of the Kosovo Development Strategy.

Predictability and control in budget execution

This dimension is measured by indicators PI-13 and PI-21. It examines the extent to which public funds provided in budget are deployed in an orderly and predictable manner and within a control framework that provides for effective, efficient and disciplined service delivery. Low scores indicate vulnerability to leakage and inefficient use of resources.

Taxes are collected by two agencies: the Kosovo Customs, which collects taxes imposed at the border and the Tax Administration that is responsible for the collection of all other taxes. The main tax laws were updated in 2010 and then further amended to match EU compliance in 2012. All laws, together with administrative instructions, guides, brochures, educational materials, and electronic services such as e-filing, are accessible on the government website. Overall, some of previously existing deficiencies in taxpayer service have been addressed and now improved services closer meet the requirements of the legislation and good tax administration practice. The tax and customs dispute mechanism has remained mostly ineffective and there continued to be a significant backlog of disputes waiting to be reviewed. With the objective to address this situation, the Kosovo Government has introduced legislation changes, which replaced the IRB's role in hearing

tax/customs dispute appeals with the Basic Court in Pristina from the end of 2012. The tax registration process has witnessed two significant changes since the previous PEFA assessment. Firstly, TAK moved away from relying on the MTI business registration process and now uses its own fiscal numbers for all taxpayers. Kosovo Customs now also uses fiscal numbers as its primary number for importers. Secondly, the process for issuing fiscal numbers to new businesses was automated and simplified. The Courts have remained as a largely ineffective mechanism for dealing with tax non-compliance. Although TAK has made tremendous efforts to improve its tax debt collection, including introduction of computer based tax debt case management processes, the collection of tax arrears from TAK was still low.

In 2010, the Law on Public Debt was enacted, which provided the Kosovo Government with the authority to borrow money and to make loan guarantees. Clearly defined limitations and criteria for which the State debt can be incurred are in place. Currently, the total debt of the Kosovo Government amounts to 7.86% of GDP, of which 80 % is attributed to the external debt, mainly associated with the implementation of the IMF standby arrangement. There is a dedicated unit for debt management within the Treasury, which is responsible for debt management, recording and reporting.

Budget execution has been controlled through the setting of allocation limits, which were based on forecasts of available resources and the individual needs of the spending institution, with due regard to seasonality of revenues and expenditures. The Treasury has managed allocations through the year and controlled budget execution and cash management based on the cash plan submitted by Budget Organizations themselves. The effective use of the Financial Management Information System (KFMIS) has been an important tool in managing and executing the budget.

The internal control procedures are comprehensive, relevant, and well understood, with harmonization taking place between the legislation (LPFMA), the secondary legislation (Treasury Financial Rules), and the KFMIS application. Since 2009 the Treasury has successfully implemented the decentralization of final expenditure controls to budget organizations. Despite efforts to strengthen the compliance with financial rules exceptions have continued to take place and the most recent report of the Auditor General for 2011 still indicated some incidences of non-compliance.

The internal audit function is regulated by the legal framework and procedures harmonized with the International Internal Audit Standards and modeled on modern professional practices. The Central Harmonization Unit for Internal Audit (CHUIA) is responsible for the development of internal audit profession; while out of 50 budget organizations 31 have established Internal Audit Units staffed with a total of 82 auditors. Total number of trained and CIPFA certified auditors in accordance with International Audit Standards is 25.

In general, management's response to recommendations varies, but the willingness to implement Internal Audit recommendations has been recently increasing. During 2012, the total number of recommendations amounted to 1,475, of which 57.3% have been implemented, with a further 24.9% being implemented.

Payroll remains an issue that needs addressing. Although the Kosovo Government has introduced a new management information system for human resources payroll was still not integrated with personnel database. Furthermore, a new system has been implemented only on a pilot basis and has not been compatible with legislative changes introduced by the Law on Civil Servants and the Law on Salaries of Civil Servants that entered into force in 2013. As Budget Organizations update the payroll monthly, prior to the execution of the payroll, changes have generally been made on a timely basis and retroactive adjustments to payments were

insignificant. An ongoing issue has been a lack of budgetary control in the processing of the payroll, so while internal controls existed for changes to the payroll, these did not ensure that budget allocations or staff limits were not exceeded.

Public procurement legal and regulatory framework has witnessed recently considerable improvements. An amended Law on Public Procurement entered into force in 2011, which significantly increased the compatibility of the legislation with EU standards. The most recent Country Fiduciary Assessment conducted by the World Bank in March 2012 reported that the current law “reflected adequately the main principles of a sound public procurement system and was consistent with international good practices in public procurement”. Data have suggested that over 80% of contracts by value were procured through competitive open bidding. However for the rest procured by using less competitive methods there is no data available on the justification used. In addition, the Auditor General reported in 2011 that weaknesses in procurement process in budget organizations still persisted. There is a good system of web-based dissemination of key procurement information, including contract awards and complaints resolutions.

Accounting, recording and reporting

This dimension is measured by indicators PI-22 to PI-25. It examines the extent to which adequate records on the use of public funds are produced, maintained, and reported in order to ensure managerial control over the performance and to exert transparency. Low scores imply vulnerability to underperformance and weak accountability.

As indicated above the Treasury is serviced through the STA with the CBK, through which all Government revenues and expenditures are recorded. The STA can be accessed in real-time through on-line access to the account at the CBK. Reconciliations between Bank and Treasury records are performed on a daily basis.

Access to and production of up-to-date live budget data is facilitated by the KFMIS functionality at any point in time. It enables the generation of accurate, reliable and timely budget and financial reports. Budget execution reports allow the comparison of original budget with the latest information on budget appropriations, commitments, actual expenditures, budget balance and employment. They were produced and disseminated on a monthly and quarterly basis to meet decision-making control, management, and reporting purposes. Annual consolidated financial statements were prepared by the Treasury based on the LPFMA requirements. The 2011 Kosovo’s consolidated financial statements received an unqualified external audit opinion in accordance with ISSAI 400.

In principle, information on resources received by service delivery units is available – either as a part of routine budget planning/reporting or on demand - in education sector. This has been made possible by the initiative to decentralize budget management to individual schools. Similar decentralization has not yet happened for primary health care sector, thus information is not easily accessible. However, the actual expenditure is indeed recorded in the KFMIS, which allows the generation of data for individual health care houses if needed. The consolidation and reporting of data have not been performed.

External scrutiny and audit

This dimension is measured by indicators PI-26 to PI-28. It examines the extent and effectiveness of arrangements for scrutiny of public finances. Low scores suggest inadequate independent oversight of Government's operations.

Generally, the financial statements of Republic of Kosovo Budget are prepared and consolidated by the Ministry of Finance in timely manner as prescribed in the law. OAG performs regularity audits of financial statements are audited by OAG in accordance with international accounting standards issued by SNISA and submits the reports timely as prescribed in the law. The recent OAG annual report showed that from total of 5 audit recommendations contained in previous report, only two were addressed partially.

The LPFMA sets out the procedures for adoption of the budget and changes during the year. These procedures are adhered and the Budget and Finance Committee had up to 4 weeks to review the budget documentation submitted by the Government. With regards to institutional capacity, the Budget and Finance Committee has shown improvements in reviewing the budget, however the review was focused mainly in the revenue and expenditure information set in the Annual Budget Law.

Generally, there are well established procedures in the Kosovo Assembly for the review of external audit reports, which as a practice was undertaken within three months from the receipt. The institutional arrangements and capacity to perform more in-depth analysis have improved recently. In 2010, a special Committee for the Supervision of Public Finances was established and staffed. However, the Committee has not yet established sufficient record on its oversight role, including issuing recommendations and monitoring.

Donor practices

This dimension is measured by indicators D1 to D3. It examines the extent to which donors integrate their support into the Government's budget process and systems. Poor scores indicate potential fiduciary risk perceived by donors.

During the years 2010 through to 2012, total received donor budget support amounted to €86 million and on average constituted around 2.5% of total revenue each year. The annual budget support amounts were agreed with donors each year during the budget formulation process and subsequently included in the budget proposals as a financing source.

The Government has taken measures to improve institutional arrangements for the management of donor aid programs. The coordination of foreign assistance to Kosovo is currently done through the Department for Development Support in the Ministry of European Integration and utilizes a dedicated electronic platform for the management of aid. However, concerns remain as to the quality, reliability and timeliness of information collected through this system.

In general, donor project funds, except for budget support and designated grants, continue to be managed outside of national procedures despite the increasing potential for the use of PFM country systems. The most recent World Bank Country Fiduciary Assessment concluded that "limitations on capacity and experience in World Bank projects, and high risk of fraud and corruption in Kosovo severely restrict the scope for increasing use of country systems" (World Bank, March 2012, p. 51). The same perception most likely prevails with other donors.

(iii) Assessment of the impact of PFM Weaknesses

The Kosovo's PFM system appears sufficiently developed to provide for adequate level of fiscal discipline. Legislative and operational frameworks for the budget formulation, execution, and reporting are essentially in place and robust. Recently, the outcomes in terms of fiscal discipline have considerably improved as a result of measures introduced in order to comply with the IMF Stand-By requirements.

At the same time, there are still weaknesses, which increase the risks in fiscal management:

- Although the frameworks exist, their enforcement capacities are rarely invoked, and available information is insufficiently scrutinized and applied in routine or systematic ways;
- Deviations from the planned expenditure levels persist;
- The oversight of fiscal risk from the POE sector continues to be insufficient and ineffective;
- The lack of linkages between MTEFs and annual budgets creates the potential for ad hoc policy decisions carried without the regard to longer term implications;
- Limited integration of medium-term implications of budgetary spending decisions, in particular with respect to public investment and payroll, can lead to unsustainable budget commitments, which may jeopardize future fiscal targets;
- Moderate involvement of the Parliament in the scrutiny of Government's macro-fiscal policy.

Overall, fiscal discipline has become one of key objectives of Government's economic policy and this commitment is reflected in current high evaluation of directly related PEFA indicators. However, weaknesses outlined above will need to be addressed in order to ensure that PFM practices contribute to the maintenance of longer term fiscal sustainability.

The conditions for strategic allocation of funds seem to be in place. The necessary frameworks and policy-related tools, such as the MTEF process, are provided for in the legislation and implemented in practice with efforts to address national strategies and priorities. Sufficient basic information is regularly produced, so it is possible to determine and audit the planned and actual expenditures.

However, there are important considerations, which weaken the potential of decisions on appropriation of resources to strategic national goals:

- The nature and timing of the issuance of statements of national priority;
- The sectoral aspects of the MTEF are not used in the actual setting and execution of national priorities;
- The lack of adequate costing of sectoral strategies to inform multi-year strategic budget planning.

This aspect of PFM remains historically weak in Kosovo as proven by subsequent PEFA assessments. However, some progress in the establishment of appropriate institutional structures and procedures for improvements needs to be acknowledged. Also, while the Government continues to build its capacity to undertake strategic decisions on the allocation of public resources donor assistance in this area is already planned. In 2013, the Government is expected to work in conjunction with the European Commission on drafting of the Kosovo Development Strategy.

- Operational efficiency in Kosovo's service delivery processes remain a difficult area for several reasons:
- Although the MoF's Budget Circulars request information about programme goals, objectives, and performance measures, few Budget Organizations provide such information;

- Closely related to this, most Budget Organizations lack the information and the information systems upon which to base a service-delivery assessment process;
- There is little evidence that Budget Organizations systematically gather, monitor and evaluate, manage by, and report on service delivery – either its efficiency or effectiveness.
- Neither internal nor external audit processes have been routinely used by the management of many Budget Organizations as reliable sources of information through which to improve the operational efficiency or effectiveness of service delivery activities or resource allocations.

(v). Key changes from 2009 to 2013

Table 1 summarizes the comparison of PEFA results (scores from A-D), by comparing the performance of individual indicators of the Government of Kosovo in different periods of assessment, 2009 and 2013. The table (see below) suggests that considerable progress has been achieved in terms of quality of PFM systems and processes, resulting in improved scores in eleven indicators. From the table it can be seen that the highest increase has been in score A, where in 2009 there were seven A scores, whereas in 2013, this number increased by 4 more. It can also be noted that the number of poorer scores (score D) has been reduced, from seven in 2009 to five in the 2013 report.

Table 1: Summary Comparison of PEFA Scores 2009 and 2013

Score	2009	2013
A	7	11
B or B+	12	10
C or C+	5	5
D or D+	7	5
No score	0	0
Improved scores		12
Reduced scores		2

Significant developments which have had an impact in improved scores and resulted in budget organizations to be more efficient: a) Execution of the Budget (by improving the legal and regulatory framework for public procurement, decentralization of public expenditure management from Treasury to budget organizations. development and strengthening of planning systems using BDMS and PIP; enforcement of monitoring mechanism of public finances and Treasury Financial Rules; consolidation of the debt management unit within Treasury), ii) Cash management, iii) Accounting, iv) Recording and Reporting, and v) external Audit

Lowering of the scores has been mainly focused on the variance in the composition of expenditure, recorded in a higher percentage (14.6%) in 2010 as a result of the transfer of unspent funds in the Ministry of Infrastructure from 2009 to 2010, and under-spending in the Ministry of Foreign Affairs for failure to purchase the buildings for Diplomatic Missions as planned for 2010, in the amount of 10 million Euros.

Lowering of the scores has also happened in the area of competition, value for money, and controls in procurement, due to the use of less competitive methods of procurement. Although less competitive methods are used in about 11% of the total value of contracts awarded by the government, however absence of specific and reliable data on how many of those are awarded based on sufficient justifications has resulted in lower scores.

PEFA scores 2013					
PI	Dimension	Final Score 2009	Dimension	Final Score 2013	Comments (reasons for un/change)
A. Credibility of Budget					
PI-1	(i)C	C	(i)B	B	Amendment of Public Procurement Law; Decentralization of Public Expenditure Management to Budget Organizations.
PI-2	(i)A	A	(i)B+	B+	Difference in composition of expenditure in 2010
	(ii)N/A		(ii)A		
PI-3	(i)A	A	(i)A	A	Despite remaining within the range that allows for A score, there has been a shift from under-estimating to over-estimating of revenues.
PI-4	(i)A	B+	(i)A	A	Enforcement of monitoring mechanism
	(ii)B		(ii)A		
B. Comprehensiveness and Transparency					
PI-5	(i)A	A	(i)A	A	No improvement in budget formulation according to functional classification.
PI-6	(i)B	B	(i)B	B	N/A
PI-7	(i)A	A	(i)A	A	
	(ii)A		(ii)A		
PI-8	(i)A	B	(i)A	A	More time and better information provided to SN governments on their allocations from central government for the coming year
	(ii)D		(ii)B		
	(iii)A		(iii)A		
PI-9	(i)C	C+	(i)C	C+	There has been a progress in fulfilling criteria for regular financial reporting of POEs to the Government, Government's oversight and management of associated consolidated fiscal risks is not yet adequate.
	(ii)A		(ii)A		
PI-10	(i)B	B	(i)B	B	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 and health care centers can be provided by the municipal administration, as required by the Department of Education and Department of Health as well as respective line ministries. Information can be provided on request, but they are not available and published for easy access to citizens.
C. (i) Policy-Based Budgeting					
PI-11	(i)B	B	(i)A	B	The only improvement noticed in dimension (i), which did not impact the overall score. On dimension (i) compared with the 2009 PEFA assessment, a notable improvement is marked in terms of providing sufficient time (approximately six weeks) to BOs for their preparation and submission of budget requests
	(ii)C		(ii)C		
	(iii)B		(iii)B		
PI-12	(i)C	C	(i)C	C+	The overall score improved due to improvements in dimension (ii). On dimension (ii) Since the 2009 PEFA assessment, the Government has made progress in consolidating Debt Management Unit in the Treasury and in building capacity for regular debt sustainability analysis. Comprehensive analysis of domestic and foreign debt is prepared at least twice a year based on data updated after each new financial agreement
	(ii)B		(ii)A		
	(iii)C		(iii)C		
	(iv)D		(iv)D		
C (ii). Predictability and Control in Budget Execution					
PI-13	(i)A	B	(i)A	A	Main improvement in this score is attributed to dimension (ii) which describes changes in taxpayer service in addressing some deficiencies in the processes and staff within the TAK, which in the past did not
	(ii)C		(ii)A		
	(iii)B		(iii)B		

					meet the requirements of the legislation or good tax administration practice.
PI-14	(i)D	D+	(i)B	B	Progress since 2009 is tremendous in the area of taxpayer registration systems, with introduction of TIN and simplified registration procedures. In addition, Significant improvement has been made since 2009, with the introduction of audit planning and fraud investigation, based on a set clear risk criteria's, covering not only corporate taxpayers but expanded to also cover individuals who are in business
	(ii)C		(ii)C		
	(iii)C		(iii)A		
PI-15	(i)D	D+	(i)D	D+	Although progress towards collection of tax arrears is significant however the debt collection ratios are still low during 2012, below 60% and the total amount of tax arrears is significant (more than 2% of total annual collections). This is the only dimension which requires improvements for the future in order to upgrade the score.
	(ii)A		(ii)A		
	(iii)A		(iii)A		
PI-16	(i)A	A	(i)A	A	
	(ii)A		(ii)A		
	(iii)A		(iii)A		
PI-17	(i)N/A	A	(i)A	A	Dimension (i) was not applicable and scored during the conduct of the previous PEFA assessment in 2009 as Kosovo yet didn't have access to debt financing. Currently domestic and foreign debt records are complete, updated and reconciled on monthly basis with data considered of high integrity. In addition dimension (iii) is scored due to the fact that Central governments contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible Government entity. This was not applicable in 2009.
	(ii)A		(ii)A		
	(iii)N/A		(iii)A		
PI-18	(i)D	D+	(i)D	D+	Human resource management system not functional yet, no automated linkage with payroll. The fact that the situation has essentially not changed since 2009 in terms of the integration of two systems for the management of payroll and personnel, raises questions as to the timely tracking of changes between the systems; Currently, although internal controls for changes to personnel data and the payroll exist, the process continues to involve a number of considerable irregularities; The OAG, in the absence of capacities, has not been performing regular periodic audits of the payroll system.
	(ii)B		(ii)B		
	(iii)D		(iii)D		
	(iv)C		(iv)C		
PI-19	(i)B	B	(i)B	C	Assessment methodology has changed since 2009. A new dimension is assessed on the number of awarded contracts that justified correctly the use of less competitive methods of procurement. Although less competitive methods are used at about 11% of the value of total contracts awarded by the government, still the lack of specific and reliable data how many of those are awarded based on sustainable justification downgrades the score. Also, as required by dimension (iv) in the case of the PRB appeal review board, business/private sector associations and non-governmental organizations are not represented.
	(ii)B		(ii)D		
	(iii)B		(iii)B		
	(iv)N/A		(iv)D		
PI-20	(i)B	B	(i)B	B+	Training and certification of officers
	(ii)B		(ii)A		
	(iii)B		(iii)B		
PI-21	(i)B	B+	(i)A	B+	Internal Audit Function operational in all CBO, with exception of recently established BO
	(ii)A		(ii)A		
	(iii)B		(iii)B		
	C (iii). Accounting, Recording, and Reporting.				
	(i)A	B+	(i)A	A	Improved reconciliation of advance accounts

PI-22	(ii)B		(ii)A		
PI-23	(i)D	D	(i)B	B	Improved data collection and processing
PI-24	(i)A	B+	(i)A	A	Improvement in data accuracy and update
	(ii)A		(ii)A		
	(iii)B		(iii)A		
C (iv) External Scrutiny and Audit					
PI-25	(i)A	A	(i)A	A	
	(ii)A		(ii)A		
	(iii)A		(iii)A		
PI-26	(i)B	B	(i)B	B	Although overall score hasn't change, there are some improvements in dimension (iii). From total 5 recommendations in relation with Annual Financial Statement of Kosovo budget none was fully addressed.
	(ii)B		(ii)B		
	(iii)B		(iii)B		
PI-27	(i)C	C	(i)C	C+	
	(ii)B		(ii)B		
	(iii)B		(iii)A		
	(iv)B		(iv)B		
The Assembly had 2 months available for review of budget proposal for 2013.					
PI-28	(i)A	C+	(i)A	C+	Although overall score hasn't change, dimension (ii) shows some improvements made in institutional arrangements to provide a better oversight on public accounts. Since 2009 when the PEFA assessment was conducted, the Assembly has established a special Committee for the Supervision of Public Finances, which began operating in 2010. The role and responsibilities of the committee is to institute government's accountability for the expenditure of public money.
	(ii)C		(ii)B		
	(iii)C		(iii)C		
D-1	(i)N/A	D	(i)A	D+	As compared to 2009 when no direct budget support was recorded, During the years 2010 through to 2012, total received donor budget support amounted to €86 million and on average constituted around 2.5% of total revenue each year as presented in the table below. This budget support has been included in the original approved budget and same actuals are reported.
	(ii)D		(ii)D		
D-2	(i)D	D	(i)D	D	From the assessment conducted in 2009, there were some institutional changes in the management of donor aid programs. All donors are required to report their projects' commitments, disbursement plans, and other projects' relevant information. Despite the fact that these data are reported as official by the Ministry of European Integration concerns remain as to the quality, reliability and timeliness. To date there are no mechanisms in place to validate the data. As a result, donor project aid and commitments are not incorporated into the budget formulation process. Moreover, there is still no automatic communication between the platform for the management of foreign aid in MEI and budget management in the Ministry of Finance.
	(ii)D		(ii)D		
D-3	(i)D	D	(i)D	D	Only donor funds channelled through the Treasury and processed through the KFMIS are consequently considered to have used national procedures. Donor funds that have been provided in a form of designated grants or direct budget support (see D-1 (i)) were insignificant and generally less than 10% of total donor assistance as per data presented in D-2 (i). In general, all other aid funds continue

					to be managed in accordance with procedures established and required by donors.
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Appendix 1: Links between the six dimensions of an open and orderly PFM system and three levels of budgetary outcomes

	1. Overall fiscal discipline	2. Strategic resource allocation	3. Efficient service delivery
A1 Budget credibility	<i>In order for the budget to be a tool for the implementation of policies, it needs to be realistic and implemented as approved.</i>		
Budget is realistic and implemented according to plans	<p>The initial approved budget is a fairly reliable guide for government policies. Total revenue and expenditure are close to budget levels. Budget organizations have been effective in implementing budgeted expenditures. Results of the performance reports have shown that the relationship between actual and budgeted expenditure has not deviated more than 10% in overspending in 2010 and under-spending 2011 and 2012, compared with the original plan of the beginning of year. There was a budget surplus that has resulted from the increase in revenues caused by the high level of imports for the period as a result of increases in consumption and capital investment growth over the years. In addition, other revenues have also increased. Delays in the payment of reported expenses at the end of the fiscal year, in the three years of assessment are relatively low.</p>	<p>Variance level in the composition of recorded expenditure for each of the last three years especially in 2010 with a more pronounced percentage of 14.6%, should be improved, which would enable a better allocation of resources during the planning phase and avoid increasing allocations during budget execution phase. Improvements should be made in the capital part using better methodologies for the selection and evaluation of projects, and improvements in the area of procurement.</p>	<p>Proper revenue projections in the budget planning stage enable better planning of inputs needed to achieve a better and more efficient service delivery.</p>

A2 Comprehensiveness and transparency	<i>Comprehensiveness of the budget is necessary to ensure the undertaking of all activities and operations of the government within the framework of government policies, and adequate arrangements are made on budget management and reporting. Transparency is an important institution that enables external control of government policies and programs and their implementation.</i>		
	<p>Level of extra-budgetary expenditure (other than donor funded projects) is insignificant. Kosova government works with the Treasury Single Account (TSA) and the Law on Public Financial Management and Accountability (PFMA) requires that all public money collected from all budget organizations - central and local - to be deposited in the TSA and cannot be spent until it is duly appropriated. There is no evidence of violation of this legal requirement by budget organizations.</p> <p>Monitoring of operational and financial performance of the national government of the Republic of Kosovo is conducted through the Policy and Monitoring Unit of Public Enterprises (POEMU's), created in 2009. All POEs have provided timely regular financial reporting for the last fiscal year (2012) to the Government,</p>	<p>All donor financing received by the Government of Kosovo – both central and local government - in cash, channeled through the Treasury accounts / TSA within the MoF in the Central Bank and are included in the KFMIS. There are no bank accounts operated outside the TSA by project implementation units or budget organizations for the implementation of projects funded by donors. All expenditure of designated donor grants are included in the regular budget execution reports during, and at the end of the fiscal year.</p> <p>Budget documentation, in addition to detailed information regarding revenues and expenditure, does not contain detailed information about the state of: arrears, financial assets; new policy initiatives of the government that may have budget implications. Availability of</p>	<p>The system of intergovernmental fiscal relations and finances of municipalities has not changed since 2009. Under the Law on Local Government Finance (LLGF) necessary legal basis has been established which sets: the definition of transfers from the central government, the formula for the allocation of grants and standards upon which the allocation of grants is based.</p> <p>According to LPFMA, information and guidance on the preparation of the budget, are communicated to Municipalities through circulars issued by the MoF. Regarding the allocation of transfers, improvements have been made in the timeliness of delivery and reliability of their information. However, this progress seems insufficient considering the delays and uncertainty about funding for municipal authorities until the end of the budget process during the evaluation period, which will affect a more efficient delivery of services.</p>

	<p>based on the legal requirements, which marked a significant improvement from the PEFA assessment made in 2009, when reporting was not regular. Whereas consolidated statements of government and the introduction of fiscal risks associated with these enterprises remains to be improved in the future, considering the level of government subsidies to these POEs</p>	<p>information to the public should be improved to account also for the factors mentioned above in order to increase transparency toward civil.</p> <p>In addition, municipal own-source revenues, budget execution and reporting are subject to similar rules to those of the central government budget organizations, whereas budget reporting is done through the Chart of Accounts.</p>	
A3 Policy-based budgeting	<i>Policy-based budgeting process enables the government to plan the use of resources in accordance with national fiscal policies and strategy.</i>		
Budget is prepared based on government policies	<p>Planning of the budget of the Republic of Kosovo is managed through two electronic systems – Budget Development Management System (BDMS) and the Public Investment Program (PIP). The latter is used for planning of capital projects while the rest of the budget categories are planned within the BDMS. Medium-term planning by BOs through the PIP system has progressed but nevertheless, documentation for projects is often not complete, not taking into account the recurrent cost implications in subsequent budgets and lack of coherent sector strategy implies the development projects in isolation. This applies to both levels of</p>	<p>MTEF document is a three-year forecast (on an annual basis) of revenues and expenditure based on economic classification at budget organization level, but not yet on a rolling or recurrent year-on-year basis. MTEF document 2012-2014 and 2013-2015 varies in terms of projected aggregate amounts of expenditure in the relevant year by more than 5% where the biggest changes are presented in the operating expenditure and subsidies and transfers, while these changes are not presented / justified in the most recent document MTEF 2014-2016. Changes are not explained in the 2013 annual budget documentation and moreover, some of them do not comply with the statement</p>	<p>Deficient development of the "bottom-up" element of the MTEF will prevent optimal service delivery.</p>

	<p>government, albeit principally to municipal levels.</p> <p>The government has consolidated the Debt Management Unit in the Treasury and has build capacities necessary to perform analysis about debt sustainability, which are prepared at least twice a year.</p> <p>All POEs for the last fiscal year 2012 have been regular with regular financial reporting to government, according to legal requirements. While the consolidated report and the presentation of the fiscal risk associated with these enterprises remains to be improved in the future, regardless of the level of government subsidy to POEs.</p>	<p>of Government priorities and which also remains vague.</p> <p>The MTEF document focuses more on the annual budget whereas the two years are projected in fact with almost same amounts.</p> <p>In recent MTEF document 2013-2015, the part concerning financing of municipalities, does not contain all information the medium-term period, the same has happened with the municipal budget circulars which have not submitted the multi-annual expenditure ceilings but only the OSR part.</p> <p>The Kosova government has undertaken several initiatives regarding the creation of preconditions for a more strategic planning of medium and long-term policies of the country which will also support budget planning and strategic resource appropriation.</p>	
<p>B1. Predictability and controls over budget execution</p> <p>Budget is executed in a predictable manner, and there are arrangements for the exercise of control and care in the use of public funds</p>	<p>Predictable and controlled budget execution is necessary to enable effective management of the implementation of policies and programs</p> <p>Kosova has obtained access to external financing in the form of longer and short-term borrowing in early 2010 through the promulgation and entry into force of the Law on Public Debt. Also, from that period, Treasury -the Debt Management Unit has raised its capacity and is still</p>	<p>The lower level of tax collection than is possible means that more resources can be made available for expenditure or tax rates are higher than they should be.</p>	<p>Treasury monitors the revenues and expenditure, cash forecasting, debt management and budget execution. According to Treasury Financial Rule on the start of new fiscal year, all budget organizations must prepare and submit to Treasury their cash flow projections. Cash allocations to institutions are based on the</p>

	<p>responsible for debt management, recording and reporting using debt management software (CS-DRMS). Currently, the total debt of the government of Kosovo is 7.86% of GDP, of which 80% is external debt. Municipal governments have not yet utilized in practice this form of financing through borrowing from abroad, given that they should have for at least 2 consecutive years unqualified audit reports, and this criterion has been met only by 2 municipalities.</p>		<p>institution's requirements for service delivery. Modern procurement practices have yet to be developed to reduce the use of less competitive methods that contribute to the improvement of service delivery.</p>
B2 Accounting, recording and reporting	<i>Timely, relevant and reliable financial information is necessary to support all decision-making processes, and budget and fiscal management.</i>		
Adequate records and information are produced, maintained and disseminated to meet controls over decision-making control as needed, management and reporting purposes.	<p>Treasury Single Account and KFMIS enable access to and production of updated budget data at all times. Budget organizations are connected to KFMIS, which allows the generation of accurate budget reports throughout the year, for purposes of reporting and management of public finances.</p>	<p>Information on actual expenditure against budgeting and comparison with the original budget estimates are enabled by the system</p>	<p>With the decentralization of the budget after 2009, the director of education within local governments possesses information about the level of budget planning and execution at every preschool institution, and elementary and secondary schools. The same decentralization has not occurred in primary health service delivery units and as a result municipalities do not have separate budget plan explicitly at the level of spending units..</p>
C1. External scrutiny and audit	<i>Effective control by the legislature and through external audit is a factor which enables the government to be held responsible for fiscal and expenditure policies and their implementation.</i>		
Arrangements on legislative scrutiny over public finances and	<p>There are some improvements made in institutional arrangements to ensure better oversight of public accounts. Parliament has established a</p>	<p>Controls through OAG are based on audits that meet international standards.</p>	<p>No performance audit of the Consolidated Statements of the Republic of Kosova has been conducted.</p>

<p>follow-up actions by the Government are functional.</p>	<p>special committee to oversee the public finances, which started work in 2010. The role and responsibilities of the committee establish government accountability and overall fiscal discipline on the spending of public money.</p>	<p>Assembly lacks consideration of the annual budget within the strategic context, and linkage of the annual budget with strategic priorities, and the MTEF.</p>	<p>For the latest audited statements of financial year 2011, the Committee for Supervision of Public Finance has invited the audited entities who have received qualified or unqualified audit reports in separate discussion tables, and then a public hearing where they have invited the Ministry of Finance and Ministry of Local Government, all the mayors, the Office of the Auditor General, Anti-corruption agency, Association of Kosova's Municipalities, etc.</p>
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1. Introduction

Assessment of the public finance management in Kosovo was based on the PEFA Framework - Public Expenditure and Financial Accountability, respectively based on 28 +3 standard indicators, including indicators associated with donor performance. PEFA assessment in Kosovo lasted from March 2013 - June 2013, and covers the 2010-2012 period.

2013 PEFA Performance Report is the third report published in Kosovo and as a process is run by the Government, with the support of GFSI/USAID advisers. Assessment of PEFA indicators and their scoring for 2013 is conducted on the basis of the findings in the field through numerous meetings, which were delivered to the respective institutions for comment in writing. The Secretariat visited all government departments as stakeholders, including line ministries such as Public Administration, Local Government Administration, Central Procurement Bodies, and country legislature, through the relevant committees, the Office of the Auditor General, and revenue collection institutions such as TAK and Kosovo Customs. Moreover, during the evaluation process, documents issued by non-governmental and business organizations providing their views on issues relevant to the assessment were duly considered. The draft was provided for comments to outside development partners and other stakeholders, as well as to the PEFA Secretariat in Washington DC.

PEFA assessment in Kosovo was conducted for the first time by the World Bank back in 2007. Whereas in 2009, the Government of Kosovo has implemented this methodology under its direction, thus conducting a second PEFA assessment. This assessment was followed by a Government Action Plan on Public Finance Management Reform. PEFA assessments at central government level were followed by a number of PEFA assessments conducted at the level of local governments in Kosovo with the support of donors such as USAID/GFSI and DFID. To date, 12 municipalities in Kosovo have successfully completed a PEFA assessment of PFM systems, which complement this PEFA assessment carried out at the central government level.

The Kosovo government has initiated the PEFA assessment in 2013 aiming to:

- Measure the progress of implemented reforms since 2009 when the last PEFA assessment was conducted, and developments in terms of policies, practices and PFM systems since that time
- Contribute to the development of an updated action plan on PFM reform, and identification of PFM areas requiring further improvements
- Serve as a platform for dialogue with donors, with the aim of channeling foreign aid
- Most PEFA assessments are followed by repeated assessments within a suggested timeframe of every 3-5 years (last PEFA assessment was conducted in 2009).

The 2013 PEFA assessment process is developed following the format below. Two entities were established with responsibilities to implement this process. By decision of the Government of Kosovo, in March 2013 the Project Steering Committee was established, in the following composition:

Steering Committee is chaired by Mr. Besim Beqaj¹ Minister of Finance and the following members:

- Mr. Hajredin Hyseni, Deputy Minister of Public Administration,
- Mr. Basri Musmurati, Deputy Minister of Local Government Administration,
- Mr. Hysni Hoxha, Head of Procurement Review Body and
- Mr. Ruzhdi Halili, Head of Strategic Planning Office – Office of Prime Minister

The purpose of the Steering Committee has been leadership in the development and implementation of policy level actions and decisions on PFM reforms and new activities. The entire process for the evaluation and issuance of PEFA assessment report in 2013 (see below) is supervised by the Steering Committee

Having been authorized by the Government of the country, the Deputy Minister of Finance has established the Secretariat for the Review of Public Finance and Financial Accountability (PEFA) to complete this process and report to the Steering Committee, with the following composition:

The Secretariat is headed by Mr. Nysret Koca, Deputy Director of Treasury. Other members of the Secretariat are:

- Merita Badivuku (Central Budget Department within the MoF)
- Afrim Shala (Central Harmonization Unit of Internal Audit at MoF),
- Armend Merovci (Department of Public and Economic Policies, Macroeconomic Unit within the MoF).
- Jak Ndrecaj (Municipal Budget Department within the MoF), and
- Merita Badivuku (Central Budget Department within the MoF),

The proces was supported by USAID/GFSI advisors:

- Fortuna Haxhikadrija,
- Alban Kaçiu
- Ramadan Matarova, and
- Magda Tomczynska.

(USAID / GFSI) through above-mentioned advisors has occasionally contributed to the assessment, information gathering, and document drafting process in order to ensure quality and proper application of the PEFA framework. All members of the secretariat are responsible for data collection and the implementation of the PEFA framework. The PEFA Secretariat team members are authors of this report.

Public expenditure where subject of this assessment with the focus being placed on the national government level, despite the fact that the operation of transfers from central to local government is examined under the PEFA guidelines. With respect to the central government, the focus has been on approximately 50 public sector entities. Over 90% of Kosova's public spending planned for 2012 was subjected to PEFA assessment methodology, according to the structure presented in the table below:

¹ The process was initiated by then acting Minister of Finance Mr. Ramadan Avdiu, until the new Minister of Finance, Mr. Besim Beqaj was appointed, thus taking the lead in this process and ongoing reforms.

Table 2 - Kosovo: General Government Expenditure, 2012 Budget, in euro million

	Wages and Salaries	Goods and Services	Utilities	Subsidies and Transfers	Capital expenditure	Reserve	Total
Central Government	212.3	146.48	14.6	276.9	492.21	4.6	1,147.2
Local Government	195.1	28.9	8.26	4.79	124.6	0	361.8
Total	407.5	175.5	22.8	281.7	616.9	4.6	1,508.9
Of which:							
	GOVERNMENT GRANTS FOR OWN AND ENHANCED COMPETENCIES						301.8
	General Grant for Municipalities						118.7
	Education Grant for Municipalities						140.32
	Health Grant for Municipalities						39.8
	OSR						60.00
Total expenditure covered by PEFA							1,448.9
Of which Central government (%)							79%
Central government transfers to municipalities (%)							21%
As a percentage of Government total (%)							96%

2. Country Information

2.1 Description of the Economic Situation in the Country

Since the declaration of independence, Kosova has made continuous progress in building and strengthening of state-making. Besides other factors, the economic issue remains one of its main challenges, given the economic development trends that are prevalent in the region and beyond.

From the latest PEFA assessment (2009) progress has been made in terms of economic statistics: Central Bank of Kosova continues to provide high quality data to the financial sector and the external sector. Besides the Central Bank, the Statistical Agency of Kosova has also made progress, and with the support of international organizations, a census was conducted in 2011 in Kosova, for the first time since the last inclusive census in 1981. Since then there has been no official statistics regarding population, and the announcement of results during 2013 has led to a reappraisal of key macroeconomic parameters.

Upon receipt of full powers to govern the country, the government of Kosova is committed to building the road infrastructure and construction of school buildings, hospitals and other public buildings in order to create favorable conditions for stimulating private investment and attracting foreign direct investment. Also, starting in 2009, the government has applied expansive fiscal policy by lowering tax rates for individual income and corporate income in order to increase domestic consumption.

During 2009-2012, GDP in Kosova increased on average by 3.4%, mainly driven by investment, consumption and exports, while imports of goods and services continued to have a share of 53% (2009-12), in addition to exports of goods and services with a share of 19%. Only in 2012, total imports of goods and services amounted to € 2.652 billion euro, 54% of GDP, while exports totaled 940 million euro, or 19% of GDP. The high percentage of imports in GDP shows that economics is not able to fulfill domestic demand, which leaves it very much exposed to potential economic shocks from abroad. GDP per capita in 2012 amounted to € 2.071 euro with a new census of its population is about 1.8 billion.

Financing of the current account deficit (the deficit caused mainly by negative trade balance) continued to be mainly from remittances, foreign direct investment, external borrowing, and internal borrowing, a process which has been initiated in 2012, as well as changes in net foreign financial assets (ANHF) of the banking system. Given that Kosova is a euroized economy, it can improve its trade balance only through a real depreciation of the exchange rate, which can be achieved by relatively lower prices with commercial partners that can come from improved productivity / efficiency and potential reduction potential of wages, which at this stage is not possible given the government's objectives to increase welfare.

The large number of formal unemployment and poverty are serious problems despite improvements in per capita income. Official estimates of unemployment is around 35.1% percent, and thousands of young people (including those with university qualifications) enter the labor market every year.

The informal sector is a safe area of employment for many people, but apart from that in 2011, 29.7 percent of the population is considered poor, with less than 1.72 euro per day per adult costs.

Kosova faces high investment needs. In order for the economic development of Kosova to move ahead, natural resources should be utilized (lignite-coal, nickel and other metals), which can turn into a major driver of economic development.

Among the significant advances made during 2012 are the actions taken to improve Kosovo's ranking of doing business, an assessment made by the World Bank serves as informative guide for potential investors. The energy sector and its sustainable development continue to be of importance need to attract investors and to support Kosovo's industry, at a time when the world economy is facing problems in each sector of the economy and in every country. Therefore progress in this sector is expected to affect the reduction of subsidies for POEs, particularly to KEK, which until 2012 continued to receive subsidies from the central level.

Table 3: Macroeconomic Indicators, 2010-2012

Description	2010	2011	2012
Gross Domestic product	4,136	4,486	4,889
Consumption	3,716	3,937	4,156
Investment	1,308	1,494	1,661
Exports (G&S)	742.3	919.3	939.9
Imports (G&S)	2,295	2,573	2,652
Nominal GDP growth	7.1%	11.3%	3.5%
GDP deflator	3.9%	6.8%	1.1%
Real GDP growth	3.2%	4.5%	2.4%

Real GDP growth for the years 2010, 2011 and 2012 was 3.2%, 4.5% and 2.4% respectively. In 2011, in contrast to the region, Kosova managed to make satisfactory real growth, however in 2012 growth slowed, influenced by developments in the euro zone. On the other hand, inflation in Kosova in 2012 was 2.5%, impacted by lower global prices as a result of economic difficulties in developed countries.

Poverty profile

According to the research 'Poverty in consumption for the year 2011' of the Statistical Agency of Kosova and the World Bank, in 2011 about 29.7% lived below the poverty level while 10.2% live below the extreme poverty line.

Description	Poverty			Extreme Poverty		
	2009	2010	2011	2009	2010	2011
Urban:	33.1	26.7	26.7	13.2	7.8	9.4
Rural:	35.3	30.7	31.5	12.1	8.5	10.7
Total:	34.5	29.2	29.7	12.5	8.2	10.2

Data presented in the table suggests that extreme poverty in 2011 has increased compared to 2010 and this increase is pronounced in the rural areas. According to the Statistics Agency of Kosovo, this increase is within the margin of sampling error of HBS but that is not substantially increased. According to the same report, the poverty gap in rural and urban areas has declined from 2009 to 2010, but in 2011 increased in both categories with emphasis on rural areas. Whereas with respect to the gender coefficient for urban and rural category, which measures inequality in the distribution of income and consumption has continued to mark progress and in 2011 the rate fell to 27.6 from 29% in 2010.

Regarding social protection, the data show that in 2012 the number of people that have requested social assistance has fallen by 11%, from 34.867 in 2011, to 31.111 persons in 2012.

2.2 Description of budget results

Following this section the overall budget results for the years 2010-2012 are presented. These data include actual revenues and expenditures of the general government, including financed expenditures through grants.

From the data presented below (see Table 1), it can be seen that the total budget revenues have increased over the years amounting to € 1,556.0 million in 2012. While revenues as a share of GDP during 2010 and 2011, remained almost constant, with a more significant increase in 2012 where the share of total income in Gross Domestic Product was 31.5%, mainly as a result of domestic and foreign borrowing.

Table 4: General Government Revenues (Million Euro)

Description	2010	2011	2012	as % of GDP		
				2010	2011	2012
Total revenues	1.198,9	1.317,9	1.556,0	27,9%	27,6%	31,5%
Taxes	893,6	1.058,0	1.093,9	20,8%	22,2%	22,1%
Direct Taxes	126,2	139,7	154,3	2,9%	2,9%	3,1%
Indirect Taxes	767,4	918,3	939,6	17,9%	19,2%	19,0%
VAT	456,3	541,0	548,5	10,6%	11,3%	11,1%
Excise	232,6	284,5	303,2	5,4%	6,0%	6,1%
Costums Tax	106,8	123,7	122,8	2,5%	2,6%	2,5%
Tax Returnns	(28,3)	(30,9)	(34,9)	-0,7%	-0,6%	-0,7%
Other	211,5	185,6	218,9	4,9%	3,9%	4,4%
Foreign borrowing	22,1	5,1	93,7	0,5%	0,1%	1,9%
Internal borrowing	-	-	73,3	-	-	1,5%
THV-Municipalities	52,0	55,6	59,4	1,2%	1,2%	1,2%
Grants	19,7	13,6	16,8	0,5%	0,3%	0,3%
One time revenues	-	-	-	-	-	-
Nominal GDP	4.291,20	4.776,20	4.944,00	100%	100,0%	100,0%

Table 2, the following presents the overall budget expenditure during 2010-2012, according to economic categories. Total expenditures during this period have increased continuously, increasing the value of € 1, 443, 89 million in 2012. Wages and Salaries as a category of economic costs have increased by 26% to 28% in total, while other categories have marked a sensitive decline in 2012 compared to 2010. This increase in wages and salaries comes mainly as a result of raising the salaries of civil servants and transfer of new responsibilities.

Meanwhile in terms of expenditure, expenditure-GDP ratio has increased from 28% to 29% in 2011 and 2012, the highest percentage in the category of capital spending by 11%. This emphasized expenditure participation in this category mainly reflects the implementation of the highway project "Ibrahim Rugova" large number of infrastructure projects that include the construction of other roads, building schools, hospitals, and additional investment involved in improving infrastructure. As seen in Table 2, other categories of expenditures, excluding Capital Expenditure, in general have maintain the same level of their share in GDP.

Table 5: General Government Expenditure, EUR Million

Description	2010	2011	2012	as % of GDP			as % in total		
				2010	2011	2012	2010	2011	2012
Wages and Salaries	316.2	388.3	409.2	7%	8%	8%	26%	28%	28%
Goods and Services	191.1	186.642	199.593	4%	4%	4%	16%	14%	14%
Subsidies and Transfers	253.484	256.5	280.3	6%	5%	6%	21%	19%	19%
In total recurrent (operating)	760.784	831.442	889.093	18%	17%	18%	62%	61%	62%
Capital expenditures	459.3	531.3	554.8	11%	11%	11%	38%	39%	38%
Total	1220.08	1362.74	1443.89	28%	29%	29%	100%	100%	100%

Source: Ministry of Finance

Regarding expenditure by function, Economic Affairs are the largest element of expenditure increasing from 331.8 to € 430.2 in million which relates to the amount of capital expenditures in this function, particularly on the road. From the table it can be seen that in nominal terms have also increased expenditures for Social Protection, Education and Health, which mainly consist of recurrent expenditure.

Table 6: Government Expenditure by Function

Description	2010	2011	2012	% of GDP		
				2010	2011	2012
General Services	276,3	271,8	278,1	6%	6%	6%
Protection	26,5	29,6	31,2	1%	1%	1%
Public Order and Safety	104,2	104,4	117,0	2%	2%	2%
Economic Affairs	331,8	422,0	430,2	8%	9%	9%
Environment Protection	3,1	1,8	1,9	0%	0%	0%
Housing and Community Affairs	29,9	26,1	30,4	1%	1%	1%
Health	108,7	119,1	128,6	3%	2%	3%
Recreation, culture and religion	16,0	20,1	30,4	0%	0%	1%
Educatoin	162,6	194,3	198,1	4%	4%	4%
Social Protection	161,0	173,4	197,9	4%	4%	4%
Total	1.220,08	1.362,74	1.443,89	28%	29%	29%

2.3 Description of Legal and Institutional Framework for PFM

The Constitution of the Republic of Kosova, which was adopted on 9 April 2008 and entered into force on 15 June 2008, represents the highest legal act and at the same time determines the overall legal framework in Kosova. Under this act, there are two levels of government in Kosova - the central level and municipal level respectively. Central level of government is the subject of this assessment. Responsibility for Public Financial Management lies with the Government and is exercised by the Ministry of Finance.

The legal framework for public finance management is established by Law on Public Financial Management No. 03-L048 (successor of Law 2003/2), as amended by Law No. 03/L-221 on amendments to the Law 03/L-048 on Public Financial Management. While this law establishes the overall legal framework for the management of public finances, there are other laws and regulations that deal with specific areas such as Law No. 03/L-067 on Local Government Finance. The latter regulates the financing of local government including revenue from property tax, and own source revenues (fees, fines for traffic violations, fees for building permits, etc.). In addition, the Law on Local Government Finance sets the terms and conditions (formulas) for the distribution of transfers from the central government in the form of grants (transfers for general governance, transfer for health and transfers for education).

Within the Ministry of Finance there exists the Central Budget Department and Municipal Budget Department, where each is responsible for the development of respective parts of the Medium Term Expenditure Framework, the Draft Budget of the Republic of Kosova, as well as evaluation of requests for changes to budget appropriations. This work is based on macroeconomic assumptions and the Medium Term Fiscal Framework which is prepared by the Department of Economic and Public Policy. In addition, the Office of Strategic Planning within the Office of Prime Minister is responsible for coordinating the policy priorities in the medium term. Law on Public Financial Management and Accountability defines the responsibilities of Treasury within the Ministry of Finance, which is responsible for the management of Funds of the Republic of Kosova, management of bank accounts, establishment of processes for the collection of public money, maintenance of accounting records, financial reporting, and debt management. Treasury exercises these responsibilities under Regulations and Guidelines which are issued and updates from time to time. In addition, the Treasury is responsible for the preparation of procedures and rules for financial management and controls.

Audit in the public sector is regulated by Law No. 03/L-075 on the Establishment of the Office of Auditor General, which sets out the powers, responsibilities and standards of External Audit of Public Sector. Under this Law, the External Auditor shall audit all central public entities (budget organizations, public enterprises, independent institutions) and local level public entities (municipalities, public enterprises under municipal management), and reports to the Assembly of the Republic of Kosova. While Internal Audit is regulated by Law No. 03/L-128 on Internal Audit whose goal is to establish better operational efficiency, a greater budgetary and fiscal discipline. The Central Harmonization Unit on Internal Audit (CHUIA) is also established under this Law, in charge of setting internal audit standards, rules, instructions, manuals, organization and training of internal auditors, issuance of licenses and review of their performance.

Public Procurement in Kosova is regulated by Law No. 04/L-042 on Public Procurement in the Republic of Kosova, which the following three institutions are established:

- Public Procurement Regulatory Commission as an independent regulatory agency and responsible for developing and monitoring of the public procurement system in Kosova. PPRC achieves this through the development and dissemination of regulations, manuals, guidelines, and standard forms for procurement.
- Review Body as an independent administrative body for the review of complaints about the Public Procurement Law and the Law on Procedures for Granting Concessions (Law No. 02/L-44).
- Central Procurement Agency as a successor of the Public Procurement Agency is responsible for the development of joint procurements for contracting authorities and upon request by contracting authorities, conducts or assists in conducting procurement activities.

Tax revenues are collected through two agencies within the Ministry of Finance which operate under their respective laws. During 2012, changes were introduced to domestic tax laws in line with EU legislation such as the Law No. 04/L-102 amending and supplementing the Law No. 03/L-222 on Tax Administration and Procedures, Law No. 03/L-104 amending and supplementing Law No. 03/L-161 on Personal Income Tax, and Law 04/L-103 amending Law No. 03/L-162 on Corporate Income Tax. As far as border taxes are concerned, responsibilities of Customs of the Republic of Kosova are determined by Law No. 04/L-099 also adopted in 2012 in accordance with EU legislation, on amendments to the Customs and Excise Code No. 03/L-109. The Value Added Tax is also collected in Kosova under Law No. 03/L-146 on Value Added Tax which came into force on 1 July 2010.

3. Assessment of PFM Systems, Processes and Institutions

3.1 Budget Credibility

3.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

(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).

Budget execution has deviated from original plan for 5.4% in 2010, 5.5% in 2011, and 5.3% in 2012, marking a overspending in 2010 and underspending in 2011 and 2012. In 2011, it was recorded the highest deviation in the last three years.

Since 2009 assessment, there were developments that made budget organizations more efficient in the budget execution.

1. Firstly, Amendments to the Law on Public Procurement have facilitated procurement processes that directly impact on improved efficiency of public spending. Some of the changes are:
 - Deadlines for the types of procurement procedures for larger and medium values, and quotations are reduced.
 - Changes were also made on determination of values for contracts that have increased the limits of amounts for supply, services and works contracts ;
 - Decisions by the PPA are transferred to the contracting authority
 - Rental costs, training costs and representation are not conducted through procurement procedure as before, and
 - For the award of a contract, procedure allows to proceed with two economic operators whereas under the old law the requirement was for three economic operators.
2. Secondly, the delegation of public expenditure management by the Treasury to budget organizations influenced the efficiency of public spending. In 2009, the Treasury has decentralized the final point of expenditure controls to budget organizations. This has brought a number of advantages to budget organizations, including improvements in the efficiency of processing of payments
3. Thirdly, improved public expenditure is a result of the development of planning systems (BDMS) and PIP that are available to the Budget Department. Developing and strengthening the use of these two systems has enabled BOs to make more accurate budget planning, where their claims can be justified within budget ceilings.
4. Finally, another factor that has an impact in improving public expenditure management is that always, based on the principle of flexibility, which is enabled under LPFMA and the Annual Budget Law for transfer of funds as follows::
 - Transfer of funds amounting up to 15% of economic category at program level with the approval of the Minister of Finance;
 - Transfer of funds between 15% and 25% of economic category at sub-program level with approval by the Government.
 - Transfer of funds in the amount of 25% or more of the economic category at sub-program level with approval by the Assembly.

In addition, according to Annual Budget Law the Minister of Finance can transfer up to 5% of total budget appropriations in the last three months of fiscal year with prior Government approval.

Surely these developments made payment process more efficient and therefore the score has improved from last assessment from C to AB

Table 7: Budget Plan and Execution 2010-2012

	2010	2011	2012
Original Budget Plan (Euros)	1,129,509,680	1,424,988,451	1,508,912,003
Budget execution (Euros)	1,201,589,533	1,346,319,159	1,428,103,391
Difference (Euros)	72,079,853	78,669,292	80,808,611
Difference (%)	6.4%	5.5%	5.4%

Source: Annual Financial Reports and Annual Budget Laws

Score B

PI-1	Description	Score – M1
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	Nota 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

3.1.2 PI-2 Composition of expenditure out-turn compared to original approved budget

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

In 2010, the variance in expenditure composition was 13.6%, while in 2011 it declined to 7.8%, and in 2012 it was further reduced to 6.7%. High variance in the composition of expenditure recorded in 2010 was a consequence of the transfer of unspent funds from 2009 to 2010 in the Ministry of Infrastructure, and under-spending in the Ministry of Foreign Affairs due to non purchase of embassies' buildings as planned for 2010. These developments led also to a deterioration of PI's scoring from A to B as compared with the 2009 PEFA assessment. where variances in the composition of expenditure under 2009 PEFA assessment were 5% for 2007-2009 period.

Table 8: Total deviation and expenditure deviation 2010-2012

	For PI-1	for PI-2 (i)	for PI-2 (ii)
viti	General Expenditure Deviation	Difference composition	in Reserve fund as budget %
2010	6.4%	14.6%	
2011	5.5%	7.1%	0.6%
2012	5.4%	6.6%	

Source: KFMIS

Score B

2010 Data						
Functional title	Budget	Actual	Adjusted Budget	Deviation	Absolute (deviation)	%
Assembly	9,301,667	8,247,361	9.861.723,8	-1.614.362,8	1.614.362,8	16,4%
President's Office	2,966,798	1,433,190	3.145.430,0	-1.712.240,0	1.712.240,0	54,4%
Office of Prime Minister	8,829,589	7,813,779	9.361.221,8	-1.547.442,8	1.547.442,8	16,5%
Ministry of Finance	107,714,344	95,385,917	114.199.864,3	-18.813.947,3	18.813.947,3	16,5%
Ministry of Public Administration	30,030,969	15,686,119	31.839.144,7	-16.153.025,7	16.153.025,7	50,7%
Ministry of Agriculture, Forestry and Rural Development	11,596,448	10,751,907	12.294.674,4	-1.542.767,4	1.542.767,4	12,5%
Ministry of Trade and Industry	8,773,091	8,069,734	9.301.322,0	-1.231.588,0	1.231.588,0	13,2%
Ministry of Infrastructure	124,818,220	204,245,245	132.333.571,0	71.911.674,0	71.911.674,0	54,3%
Ministry of Health	70,825,192	72,870,109	75.089.602,9	-2.219.493,9	2.219.493,9	3,0%
Ministry of Culture, Youth and Sports	11,765,863	11,365,410	12.474.289,9	-1.108.879,9	1.108.879,9	8,9%
Ministry of Education, Science and Technology	35,936,258	41,582,615	38.099.993,3	3.482.621,7	3.482.621,7	9,1%
Ministry of Labor and Social Welfare	173,599,921	175,133,189	184.052.436,2	-8.919.247,2	8.919.247,2	4,8%
Ministry of Environment and Spatial Planning	8,980,771	11,784,800	9.521.506,5	2.263.293,5	2.263.293,5	23,8%
Ministry of Returns and Communities	8,652,046	7,280,760	9.172.988,9	-1.892.228,9	1.892.228,9	20,6%
Ministry of Local Government Administration	10,257,499	8,239,812	10.875.106,8	-2.635.294,8	2.635.294,8	25,7%
Ministry of Economic Development	2,346,618	2,075,442	2.487.908,7	-412.466,7	412.466,7	17,6%
Ministry of Internal Affairs	79,803,068	79,199,702	84.608.040,1	-5.408.338,1	5.408.338,1	6,8%
Ministry of Justice	21,693,288	20,912,570	22.999.448,9	-2.086.878,9	2.086.878,9	9,6%
Ministry of Foreign Affairs	23,219,367	10,335,549	24.617.413,6	-14.281.864,6	14.281.864,6	61,5%
Ministry of Security Force	30,950,531	27,653,593	32.814.073,9	-5.160.480,9	5.160.480,9	16,7%
21 (= sumofrest)	342,472,494	372,175,848	363.092.889,0	9.082.959,0	9.082.959,0	2,7%
Allocated expenditure	1,129,509,680	1,192,142,651	1,192,242,651	0.0	173,481,096	
Reserve fund	4,975,638.00	9,346,882.00				
Total expenditure	1,129,509,680	1,201,589,533				
Total deviation (PI-1)						6.4%
Variance in composition (PI-2)						14.6%
Reserve fund as a % of budget						0.8%

2011 data						
Functional title	Budget	Actual	Adjusted Budget	Deviation	Absolute (deviation)	%

Assembly	16.767.921	15,931,298.00	8,170,190.3	146.133,1	146.133,1	0,9%
President's Office	2.540.097	1,230,155.00	2,399,776.3	-1.161.068,7	1.161.068,7	48,6%
Office of Prime Minister	8.817.086	6,396,456.00	8,396,143.3	-1.903.866,8	1.903.866,8	22,9%
Ministry of Finance	59.117.396	49,005,641.00	57,850,480.9	-6.646.926,0	6.646.926,0	11,9%
Ministry of Public Administration	22.120.819	13,003,120.00	20,898,814.9	-7.821.213,3	7.821.213,3	37,6%
Ministry of Agriculture, Forestry and Rural Development	13.725.746	12,678,931.00	12,967,504.7	-242.358,7	242.358,7	1,9%
Ministry of Trade and Industry	7.248.042	5,635,968.00	6,847,643.8	-1.187.271,4	1.187.271,4	17,4%
Ministry of Infrastructure	276.508.391	276,089,241.00	261,658,582.6	15.786.812,4	15.786.812,4	6,1%
Ministry of Health	79.079.229	79,234,392.00	74,710,713.4	4.789.941,0	4.789.941,0	6,4%
Ministry of Culture, Youth and Sports	13.099.388	10,363,063.00	12,375,748.2	-1.968.579,1	1.968.579,1	16,0%
Ministry of Education, Science and Technology	34.817.820	40,571,036.00	32,894,404.8	7.793.864,0	7.793.864,0	23,8%
Ministry of Labor and Social Welfare	201.404.460	183,189,921.00	190,278,421.7	-6.410.365,2	6.410.365,2	3,4%
Ministry of Environment and Spatial Planning	8.635.217	6,072,122.00	8,158,188.1	-2.056.991,0	2.056.991,0	25,3%
Ministry of Returns and Communities	7.160.317	6,476,659.00	6,764,764.9	-263.996,9	263.996,9	3,9%
Ministry of Local Government Administration	8.309.859	7,677,547.00	7,850,803.6	-145.277,0	145.277,0	1,7%
Ministry of Economic Development	56.215.096	54,235,118.00	53,109,646.8	1.314.749,3	1.314.749,3	2,3%
Ministry of Internal Affairs	92.678.453	78,488,349.00	87,864,356.2	-8.758.285,0	8.758.285,0	9,5%
Ministry of Justice	20.141.717	15,549,451.00	19,029,043.0	-3.411.774,1	3.411.774,1	16,9%
Ministry of Foreign Affairs	18.356.404	13,542,575.00	17,342,354.7	-3.737.973,1	3.737.973,1	20,4%
Ministry of Security Force	35.372.891	31,239,209.00	33,513,288.2	-2.060.501,7	2.060.501,7	5,8%
21 (= sumofrest)	437.872.102	430,153,674.00	413,683,055.9	17.944.948,1	17.944.948,1	4,1%
Allocated expenditure	1.419.988.451	1,336,763,926	1,336,763,926	0,0	95.552.895,7	
Reserve fund	5,000,000	9,555,233.00				
Total expenditure	1.424.988.451,00	1,346,319,159				
Total deviation (PI-1)						5,5%
Variance in composition (PI-2)						7,1%
Reserve fund as a % of budget						0,7%

2010 Data2						
Functional title	Budget	Actual	Adjusted Budget	Deviation	Absolute (deviation)	%
Assembly	16,082,651	16,449,020.45	15,236,081.77	1,212,938.68	1,212,938.68	8.0%
President's Office	2,600,365	1,422,994.31	2,463,485.26	(1,040,490.95)	1,040,490.95	42.2%
Office of Prime Minister	9,785,107	8,462,901.41	9,270,032.06	(807,130.65)	807,130.65	8.7%
Ministry of Finance	43,975,360	26,056,006.11	41,660,555.88	(15,604,549.77)	15,604,549.77	37.5%
Ministry of Public Administration	20,968,935	16,806,663.80	19,865,158.31	(3,058,494.51)	3,058,494.51	15.4%
Ministry of Agriculture, Forestry and Rural Development	21,409,230	20,819,165.23	20,282,276.77	536,888.46	536,888.46	2.6%
Ministry of Trade and Industry	6,889,467	3,588,780.63	6,526,814.67	(2,938,034.04)	2,938,034.04	45.0%

Ministry of Infrastructure	279,221,941	280,049,594.40	264,524,071.54	15,525,522.86	15,525,522.86	5.9%
Ministry of Health	88,588,425	86,776,485.74	83,925,248.81	2,851,236.93	2,851,236.93	3.4%
Ministry of Culture, Youth and Sports	18,266,154	16,249,864.85	17,304,648.09	(1,054,783.24)	1,054,783.24	6.1%
Ministry of Education, Science and Technology	40,984,755	45,999,307.52	38,827,372.32	7,171,935.20	7,171,935.20	18.5%
Ministry of Labor and Social Welfare	212,181,578	204,478,111.64	201,012,623.57	3,465,488.07	3,465,488.07	1.7%
Ministry of Environment and Spatial Planning	66,870,416	50,007,529.33	63,350,446.75	(13,342,917.42)	13,342,917.42	21.1%
Ministry of Returns and Communities	7,179,045	6,282,828.69	6,801,149.67	(518,320.98)	518,320.98	7.6%
Ministry of Local Government Administration	6,769,058	5,752,498.07	6,412,743.84	(660,245.77)	660,245.77	9.8%
Ministry of Economic Development	39,190,345	41,631,042.55	37,127,417.66	4,503,624.89	4,503,624.89	11.5%
Ministry of Internal Affairs	99,236,383	89,204,437.41	94,012,712.55	(4,808,275.14)	4,808,275.14	4.8%
Ministry of Justice	19,169,426	16,230,248.31	18,160,373.06	(1,930,124.75)	1,930,124.75	10.1%
Ministry of Foreign Affairs	16,243,583	14,479,136.16	15,388,542.52	(909,406.36)	909,406.36	5.6%
Ministry of Security Force	35,801,832	33,008,268.26	33,917,271.46	(909,003.20)	909,003.20	2.5%
21 (= sumofrest)	452,497,947	440,993,202.09	428,679,060.38	12,314,141.71	12,314,141.71	2.7%
Allocated expenditure	1,503,912,003	1,424,748,086	1,424,748,087	0.0	95,163,553	
Reserve fund	5,000,000	4,803,023				
Total expenditure	1,508,912,003	1,429,551,109				
Total deviation (PI-1)						5.3%
Variance in composition (PI-2)						6.7%
Reserve fund as a % of budget						0.3%

Source: KFMIS

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years

Over the three assessed years the average actual expenditures executed from the reserve fund amounted to 0.6% of the original budget which based on the PEFA assessment framework this dimension ranks in A. This dimension represents a further development of the PEFA framework, since as such, it has not been part of this framework in 2009. Consequently, there is no comparative basis with the assessment conducted in 2009.

PI-2	Expenditure	Score – M1
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	Score B (i) Variance in expenditure composition exceeded 10% in no more than one of the last three years.	B+
(ii) The average amount of expenditure actually charged to the contingency fund over the last three years	Score A Actual expenditure charged to the contingency fund was on average less than 3% of the original budget.	

3.1.3 PI-3 Aggregate revenue Out-Turn Compared to Original Approved Budget

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

Aggregate data on government revenues is presented in the following table, according to the origin. The revenue forecasts for government of Kosovo are generated based on the results provided by the projections of the macro-economic indicators, import price movements, prices and estimates on increase of performance of the responsible institutions for revenue collection, Kosovo Customs (KC) and Tax Administration of Kosovo (TAK). Customs and Tax Administration revenues are the main sources of revenue collection and account for about 90% of total revenues.

Increased tax collections at the border have had a major impact as it makes the largest share of revenue, and this is certainly driven by increased imports, for this period resulting from increased consumption and increase capital investments during these years. In addition, other revenues have marked increase.

Compared with the assessment in 2009, changed PEFA methodology as applied for 2013 enables scoring of underestimates and overestimates regarding the assessed taxes, which was not applied in 2009 under then assessment framework.

In addition, the data presented below suggest that revenue estimates during 2010-2012 period are realistic as compared to 2009, however in the future a conservative approach should be applied in revenue estimating which would allow preservation of the score for this dimension.

Table 9: Budget Plan for Government Revenues and Actual Collection, 2010-2012, in million euros

	2010			2011			2012		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Custom	683,600	700,657	102.5%	831,000	827,704	99.6%	867,000	844,861	97.4%
Dividends	85,000	85,000	100.0%	45,000	60,000	133.3%	35,000	45,000	128.6%

Tax Administration	235,000	221,234	94.1%	261,000	261,134	100.1%	288,000	283,915	98.6%
OSR from CBO	30,100	48,451	161.0%	55,000	59,912	108.9%	61,000	44,835	73.5%
Non tax revenues from CBOs	57,100	47,412	83.0%	45,000	45,525	101.2%	46,000	41,145	89.4%
Total	1,090,800	1,102,754	101%	1,237,000	1,254,275	98%	1,297,000	1,259,756	97%

Source: MoF Financial Reports

Score A

PI-3	Shpjegimi	Nota – M1
(i) Actual domestic revenue compared to domestic revenue in the originally approved budget	Nota A (i) Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years.	A

3.1.4 PI-4 Stock and monitoring of expenditure 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

The Treasury financial rule 04/2011 *on reporting outstanding obligations of budget organizations* requires that all claims received by budget organizations need to be paid within the period of time as specified in the contract, which is usually 30 days after the receipt of invoice. Outstanding obligations at the end of the fiscal year are required to: (a) be reported to the Departments of Treasury and Budget (b) be reported in financial statements, and (c) commitments reflected in the KFMIS.

The stock of arrears Outstanding obligations level reported at in the end of each evaluated fiscal year by the Government of Kosovo in three evaluated years is relatively low.

Table 10: Evaluation of arrears 2010-2012

	Description	Comment	2010 (Euros)	2011 (Euros)	2012(Euros)
A	Total Budget Appropriation	Till December 31	1,134,485,318	1,419,927,737	1,508,912,003
B	Total Budget expenditures	Till December 31	1,195,448,916	1,346,319,159	1,429,551,110
C	Arrears	Cummulative till December 31	15,912,555	21,072,570	13,875,771
D	Arrears as total expenditure %	D=C/B, %	1.33%	1.57%	0.97%

Source: MoF Annual Financial Reports, 2010-2012, List of outstanding obligations

Score A

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

There has been a considerable progress achieved in recording and monitoring of payment obligations, to avoid the accumulation of domestic payments arrears. The Treasury established a dedicated Unit for Expenditure Monitoring in 2011, which is responsible for the monitoring of payment obligations in all budget organizations and the enforcement of the LPFMA and financial regulations in this respect.

Reliable and complete data on the stock of arrears is generated through routine procedures at the end of each fiscal year and on a quarterly basis as part of regular reporting on the implementation of the IMF Stand-by Agreement.

Recent IMF review acknowledged the efforts of the Republic of Kosovo authorities in implementing an action plan to address remaining shortcomings in arrears' monitoring. The Treasury has revised the Rule 02 on Spending Public Money that will require to include the confirmation of funds commitment in the contract with suppliers. The Treasury will also amend internal financial rules such that they enforce the timely recording of payments-related documents in the Treasury's IT system. The upgraded IT system is expected to also allow for the automatic generation of arrears reports, i.e., without relying on reports from individual budget organizations.

Score A

PI-4	Shpjegimi	Nota- 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.	<p>Score A</p> <p>(i) The stock of arrears is low (i.e. is below 2% of total expenditures).</p>	A
(ii) Availability of data for monitoring the stock of expenditure payment arrears	<p>Score A</p> <p>(ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).</p>	

3.2 Comprehensiveness and transparency

3.2.1 PI-5 Budget Classification

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

Classification of the budget and chart of accounts are based upon government finance statistics (GFS) 2001 and are COFOG compliant. The classification system is administered by the Treasury in the Ministry of Finance using KFMIS (FreeBalance). Since 2012, Kosovo Treasury is in the process of upgrading the system from current version to FreeBalance program version 7.0, which will enable all users including all budget organizations in Kosovo access through internet (web based), which was not available with the previous program version.

Chart of Accounts provides for following classification categories:

- Source Classification
- Administrative classification
- Program/Department Level Classification
- Economic Classification
- Project Classification
- Functional Classification

Budget organizations can make the necessary recordings, but are not allowed to make revisions in the KFMIS, because Treasury can make such changes upon BOs' request.

Budget documentation is produced consistently for the following classifications:

1. Budget Formulation: Detailed budget statements are prepared and produced in accordance with administrative and economic classifications. Although budget documents do not contain a specific statement that presents the functional and sub-functional classification, it can be produced as respective functional codes are linked coordinated with relevant administrative classification and are shown in the budget documents. Budget Execution: The actual execution implementation, including budget appropriations, allocations, commitments and expenditures to date, is recorded in accordance with the abovementioned classifications.
2. Budget Reporting: Reports can be generated electronically in accordance with all three classifications and allow a comparison of the budget plan with budget execution

Similarly to the 2009 assessment, Functional classification for budget formulation can only be produced manually as a result of budget formulation where the administration of an BO is the same as if "administration" was a function and therefore automatic generation of reports by functional classification cannot be done.

Nevertheless the budget documentation can be produced based on GFS 2001 and is COFOG compliant, however the budget is not recorded in KFMIS by functional classification, and accordingly is not able to generate comparison reports with actuals according to functional classification. This warrants a Score A, however addressing the coding issue for aggregation to functions as well as the location of capital transfers would improve the quality of this activity.

Score A

PI-5	Description	Score – M1
(i) Classification system used for formulation, execution and reporting	Nota A The budget formulation and execution is based on an administrative, economic and	A

of the central government's budget	sub-functional classification using GFS / COFOG standards.	
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3.2.2 PI-6 Comprehensiveness of information included in budget documentation

(i) Share of the information mentioned above 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 purposes of this assessment includes the 2013² annual budget document of the Government of Kosovo adopted by the Assembly of Republic of Kosovo in December 2011.

The following table presents the scope of information included in 2012 budget document:

Table 1: Scope of budget documentation, 2012

	KASH	Aktualisht të përdorura	Komente
1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Yes	Key macroeconomic indicators and their medium term forecasts are presented in the main tables in the Kosovo government budget document. This is clearly seen in the published 2012 budget book.
2. Fiscal deficit, defined according to GFS or other internationally recognized standards	Yes	Yes	Fiscal balance - defined as total revenues minus total expenditures - is presented in the budget schedules of the budget document approved by the Assembly of Kosovo.
3. Deficit financing, describing expected composition	Yes	Yes	Budget tables present deficit for current and following years with explicit financing items from foreign and domestic sources.
4. Debt stock, including details at least for the beginning of the current year	No	No	Details of the debt stock are not presented in tables of total revenues and expenditures
5. Financial assets (such as OSR carried forward), including details at least for the beginning of the current year	No	No	Declaration of financial assets is not included in the budget document; however this is part of the annual financial statements
6. Prior year's budget outturn, presented in the same format as the budget proposal	No	No	Budget schedules include information on the budget amounts for revenues and expenditures for prior year's budget outturn only in aggregates and not in the same format as budget proposal.
7. Current year's budget (either the revised budget or the expected outcome), presented in the same format as the budget proposal	Yes	Yes	Information on current year budget - resulting from review has budget - include information on revenue and expenditures only in aggregates and not in the same format as budget proposal
8. Summarized budget data for both revenues and expenditures according to the main heads of the classifications used (ref. PI-5), including data for the current and prior year	Yes ²	Yes ³	The summarized budget data, which include main categories of revenues and expenditures by economic classification only, is included in Budget documents and highlighted in a separate special budget schedule.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and / or some major changes to expenditure programs	No	No	In general, government initiatives on new policies that may have budgetary implications are not explained in the annual budget document prepared by the government.

²Partially only economic and administrative

³Partially only economic and administrative

Source: Kosovo Government Budget, December 2011

Score B

PI-6	Description	Nota – M1
(i) Share of the above listed information in the budget documentation most recently issued by the central government	Score B (i) recent budget documentation fulfils 5-6 of the 9 information benchmarks	B

3.2.3 PI-7 Extent of 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 operates under the Single Treasury Account arrangement. The Law on Public Financial Management and Accountability (LPFMA) 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 for violation of this legal requirement by budget organizations. Therefore, there are no central government funds that are not reported.

Score A

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

All donor funding received by the Government - both central government and local governments - from donors in cash is channeled through the MoF /STA at the Central Bank and is accounted for in the KFMIS. There are no bank accounts operated outside 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 budget execution reports during the year and in year-end fiscal reports.

Kosovo's government received funds from donors in 2011 and 2012. The following table provides information on designated donor grants received and spent as compared with total budget expenditures of the government reported in financial statement at the end of the fiscal year.

Tabela 2: Grantet e Përcaktuara të Donatorëve, 2011-2012

	2011	2012
Received Designated Donor Grants (Euros)	23,350,000	23,238,000
Spent Designated donor grants (Euros)	16,927,000	14,937,000
Total budgetary expenditure (Euros)	1,346,319,159	1,429,551,109
Designated Donor Grants spent as a percentage of total expenditure (%)	1.25%	1.04%

Score A

PI-7	Description	Score – M1
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is not reported, i.e. not included in fiscal reports	<p>Score A</p> <p>(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (less than 1% of total expenditure).</p>	A
(ii) Income / expenditure information on donor-funded projects which is included in fiscal reports.	<p>Score A</p> <p>(ii) Complete information on income / expenditure for 90% (by 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).</p>	

3.2.4 PI-8 Transparency of Inter-Governmental Fiscal Relations

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

Since the last PEFA assessment in 2009, there have been no changes in the system of inter-government fiscal relations. Rules governing municipal finances are regulated by the Law on Local Government Finances, which sets the legal framework, including definition of transfers from central government, appropriation formulas, and standards underpinning grant's distribution.

The Law specifies the following criteria, which provide for transparent and objective allocation of transfers:

- Unconditional Grant: population, minority population, size of municipality's territory;
- Conditional Health Grant: population;
- Conditional Education Grant: school enrollment, number of schools

Budgeted allocation of government grants is based on rules defined in the Law. The Grants Commission, an intergovernmental body, oversees compliance and transparency in the process.

In addition, government often allocates specific purpose funds to selected municipalities, such as capital grants for complete financing or co-financing of capital projects at the municipal level provided by the Ministry of Infrastructure amounting to 10.8 million euro and Ministry of Local Government Administration amounting to 4.5 million euro, which accounts for 5.7% of total government grant to municipalities, which does not constitute a significant percentage of municipal budgets. This happens on a case by case basis and is not supported by transparent and open system of allocation principles.

During a recent fiscal year (2012), the actual appropriation of government grants is based on budgeted amounts and preserves the original distribution of transfers.

Score A

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

The Law on Public Finance Management and Accountability sets legal timeframe for the key steps in municipal budget process:

- By April 30 the Ministry of Finance is obliged to provide municipalities with information on their appropriation of transfers from the national government for coming year and the next two years;
- By August 31 municipal administration is obliged to present draft budget proposal to the Municipal Assembly for the review and approval;
- By September 30 Municipal Assembly is obliged to approve budget proposal

During 2012 the Ministry of Finance communicated with municipalities on the preparation of the 2013-2015 municipal budget through two budget circulars. The first budget circular was issued on May 10, 2012 and included initial estimate of transfers to municipalities for the coming budget year (two year forward estimates were not provided). The second budget circular was produced on July 26, 2012 and provided the final financing and budget expenditures ceilings together with instructions on the finalization of municipal budget process. In the second budget circular the MoF also notified municipalities on the possibility of the third circular that would introduce eventual funding changes following the centralization of two functions including firefighting services and trade inspectorates. The third budget circular was not issued at all and no changes were made in municipal budget financing. However this situation resulted in a confusion in the communication between the MoF and municipalities.

As compared with the 2009 assessment when this dimension was scored D, some improvement was marked in the timeliness and reliability of information on transfers' appropriation that the MoF provided to municipalities in 2012. For example, municipalities are provided with information regarding allocations within the time limits set by law, which otherwise also allowed sufficient time for the preparation of municipal budgets. Despite this progress in light of delays in providing information on allocations, even after the deadlines for approval of municipal budgets as was the case in 2009, it still seems that that progress is insufficient to deserve an A score, considering the delays and uncertainty about funding which municipal authorities were faced with until the end of the budget process - especially the information expected to be delivered with the third municipal budget circular which in fact was not delivered at all, despite notice.

Score B.

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

Similar to PEFA assessment in 2009, the development of municipal budget, execution and reporting continues to be done through a single financial management information system (KFMIS). Municipal Own Source Revenues are also consolidated within the single treasury account. Budget execution and reporting follows rules similar to those established for central government budget organizations. The municipal fiscal information is collected within the KFMIS and consolidated general government fiscal statistics are reported on regular basis in reports produced by the Treasury Department, including comprehensive quarterly budget execution reports and annual financial statements.

Score A

PI-8	Description	Score – M2
(i) Transparent and rules based systems in the horizontal appropriation among SN governments	<p>Score A</p> <p>(i) The horizontal appropriation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems.</p>	A
(ii) Timeliness of reliable information to SN governments on their allocations.	<p>Score B</p> <p>(ii) SN Governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible</p>	
(iii) Extent of consolidation of fiscal data for general government according to sector categories.	<p>Score A</p> <p>(iii) Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.</p>	

3.2.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities

(i) Extent of central government monitoring of AGAs and POEs

Currently central government monitors operational and financial performance of 17⁴ public enterprises (POEs), including Post and Telecommunications, Electricity Company, Water, District Heating, and Water and Irrigation. The government monitoring is performed by the Unit for Policies and Monitoring of POEs - UPMPOE. This unit was established in 2009 by the Ministry of Economy and Finance (MEF) and later, as a result of government restructuring in 2011, was transferred under the umbrella of Ministry of Economic Development, where it is placed nowadays even though with limited capacities.

According to UPMPOE, all POEs presented their latest fiscal reports (2012) to the Unit for Policies and Monitoring of POEs on quarterly and annual basis, which represents a considerable improvement as compared

⁴In accordance with the 2008 Law on public enterprises some POEs were transferred into the possession and responsibility of Kosovo municipalities. Monitoring of these POEs by Municipalities started in 2009.

with the situation at the time of the 2009 PEFA assessment. However, the reporting quality still requires improvements.

Additionally, according to UPMPOE, all POEs submitted their latest audit reports for 2011 financial statements (2012 audit of financial statements is not yet completed).

UPMPOE prepares annual summary of operational and financial performance of POEs based on data received from POEs, opinion of respective regulative offices, as well as opinion of the external auditor on audited annual statements. The summary report is submitted for discussion to the inter-ministerial commission for monitoring of POE led by the Ministry of Economic Development, Commission for Public Finances Monitoring in the Parliament, and is available to the public on Unit's website: http://mzhe.rks-gov.net/npmnp/repository/docs/Ndermarrjet_Publike_raporti_vjetor_2011.pdf.

Even though, it looks that UPMPOE summary of financial position of POEs, prepared annually, is comprehensive enough, in fact the summary takes out of consideration an important aspect which is a consolidated reporting on POEs associated fiscal risk.

In addition, albeit the UPMPOE claims to regularly monitor operational and financial performance of POE the Office of External Auditor highlighted some deficiencies in its 2011 report on Government's efficiency in management and monitoring of water companies (page 5, http://www.oag-rks.org/repository/docs/RaportiAuditimit_Ujerat_2011_Shqip_185551.pdf). The UPMPOE was found to fail to provide effective monitoring and to develop transparency in the publication of data required by the Law on Public Enterprises, while POEs avoided regular reporting to this unit. Although the external audit report relates only to water companies, it demonstrates that there is still a need for improvement in Government's supervision and monitoring of POEs.

UPMPOE currently considers the creation of a new electronic database that would enable direct collection of information on POEs performance but this is still at a concept stage. This would assist the Government in exercising better supervision and monitoring of POEs. It would also facilitate analysis on fiscal risks and preparation of consolidated dedicated report.

It can be concluded that while there has been a progress in fulfilling criteria for regular financial reporting of POEs to the Government, Government's oversight and management of associated consolidated fiscal risks is not yet adequate.

Most of Kosovo's autonomous government agencies operate their finances through the Single Treasury Account and are included in the Treasury's regular reports. Some autonomous bodies, including the central bank and government media (such as the RTK) operate outside of the Treasury and report directly to the Assembly, such that their finances are not included in the consolidated financial statements.

Score C

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

Since the 2009 PEFA assessment has been undertaken a new legal framework, based on the Law on Debt, was established that enables municipalities to enter into borrowing arrangements. As of 2013, there was no municipality that has entered into borrowing that could potentially create fiscal obligations for the central

government. Currently only 2 municipalities fulfill the basic legal requirement of two consecutive unqualified annual financial statements that would allow entering into debt.

Further, according to the Law on Local Governments are required to seek the approval of the national Government – Ministry of Finance – before entering into borrowing. The MoF approval does not constitute a guarantee nor obligation for the central Government to repay municipal debt, unless explicitly guaranteed in writing.

All BOs/municipalities channel their funds (except grants from Serbian government) through TSA. The fiscal position of municipalities is monitored and regularly reported in consolidated quarterly and annual reports prepared by the Treasury. Municipalities submit their financial statements regularly to the Treasury on annual basis.

Score A

PI-9	Description	Score – M1
(i) Extent of central government monitoring of AGAs and POEs	Score C (i) Most major AGAs and POEs submit fiscal reports to central government at least annually, but a consolidated overview is missing or significantly incomplete.	C+
(ii) Extent of central government monitoring of SN governments' fiscal position	Score A (ii)SN government cannot generate fiscal liabilities for central government or the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.	

3.2.6 PI-10 Access to key fiscal information

(i) Number of the elements of public access to information that is fulfilled

The procedures and deadlines for reporting and publication of key fiscal information are set in the Law on Public Finances and Accountability.

No	Information	Available	Comments
1.	Annual budget documentation: a complete set of documents can be obtained by the public through	X	The following link takes you to the budget law, aggregate table with mid-term revenue/expenditure/balance projection, and detailed annual budget appropriations tables for central and local

	appropriate means when it is submitted to the legislature.		level: http://www.assembly-kosova.org/?cid=1,191,942 . However annual budget documentation (as referred to PI-6) is not complete and therefore not completely available to the public. Half of the elements required for annual budget documentation are not publicly available.
2.	In-year budget execution reports: the reports are routinely made available to the public through appropriate means within one month of their completion. .	√	Consolidated budget execution reports are regularly prepared and published on a quarterly basis by the Treasury Department in the Ministry of Finance. Budget reports are communicated to the public through press conferences and published on the MoF website: http://mf.rks-gov.net/sq-al/ministriaefinancave/raportedhepubliki me/raportetdhepasqyratfinanciare.aspx
3.	Year-end financial statements: the statements are made available to the public through appropriate means within six months of completed audit	√	MoF produces annual financial statements within three months after the end of calendar year. The 2012 financial statements were prepared within this deadline and were signed by the Minister and Head of Treasury on 20 March 2012. The 2012 financial statements are available to the public on http://mf.rks-gov.net/sq-al/ministriaefinancave/raportedhepubliki me/raportetdhepasqyratfinanciare.aspx
4.	All external audit reports: all reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	√	The most recent audited financial statement of the KCB for year 2011 is available to the public in three official languages on the website of the Office of the Auditor General. http://www.oag-rks.org/sq/Raportet-e-Auditimit?date=2011
5.	Contract Awards: Award of all contracts with value above approx USD 100,000 equiv. are published at least quarterly through appropriate means	√	All contracts are public and published on the public procurement website https://krpp.rks-gov.net/Default.aspx?PID=Notices&LID=1&PCID=-1&CtlID=SearchNotices&ind=1&PPRCMenu_OpenNode=76

6.	Resources available to primary service units: Information is published through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics)	X	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 and health care centers can be provided by the municipal administration, as required by the Department of Education and Department of Health as well as respective line ministries. Devolution of budget process to the level of schools in 2009 contributed to improvements in key information on budget parameters for individual schools. Budgets are now prepared and executed at the level of individual schools. Information on resources available to individual schools and primary services providers in health care sector can be obtained upon request in respective Departments of Education and Health in each municipality and Ministry. However, this means that to obtain such information a special initiative should be undertaken and as such it cannot be considered public access.
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Score A

PI-10	Description	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)	Score B (i) Government makes available to the public 3-4 of the 6 listed types of information.	B

3.3 Policy-based budgeting

3.3.1 PI-11 Orderliness and participation in the annual budget process

(i) Existence and adherence to a fixed budget calendar

In accordance with the timeframe as defined by the LPFMA (article 20) budget calendar is established by the Ministry of Finance at the start of the budget process, which is then communicated to BOs in the first budget circular.

Three budget circulars at the central level and two at the local government level were issued for the budget cycle 2013-2015.

For the central level, the first budget circular was issued on May 5, 2012, the second circular on August 16, 2012, and the third circular on September 20, 2012. The first budget circular set the deadline for budget requests' submission on June 18, 2012, thus allowing BOs six weeks for the preparation of initial budget requests. BOs complied with this timeline. The second circular provided the deadline for budget hearings and BOs have submitted their requests in line with time requirements. The deadline set in the third budget circular related to the submission of final requests was September 28, 2012 (a week from the issuance of the circular), and all BOs submitted their requests on time.

For the local level, the first budget circular was issued on May 10, 2012, and the second on July 26, 2012, while the deadline for the submission of municipal budgets was September 30, 2012, thus allowing sufficient time for municipal to prepare and approve their budget plans. At the municipal level, all municipalities respected the deadline.

Compared with the 2009 PEFA assessment, a notable improvement is marked in terms of providing sufficient time (approximately six weeks) to BOs for their preparation and submission of budget requests.

Score A

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

Budget circulars issued by the MoF during the 2013-2015 budget cycle had similar content to those assessed during the 2009 PEFA exercise. A recent development from 2009 assessment is the establishment of the Office for Strategic Planning within PM Office since 2010 (see PI-12), with the role, but not limited to, of determining, every year, Kosovo Government priorities through a statement which has to be approved by the government, as part of annual budget process. These priorities then will be allocated with respective budgets during the budget process as led by the Ministry of Finance.

The impact of this development with setting priorities and established procedures is still to be assessed in future, however in the mean time budget development practices continue to exhibit the following, which affect the scoring for the 2013-2015 budget cycle:

- Although aggregate expenditure amounts as contained in 2013 approved budget present minor changes to what the 2013-2015 MTEF presented, variance is rather big in expenditure composition, at the level of BO. After MoF issued final ceilings with budget circular 03, substantial changes were introduced

for BOs. For one of the Ministries the approved budget 2013 was as 12% higher than the final ceilings as issued by the MoF

- The Cabinet did not review and approve ceilings before sending the second budget circular to BOs, and.

Score C

(iii) Timely budget approval by the legislature or by an authority with similar competencies (within past three years)

The approval of the 2011 budget was delayed until March 31, 2011 due to political stalemate until the new government was established. The 2012 budget was approved before the end of the fiscal year on December 20, 2011, whereas the 2013 budget was approved on December 17, 2013.

Given that in one of the last three years there was a three month delay in approving the budget score B is justified.

PI-11	Shpjegimi	Nota – M2
(i) Existence and adherence to a fixed budget calendar.	Score A (i) A clear annual budget calendar exists, is generally adhered to and allows OBs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	B
(ii) Guidance on the preparation of budget submissions	Score C (ii) A budget circular is issued to BO, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by the Cabinet only after they have been completed in all details by BOs, thus seriously constraining Cabinet's ability to make adjustments.	
(iii) Timely budget approval by the legislature	Score B (iii) The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years	

3.3.2 PI-12 Multiyear perspective

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

The 2013-2015 MTEF document presents a three-year forecast (on an annual basis) of revenue and expenditure by economic classification and the budget at organization level, but still not on a rolling basis (i.e., one of the

deficiencies identified in the 2009 PEFA assessment). The 2014-2016 MTEF and the 2013-2015 MTEF differ as to the aggregate expenditure amounts projected in respective years with most differences made in operating expenditures as well as subsidies and transfers, while these differences are not explained and/or justified in the most recent document (2014-2016 MTEF).

In terms of functional allocations MTEF document 2013-2015 presents three years ceilings at budget organization level (i.e. ministry level) only, in addition to economic classification, although certain efforts were made to present mid-term budget at sector level with the most recent MTEF document 2014-2016.

The approved 2013 budget contains aggregate amounts with minor deviation from the 2013-2015 MTEF as a result of updates to the macro-fiscal framework and budget negotiations, although variance in expenditure composition (at the BO level) was much higher. Relevant changes are not explained in the 2013 annual budget documentation. Moreover, some of them do not comply with the Government statement of priorities, although it continues to be relatively general.⁵

In addition, macro framework within the MTEF document is not comprehensive since it still lacks information on some sources of funding such as donor commitments (that are known) and borrowing (based on borrowing plans from various financial institutions as approved by the government each year). However, it is worth noting that this issue was addressed during the 2014-2016 budget process, when the government included all sources of funding in the statement of priorities.

Moreover, the MTEF document focuses more on the annual budget projections whereas figures for the two following years are in fact the same amounts. The exception are large scale projects (e.g. highway expenditure) for which medium term spending is exactly known and clearly presented. Financing of capital projects included in the 2013 budget documentation is presented for three years, but this information is not accompanied by the estimates of associated recurrent costs in the medium term.

Further, the 2013-2015 MTEF document, in the part related to the financing of municipalities, does not include medium term projection. Consequently, municipal budget circulars did not provide multi-year ceilings on municipal grants and expenditure. This jeopardized attempts of municipal authorities to apply medium-term budget planning.

Score C

(ii) Scope and frequency of debt sustainability analysis

Since the 2009 PEFA assessment, the Government has made progress in consolidating Debt Management Unit in the Treasury and in building capacity for regular debt sustainability analysis. Comprehensive analysis of domestic and foreign debt is prepared at least twice a year based on data updated after each new financial agreement. Analyses, which are made public, include key indicators such as the ratio of total debt to GDP, the ratio of interests paid to total revenues, and the ratio of annual debt to total domestic revenues. These indicators are also included in the Annual Debt Strategy, which is published each year following the Government approval.

⁵Note: The Office of Strategic Planning within the OPM has prepared a statement of priorities of the Government for 2014-2016 which included extended description of the priorities for each sector and was officially approved for the first time (based on the Government regulation). The MTEF document, which is issued by the MoF, should therefore be based on and account for this regulation.

The Debt Management Unit monitors, analyzes, and reports to the Minister of Finance on the movement of some of the indicators on a monthly basis.

In addition, comprehensive debt sustainability analyses for Kosovo are periodically prepared and published by the IMF. The most recent constituted an integral part of the IMF Country Report 13/113⁶.

Score A

(iii) Existence of sector strategies with multi-year costing of recurrent & investment expenditure;

Since 2009, the Government has undertaken several initiatives aiming at the creation of preconditions for a more strategic planning of long-term policies, which would also support budget planning.

First, the Office of Strategic Planning was established within the Office of Prime Minister in 2010. The Office is mandated with the coordination of sector strategies and preparation of a consolidated document representing the Development Strategy of the Republic of Kosovo. Most of budget organizations have established Policy Coordination and European Integration units. Also contact points were established in all municipalities using the support of officials from the European integration and policy coordination. Since its establishment, the Office of Strategic Planning has been working on developing administrative procedures, such as Instruction 02/12, on costing of strategies and implementation of action plans. Recently, it has been working on a manual on sector strategies, which will be useful for line ministries in drafting their strategies. In 2012, the Office of Strategic Planning has also begun work on the prioritization and consolidation of strategic priorities of line ministries as a basis for the MTEF, the annual budget, and possible funding from donors and borrowing. However, the results of these initiatives remain to be assessed in the future.

Second, the Strategic Planning Group was established in 2012, including representatives of key sectors and line ministries.

Despite a noticeable progress in the establishment of appropriate structures and procedures, the Government continues to operate with a large number of strategies, currently amounting to 50, which are moderately useful for policy and budget planning purposes. The ultimate goal would be to review them, ensure costing of investment and recurrent expenses over a 5 year period, and consolidate. Currently, such process is being undertaken with respect to seven sectors, while documents for two sectors (education and mining) have been completed.

The Office of Strategic Planning still needs to build up its capacity and begin to exert its important functions. In 2013, it is expected to work with the European Commission on drafting of the Kosovo Development Strategy.

Score C

(iv) Linkages between investment budgets and forward expenditure estimates

Planning of the Kosovo Consolidated Budget is managed through two electronic systems - BDMS and Public Investment Program (PIP) which was developed in 2008. PIP is used to plan capital projects while other budget categories are planned within BDMS.

⁶ IMF Country Report 13/113, Third review under the Stand-By Arrangement, Request for waiver of nonobservance of performance criterion, May 2013

Public Investment Program (PIP) accessibility and usage has gradually increased since 2009. The PIP and BDMS were integrated, and the Ministry of Finance made the submission of capital budget requests through the system an obligatory requirement. Consequently, central level BOs submitted their budget requests using the system during the 2012 and 2013 budget cycles, while municipalities started using the PIP in 2013.

The function of project implementation monitoring was also added to PIP, however the system is not used with all its potentially most of BOs. This is mainly due to the lack of adequate regular training developed within the PIP that would ensure sustainability.

Although progress has been made in terms of system upgrade and usage the quality of data on medium-term planning remains weak as the project documentation is often incomplete. Generally, the recurrent cost implications are disregarded in subsequent budgets and the lack of coherent sector strategies (as was emphasized in the dimension (iii) implies the development of projects in an isolation. This applies to both levels of the government, albeit to a larger extent at municipal level.

Furthermore, an external audit assessment of the PIP system adequacy for the budgeting of capital projects in 2011-2012 highlighted the following weaknesses (p. 4)⁷:

Projects under implementation were recorded as new projects in the following years;

- Lack of cost/benefit analysis for large projects;
- Public Investment Committee (PIC) was notable to review all large public projects;
- Physical and financial progress in projects' implementation was not recorded and reported to ensure proper monitoring;
- Information regarding transfers occurring from one project to another was not recorded in PIP;
- Reports on government priorities and projects' monitoring were not updated, and
- There was a lack of controls and oversight of the PIP system.

Problems related to technical aspects of the system are currently being resolved, while issues in the business process remain to be further addressed by the MoF and budget organizations.

Score D

⁷OAG: "Audit report on PIP," March 2012 pg. 4, <http://www.oag-rks.org/repository/docs/RaportiAuditimit_PIP_2011_Shqip_498348.pdf>.

PI-12	Explanation	Score – M2
(i) Multi-year fiscal forecasts and functional appropriations	Score C (i) Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis	C+
(ii) Scope and frequency of debt sustainability analysis	Score A (ii) DSA for external and domestic debt is performed annually	
(iii) Existence of costed sector strategies (or development plans)	Score C (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	Score D (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	

3.4 Predictability and Control in Budget Execution

3.4.1 PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

TAK has the same legislative responsibilities that it had at the time of the previous PEFA assessment in 2009. The main tax laws however have all been updated with the Personal Income Tax Law (Law No. 03/L-161) and Corporate Income Tax Law (Law No. 03/L-162) having been in force since 1 January 2010, the VAT Law (Law No. 03/L-146) having been in force since 1 July 2010, and the Tax Administration & Procedures Law (Law No. 03/L-222) having been in force since August 2010. A package of amendments to the VAT law to better match EU compliance was enacted during 2012 along with minor amendments to the other laws.

Each law has been supplemented by Administrative Instructions, sub-legal acts, which give further clarification on the application of the law together with examples. TAK has also produced “guides” for each of the tax types along with flyer pamphlets covering the main points.

The laws are accessible on the government website and the laws and administrative instructions are available in Albanian, Serbian and English on the TAK website and in a hardcover “Legislation Book”. The guides and flyers are also available on the website or in hardcopy form at each of TAK’s offices.

As Kosovo Customs is concerned, the same legislative responsibilities apply as in previous PEFA assessment. Rates of excise tax paid on certain goods have been increased in 2012. In addition for a number of goods excise has been recently introduced during 2012, as defined by legislation in force. There is no provision for discretionary exemptions.

All tax laws are available on Government and Kosovo’s Assembly official websites.

Score A

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

TAK currently provides a range of informational materials to help taxpayers comply with their obligations. This includes:

- Guides for: VAT, Corporate Income Tax (CIT), Personal Income Tax (PIT) and an Employers’ Guide
- Brochures:
 - Q&A for VAT
 - Q&A for CIT
 - Q&A for PIT
 - General information about TAK
 - Information on tax debt
 - Information on tax audits
 - Information on reporting corruption
 - Registering, declaring and paying taxes

As compared to 2009 assessment, the entire structure of the TAK website has been changed. The website today is user friendly, comprises the complete tax legislation including the legislation on pension contributions, electronic services such as e-filing and reporting on purchases over 500 euro, updated news and announcements, information materials, public rulings, information on passive taxpayers etc. It also includes a FAQ (frequently asked questions) section and allows taxpayers to ask questions from TAK via e-mail.

TAK continues to conduct taxpayer outreach (e.g. regular taxpayer seminars and appearances on TV shows) and media campaigns (including public service announcements transmitted on local and regional TV and newspaper announcements). Close co-operation with business community representatives is also being maintained with the Chambers of Commerce and the SKAAK accounting body in Kosovo

Other taxpayer service developments have included:

- Filling the taxpayer advocate position. As well as reviewing taxpayer cases brought to her attention, the advocate also conducts taxpayer satisfaction surveys – three different surveys are run covering

the function areas of taxpayer service, taxpayer audit and enforced collection. Taxpayers have rated TAK and its services 4.1 out of 5

- Updating and promoting TAK's Taxpayer Charter – associated with this, TAK has set a timeframe for responding to taxpayer's written requests of 15 working days
- Establishment in 2012 of a purpose-built Taxpayer Service Center in central Pristina which caters for most of Kosovo's taxpayers
- Introduction and expansion of electronic services – taxpayers must now download their tax forms from the TAK website (hardcopy forms are no longer provided), employers must now file their monthly wage withholding tax/pension contribution forms (which were merged in 2012) electronically, and VAT registered persons must also lodge their monthly declarations electronically. Over 20,000 employers and over 8,000 VAT registered persons are now e-filing their monthly declarations
- The creation of “tax advisors” in each of the Large Taxpayer Unit's industry specialized taxpayer audit teams, and one in each TAK regional office
- Establishment of a Call Center in November 2011 – while this has only made out-calls to date, commencement of in-call capacity is expected to commence in 2013

With respect to Customs, importers have access to comprehensive information that provides the Customs Code. Customs web-page has been upgraded in 2010 by adding additional features of more friendly and easier access for users in all three official languages. With 2010 web-site upgrade Customs office for public relations has been focused on making information more visible, which in previous web-site was mostly clicked, and therefore making an easier access for the most needed information. Taxpayers may also have access to information relating to customs duties and procedures, which is posted on the web page, although currently not regularly updated.

Customs PR office has focused campaign in 400 biggest businesses who bring 90% of total revenues. Customs cooperate with economic chambers in organizing different workshops and conferences for the benefit of informational outreach to businesses.

It is worth highlighting that described changes in taxpayer service addressed some deficiencies in the processes and staff within the TAK which, according to the IMF assessment in 2008, did not meet the requirements of the legislation or good tax administration practice. These improvements appear to warrant now the upgrade of score for dimension from previously assigned C to A.

Nota A

(iii) Existence and functioning of an tax appeal mechanism

The tax disputes process as described in the previous PEFA assessment remains unchanged (with the exception that procedures are now regulated under an updated Law on Tax Administration and Procedures). The number of TAK staff working in the appeals unit has also increased to 13 including the manager who now reports to a Director of Legal & Appeals rather than directly to the TAK Director-General.

During 2012, there were 483 appeals received and 13 cases carried forward from 2011. During the year 483 cases were reviewed. Results of the reviewed cases were:

- 287 (59.4%) negative decisions for the taxpayer
- 61 (12.6%) completely approved decisions for taxpayers
- 83 (17.2%) partial approved decisions for taxpayers
- 13 (2.7%) referred back for re-audit
- 26 (5.4%) dismissed because appeal requests were furnished too late
- 13 (2.7%) others

During 2012, 132 new tax dispute cases were taken further to the IRB to add to the 612 tax cases that were on hand at the end of 2011. 223 cases were reviewed by the IRB during 2012, meaning there were still 521 on hand at the end of 2012. The results of the IRB reviewed cases were:

- 90 (40.4%) negative decisions for taxpayers
- 64 (28.7%) referred back to TAK for re-auditing
- 35 (15.7%) completely approved decisions for taxpayers
- 22 (9.9%) partial approved decisions for taxpayers
- 6 (2.7%) dismissed because appeal requests were furnished too late
- 6 (2.7%) others

As will be clear from the above, the IRB has been ineffective in dealing with tax (and customs) dispute cases and there continues to be a significant backlog of disputes waiting to be reviewed. An EU/TAIEX advisor completed a review of the IRB during 2011 and as a result the Kosovo government decided to replace the IRB's role in hearing tax/customs dispute appeals with the Basic Court in Pristina from the end of 2012. Legislative changes to give effect to this change have been made and these also allow the IRB to continue to review cases (in order to clear the backlog) until the end of 2013. Tax and customs training has been provided to the judges from the Basic Court and Appeals Court who could be involved in hearing tax/customs disputes.

With respect to Kosovo Customs the appeal process is based on article 291 of customs code. During 2012 Kosovo Customs has amended the Customs Code which decreased the amount of penalty, from €5000 to €500, for all taxpayers who violate procedures. This was the main reason that the number of appeals submitted to Kosovo Customs in 2012 went down by 35%, as compared to previous year.

Kosovo Customs received 900 appeals during 2012 from which:

- 587 (65.2%) Negative response/decisions for taxpayers
- 143 (15.9%) Positive response/decisions for taxpayers
- 42 (4.7) Partially approved in favor of taxpayers
- 15 (1.7%) Returned cases for review
- 28 (3.1%) Dismissed because appeal requests were furnished too late
- 85 (9.4%) Carried forward from 2011
- 1 (0.1%) Other

Although in both organizations TAK and Customs the number of appeals received is decreasing slowly however negative responses for taxpayers remain high. In addition malfunctioning of IRB as mentioned above

compromises the overall appeal mechanism. Once the recent changes have taken effect with basic courts taking further IRB's role, the score will possibly improve.

Score B:

PI-13	Explanation	(Score-M2)
(i) Clarity and comprehensiveness of tax liabilities	Score A (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.	A
(i) Clarity and comprehensiveness of tax liabilities	Nota A (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and RA supplements this with active taxpayer education campaigns.	
(iii) Existence and functioning of a tax appeals mechanism.	Score B (iii) A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.	

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

(i) Controls in the taxpayer registration system

The tax registration process has had two significant changes since the previous PEFA assessment.

Firstly, TAK have moved away from relying on the MTI business registration process and now use its own fiscal numbers for all taxpayers. Over 80,000 fiscal numbers have been allocated. Use of fiscal numbers has meant that individual taxpayers with multiple businesses now have only one fiscal number (compared with the business registration process which continues to allocate multiple business registration numbers in such cases). The fiscal number procedures are outlined in the Law on Tax Administration & Procedures which also includes sanctions for taxpayers who operate without fiscal numbers. Kosovo Customs now also uses fiscal numbers as its primary number for importers and there is a requirement that "business" importers need to have a fiscal number before they can import. A policy to de-register taxpayers means that taxpayers who have not operated businesses during a fiscal year are transferred to a non-active taxpayers list which is published on TAK's website and continually updated.

Secondly, the process for issuing fiscal numbers to new businesses has been automated and simplified. This process is now largely managed through municipality-based (but MTI based in Pristina) “one stop shops” (28 have been established to date) run through the Business Registration Agency which simultaneously issue both business registration and fiscal numbers generally within 24 hours of request, provided prerequisite identification information has been provided. A previous requirement for TAK to visit business premises before allocating fiscal numbers has been replaced by an ability for new businesses to request an “educational” visit while TAK also maintains the ability to conduct compliance visits at any time post-registration. Discussions have recently commenced with the Business Registration Agency with the intention of simplifying deregistration procedures including removal of deregistration fees and managing tax/business de-registrations through one agency.

Concerning Kosovo Customs since PEFA assessment conducted in 2009, the registration of businesses for import/export activities has been simplified and made easier for a number of reasons: i) businesses have no longer to go to the capital city in order to get export/import certificates issued by Customs, as they used to, they can register themselves for the same purpose in all customs offices (in all regions) through newly developed software application – ASICUDA- with their fiscal number that TAK issues for them when registered with MTI; ii) Businesses are no longer charged 12.5 Euros to get export/import certificate iii) export/import certificate is completely abolished as Customs uses rather advanced system for customs procedures where all businesses are registered. In addition, Kosovo Customs and TAK have put in to place a new application with an interface which makes possible for these two to track businesses.

Although the progress since 2009 is tremendous in the area of taxpayer registration systems, simplifying deregistration procedures including removal of deregistration fees and managing tax/business de-registrations through one agency downgrades the score to B

Score B

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

The general situation described in the previous PEFA assessment remains the same. The Courts remain as a largely ineffective mechanism for dealing with tax non-compliance and TAK continues to have the ability to take its own enforcement actions (blocking bank accounts, seizing and selling assets of debtors and goods without origin documentation, closing businesses, preventing departure from Kosovo, etc) without Court involvement. The range of penalties for non-compliance has however been expanded and is now more targeted (e.g. higher levels of penalty for larger businesses) in an updated Law on Tax Administration & Procedures.

From 2012 TAK has also included non-registration, non-declaration and under-declaration risks within its Risk Response Plan and has conducted compliance visit activities to begin addressing those risks. More effective follow up of late filers is planned to be introduced during 2013 through a process of automatic notices, followed by personal contact (initially by phone) and potentially default assessments.

As for Customs, a major change since 2009 PEFA assessment is the amendment approved to the Customs legal provisions on minimum fines for customs offences which from €5,000 to €10,000 was reduced to 500 Euros. Custom officials consider this change appropriate and fairer to businesses, however according to their assessment this has had no impact on the fines issued and collected over the fiscal year.

The value of administrative fines for customs offences at border crossing point for 2010-2012 is 4.873.299,86 € and the value of confiscated goods, for the same period, is 2.861.707,84€. In addition, from the post-clearance

audits, the value of fines issued from 2010-2012 is 680.231.336 euro, with only 270,468,824 euro collected. The rest of uncollected cases are sent to the local courts, where extensive delays are experienced in executing decisions on collection. Businesses who are subject to this, however, can continue further their importing operations until the court takes the decision. This was not the case in last PEFA assessment, when importers who, in order to avoid payment of custom liabilities, continued their business through newly registered companies legitimately registered by other persons equipped with new business numbers (from MTT), new VAT certificates (from TAK) and new export-import certificates.

As the situation described reflects similar situation to last PEFA assessment, score C remains warranted.

Score C

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

The tax audit process has changed significantly since the last PEFA assessment.

With IMF assistance, in 2011 TAK completed a Compliance Strategy for 2012-2015. That strategy has been operationalized through the development and implementation of annual Risk Response Plans which envisage approximately 70% of TAK's field resources being utilized on dealing with priority risk areas. The Risk Response Plan for 2012 covers 13 risks and was implemented part way through 2012. TAK have also since prepared and are implementing a Risk Response Plan for 2013 based on 11 risks.

The process for developing and measuring progress on the Risk Response Plans is managed by a Risk Management Unit in TAK HQ which was established in late 2011. That unit is based in the same area as that responsible for updating and monitoring TAK's Strategic Plans. During 2012 a VKME task output work reporting system was developed for TAK staff as a measurement tool for recording progress against the Risk Response Plans.

To supplement the Risk Management Unit, an Intelligence Unit was created in TAK during 2012. The Intelligence Unit is part of the Tax Investigation Unit which was established with 23 staff in March 2011 to investigate potential tax evasion criminal cases. (The Tax Investigation Unit has been given enforcement powers in order to carry out its functions and it liaises closely with other enforcement agencies such as the Economic Crime Unit in the Kosovo Police). The purpose of the Intelligence Unit is to review existing information sources in TAK and to identify new information sources that TAK can use to better identify non-compliers either for referral specifically to the Tax Investigation Unit or for referral of more general patterns to the Risk Management Unit for future risk consideration.

While TAK has long used information available from Kosovo Customs and the Treasury in its compliance work, TAK now has access to vehicle registration and property tax information as well as receiving information from taxpayers via transmission from fiscal cash registers or from their annual reporting of purchase transactions of over 500 euro.

In conjunction with these changes, the number of "audits" completed each year has reduced and been substituted by a significant increase in the number of compliance "visits". During 2012, 890 taxpayers were audited and additional tax assessed was 31,637,600 euro. The increased number of visits has given TAK greater visibility in the community and has not only identified cases for further audit work but has also helped improve the amount of tax collected from voluntarily compliers.

TAK continues to use a Risk Audit Selection model in identifying better cases to audit. The model has been expanded from covering only corporate taxpayers to also cover individuals who are in business. The number of audit cases selected using the model has progressively increased with about 2/3 of audit cases during 2013 being selected that way. Average additional tax assessed per audit has increased, a result that can be partly attributed to use of the model.

Assistance from TAK HQ has also included the production of, and training on, a comprehensive Taxpayer Audit Manual and the continued operation of the Audit Quality Measurement program which measures a sample of audits, and now also compliance visits, against a set of quality standards. Plans are also being made with donors to introduce computer-assisted audit techniques, initially within the Large Taxpayer Unit.

At regional office level, regional office taxpayer audit teams focus on VAT registered taxpayers, thereby focusing on larger businesses outside of the largest 480 taxpayers which are covered by the Large Taxpayer Unit and which pay almost 2/3 of total taxes in Kosovo.

Concerning Kosovo Customs, an annual audit plan is issued at the beginning of the year, and it describes relevant procedures for case audits, it specifies criteria for case selection in addition to risk assessment criteria, based on a software application that Kosovo Customs use for this purpose. The unit for pre-audits at Kosovo Customs, it's a new entity established within Kosovo Customs since beginning of 2013, which will run a desk pre-audit based on relevant desk documentation they have about businesses. 8000 businesses are planned for pre-audit in 2013 which cover a period of three years- 2010-2012 Afterwards a number from these cases will be passed on to audit sector of Kosovo Customs for audit purposes where in addition to desk audit, Customs auditors go for field visits.

In the past, until pre-audit unit established, Customs had only post-import audit/control unit, which in 2012 audited 400 cases.

Significant improvement has been made since 2009, with the introduction of audit planning and fraud investigation, based on a set clear risk criteria's, covering not only corporate taxpayers but expanded to also cover individuals who are in business. An A score is warranted.

Score A

PI-14	Description	Score – M2
(i) Controls in the taxpayer registration system.	Score B (i) Taxpayer are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	B
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	Score C ii). Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance	
(iii) Planning and monitoring of tax audit and fraud investigation programs.	Score A iii) Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.	

3.4.3 PI-15 Effectiveness in Collection of Tax Payments

(i) (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)

The total amount of tax and pension arrears on 1 January 2012 was 215,848,021 euro. This amount includes uncollected revenues (tax, penalties and interest) from 2011 and previous years. During 2012, TAK's enforced collection activities resulted in the collection of 36,981,964 euro of arrears, but when arrears arising during 2012 are included, the total tax and pension arrears on 31 December 2012 was 207,864,494 euro. (Of the 31 December 2012 total, the pension arrears component was a little over 36m euro). The trends during 2010 to 2012 have reduced previous patterns where the total amount of arrears was progressively increasing each year. (End of year tax arrears peaked at 256m euro as at 31 December 2009 and reduced to 231m euro as at 31 December 2010).

Assisting with these improved results has been the operation of TAK's Call Center. Since its establishment in November 2011, Call Center work has focused on making out-calls to tax debtors with amounts owing of between 300 and 3,000 euro (cases over 3,000 euro are managed by TAK's regional offices). During the period up to 31 December 2012, the Call Center ensured the successful payment of over 2m euro as well as following up non-filed tax declarations from those taxpayers.

Analysis of the age of debt has indicated that over 150 million euro (73%) of the 207.9 million tax and pension arrears at 31 December 2012 was over 2 years old. Indeed, the amount of debt that is over 6 years old and thus statute-barred (except for cases where dispute procedures have extended the statute bar) was 79.8 million euro.

Further analysis shows that more than half of the “old debt” cases concern debts of less than 200 euro. As these cases are cancelled/written off, the tax arrears position will become clearer allowing greater emphasis to be put on “collectable” debt, but political issues have hindered TAK management taking this action. A recent IMF tax mission has discussed this issue with the Office of the Auditor-General and that office has agreed to assist TAK with this action.

TAK has improved its tax debt case management processes and has commenced implementation of the main phase of a collection case management computer system to replace the manual processes currently used. The new system is currently being piloted in TAK’s Pristina offices and is due to be implemented in TAK’s other regional offices in April 2013. In addition, TAK is currently making plans for the future automatic issue of reminder notices to taxpayers (whether by letter, e-filing mailbox message and/ or SMS message) who have missed their declaration filing and payment due dates. Both of these initiatives are included in a comprehensive Enforced Collection Plan which is currently being implemented.

The moratorium that barred TAK from taking enforced collection action against socially-owned enterprises has now ceased and after TAK commenced taking such action against some of these enterprises where they had not been announced for privatization or liquidation action, a potential agreement was reached with the Privatization Agency of Kosovo which envisaged them meeting the tax liability of such enterprises. Ratification of this agreement has however been delayed by the absence until recently of a PAK Board. There is also no bar from taking enforced collection against publicly- owned enterprises. TAK has recently created a small unit in its HQ Enforced Collection unit to specifically focus on the issues surrounding the tax debts of socially-owned enterprises, publicly-owned enterprises and budget organizations.

TAK HQ has also assisted its TAK’s enforced collection staff in the field through the completion of, and training on, a Collection Handbook (complementing the enforcement collection provisions in the Tax Administration and Procedures law and its associated Administrative Instruction), through the preparation of a pamphlet for tax debtors on their options if they have tax debt, and through a continued program of regional office visits.

Although progress towards collection of tax arrears is significant however the debt collection ratios are still low during 2012, below 60% and the total amount of tax arrears is significant (more than 2% of total annual collections). Or in other words the €28,998,437 increase in TAK arrears in 2012, amounted to 10% of total annual collection during the same fiscal year.

Customs procedures require that applicable taxes must be settled before goods are released. Thus arrears are generally generated by fines that are levied on importers. A major change in Customs procedures, after 2009, is the fact that imports will no longer be blocked, if fines not paid. Customs will pass on fine non-compliance importers to the court which makes the collection effort weaker. This way in 2012, from 2,421,823.86 Euros of fines levied only 307,466.44 Euros were collected.

Even if Customs arrears were zero in 2012, collection of tax arrears from TAK is still low, although tremendous efforts were made in this regard since 2009.

Score D

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

Process is the same as documented in previous PEFA assessment. During 2012, many commercial banks have begun to offer their customers the ability to electronically pay their taxes. This follows TAK's successful introduction of e-filing

Score A

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

The process is the same as documented in 2009 PEFA assessment report. Reconciliation of revenues from commercial banks as in the case of TAK is done on a daily basis, whereas full reconciliation with the Treasury is done on a monthly basis. Reconciliation with the Treasury is done by fourth day of following month.

Revenue reconciliations (collected by Customs) with commercial banks and the Treasury through the Central Bank are carried out on a daily basis and the final reconciliation is done each month with Treasury. A revenue report is presented on a weekly and monthly basis.

Nota 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.	Score D (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).	D+
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	Score A (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.	Score A iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.	

3.4.4 PI-16 Predictability in the availability of funds for commitment of expenditure

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

The Treasury monitors and executes the budget. It monitors revenues and expenditures, forecasts cash, manages debt, and preserves budget liquidity through the management of allocations throughout the year to ensure that the budget is executed within the available cash amount. In accordance with the Treasury's Financial Rule on the commencement of fiscal year all budget organizations are required to prepare and submit their cash

flow projections to the Treasury. Subsequently, Treasury develops annual cash flow plan in January of each year based on total appropriations and conducts its updates on a monthly and quarterly basis. Cash Plans submitted by budget organizations precede monthly and quarterly allocations of funds for all budget categories.

In 2011, the Treasury developed the Cash Plan software and associated instructions published on the website of the MoF⁸. This software consists of a database in which budget organizations input projections on the planned commitments and expenditures of budget funds. This is then reviewed by the Division of Cash Management and informs the process of allocation of funds in the KFMIS

Score A is justified.

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

Cash flow forecast, including its periodic updates as described in PI 16 (i) , serves as the base for the allocation of funds by the Treasury. In accordance with cash flow plans submitted by budget organizations the Treasury allows to commit expenditure for at least 6 and possibly even up to 12 months in advance within annual budget appropriation limits. Similarly, there is no time limit imposed by the Treasury for the commitment of carry-over OSR, which can be committed for up to 12 months. Current year OSR funds, when actually collected and recorded in the KFMIS, can be committed and expended in accordance with the allocation limits for the remainder of the fiscal year.

Table 11: Structure of financing sources 2010-2012

	Commitment timeframe	2010		2011		2012		Average
		mil. euro	%	mil. euro	%	mil. euro	%	%
Government Grants	Up to 12 months	878,9	97,6%	964,2	97,8%	1.039,8	98,2%	97,9%
OSR Carried Forward	Up to 12 months	2,5	0,3%	3,0	0,3%	2,1	0,2%	0,3%
OSR Actual	UP to 12 months depending on collection	18,8	2,1%	19,2	1,9%	17,1	1,6%	1,9%
Total		900,2	100,0%	986,4	100,0%	1.059,0	100,0%	100,0%

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 all budget allocations, introduces changes to budget allocations only when initiated and requested by budget organizations through the submission of adjustments to their cash-flow plans. Any changes in the original budget appropriations and subsequent allocation of funds are made in accordance with the procedures set out in the LPFMA, which clearly defines mechanisms for the approval of such adjustments and their prioritization.

⁸Cash plan software is published in the MoF website: <http://mf.rks.gov.net/sq-al/departamentet/departamentitithesarit/softveriperplaninekeshtidhetehyrave.aspx>

During 2012, there were a total of 139 budget adjustments between economic categories that have had an impact on budget appropriations for a total of euro 41.5 million.

Score A

PI-16	Description	Score – M1
i) Extent to which cash flows are forecast and monitored	Score A (i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.	A
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	Score A (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 MDAs	Score A (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.	

3.4.5 PI-17 Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting

This dimension was not applicable and scored during the conduct of the previous PEFA assessment in 2009. Kosovo gained access to funding from borrowing, including long-term and short-term, at the beginning of 2010 when the Law on Public Debt entered into force. Consequently, the Unit for Debt Management was established within the Treasury, which is now responsible for debt management, recording and reporting using dedicated software for debt management (CS-DRMS).

The Government approves the Debt Strategy on annual basis, including targets for domestic and external borrowing, which is then submitted to the Kosovo Assembly. Currently, the total debt of the Kosovo government amounts to 7.86% of GDP, of which 80 % is attributed to the external debt. Major external lending institutions include the IMF, the WB and the German Bank for Development. Domestic borrowing is mainly with commercial banks and pension fund through the issuance of the treasury bonds. Local governments have not contracted debt as yet. As of 2013, 2 municipalities fulfilled basic criteria for borrowing arrangements, i.e., two consecutive unqualified audit reports on their annual financial statements

The Debt Management Unit maintains debt data records, including: Debt/GDP, the value of credit, interest rate, commission on committed funds, commission on services/management of credit, eventual applicable penalty.

Data is updated, reconciled and reported on monthly basis. This is also a IMF – SBA- request – which requires that debt is reconciled and reported monthly. Same data is used to prepare for the annual debt strategy to be submitted to the government. Treasury reports to the Minister of Finance related to a limited number of

indicators which relates to debt sustainability and servicing such as: Debt/GDP, debt/revenues, debt/exports etc.

The Government's debt portfolio is limited and relatively simple in structure. Current procedures employed by the Treasury to manage, record and report debt data seem adequate and warrant score A.

Score A

(ii) Extent of consolidation of the government's cash balances

Similar to the previous PEFA assessment, the Government maintains a Single Treasury Account used for the management of all Government transactions, which are consolidated on daily bases. This dimension as such remains highly scored with an A.

Score A

(iii) Systems for contracting loans and issuance of guarantees

This dimension was not applicable and scored during the conduct of the previous PEFA assessment in 2009. In December 2009 the Kosovo Parliament approved the Law on Public Debt No. 03/L – 175, which entered into force in 2010. The law provided the authority to borrow money; to make loan guarantees, to pay expenses for debt issuance and to pay the principal and interest on the State Debt.

Article 3 clearly outlines criteria and purposes for which the State debt can be incurred. Also, Article 5 prescribes limitations on total debt that can be incurred: (1) during the fiscal year, and (2) for the aggregate amount of total debt that can remain outstanding during each year. Guarantees are treated as debt for the purpose of measuring total debt and defining the limits. In no event the outstanding principal amount of total debt should exceed 40% of GDP. The legal framework foresees also the appropriate corrective measures in a case when this level is exceeded.

The Government might issue guarantees for public sector entities or private entities that finance public infrastructure projects or projects related to an economic sector of strategic and social importance to Kosovo.

The Ministry of Finance is the sole Government entity authorized to incur state debt or to provide state guarantees. The Minister in the capacity of the authorized Government agent is responsible for all negotiations, signing of loans and guarantee documents. The Government of Kosovo with the aim to maintain fiscal sustainability made efforts to adapt a fiscal rule which would define budget deficit in line with the general debt sustainability limits. To this end, on March 29, 2013 the Government submitted to the Assembly legal amendments to the LPFMA that established a rules-based fiscal framework. The main element of the fiscal rule provides for an overall ceiling on the general government deficit of 2 percent of GDP. According the IMF, the rules-based framework ensures that, under cautious assumptions, the net present value of public debt remains at or below 30 percent of GDP in the long term. It also provides some flexibility to react to business cycle dynamics⁹.

Score A

⁹ IMF Country Report 13/113, May 2013, page 8

PI-17	Explanation	Score – M2
(i) Quality of debt data recording and reporting	Score A (i) Domestic and foreign debt records are complete, updated and reconciled on monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly.	A
(ii) Extent of consolidation of the government’s cash balances	Score A (ii) All cash balances are calculated and consolidated on daily basis	
(iii) Systems for contracting loans and issuance of guarantees	Score A (iii) Central governments contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible Government entity	

3.4.6 PI-18 Effectiveness of payroll controls

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

In addition to resource management the MPA is also in charge of payroll management and maintenance. Whereas, these two systems are not linked and do not automatically communicate with each another.

Although the development of the human resources management system is seen as a positive achievement since the last PEFA assessment, the fact that the majority of BOs are not using the system limits the significance of that progress. Moreover, BOs and the MPA itself continue the dual use of earlier tools for the recording of data on resources (such as excel tables) and the new system, clearly showing the lack of confidence in the new system.

Thus, the MPA supported by the World Bank, through an open tender, selected in early 2013 a company that would make the current resource management system functional and operational, including its automatic integration with the payroll. It remains to be seen how this process will be further designed.

Until then, each BO manages personnel data separately from payroll data leaving an open door for discrepancies between two separate databases. However, the assessment of data suggests that the personnel registry is regularly updated and information is reflected in the payroll.

Score D

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

BOs generally respect general procedures for managing the personnel registry and payroll changes. The MPA collects personnel lists from all budget organizations by the 11th of each month. By the 18th these data are input into the payroll database and between the 20th and the 23d of the month the payments lists are calculated and prepared. By the 23d of each month, Treasury is provided with the final payroll list to process salary payments. Eventual changes that have occurred after the close of the payroll are taken into account next month. As organizations update payroll lists each month, before executing the payroll, changes are made in a timely manner and retroactive adjustments are insignificant. In 2012, of the total gross wage bill amounting to EUR 406,553,481.60 total retroactive payments were EUR 1,406,544.64 or 0.34%.

The fact that the situation has essentially not changed since 2009 in terms of the integration of two systems for the management of payroll and personnel, raises questions as to the timely tracking of changes between the systems. The same score as in 2009 is justified.

Score B

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

Internal control procedures for changes in personnel data (such as advances, sick leave, maternity leave etc.) and their incorporation in the payroll are similar to those in 2009, when last PEFA assessment was completed. The changes made to personnel records are usually circulated within BO's administration for confirmation and authorization by human resource officer in most of the cases within Department for Administration. All changes to personnel files are recorded in one database which can be an excel file (in absence of comprehensive human resource database), in which case it is challenging to enable the audit trail and ensure that any change to a particular record can be traced back to its originator

Before the 11th of each month amendments to personnel records are sent to the MPA for incorporation in the payroll. Incorporation of this data is labor intensive and done manually by the MPA Department for Civil Servant Administration, which creates a great opportunity for errors and delays in processing.

After that, in principle the personnel office in individual BOs verifies the payroll bill provided by the MPA on a monthly basis and compares it with the personnel registers to validate if necessary amendments were introduced properly. Furthermore, personalized monthly payment invoices are signed by all workers before they are processed, which allows for an additional control by each employee of his/her personal data.

Even though internal control procedures exist and seem to work the OAG report on the 2011 government consolidated financial statements (pg.31), highlights the fact that "there are a number of challenges identified on personnel administration and those are mainly related to recruitment and maintenance and necessary update to personnel records". These findings are an indicator of the existence of irregularities in individual BOs despite clear rules and procedures in place.

Furthermore an ongoing issue since 2009 PEFA assessment is the lack of budgetary control in the processing of the payroll. As of December 2012, the payroll system within the MPA has not established an automatic

linkage with the payments execution system in the Treasury¹⁰. The MPA submits to the Treasury a payroll list with the monthly wage bill without checking whether it actually corresponds to budget allocations. The Treasury has consistently found cases of monthly wage bill sent by the OBs in excess of allocations and consequently had to block these payments. Thus, in the absence of controls by the MPA, circumstances are created where un-planned allocations have to be initiated in order to enable the timely execution of payments. The problem is especially persistent in the education and health care sectors.

It is generally acknowledged that the payroll system must be directly linked with the resource management system (as described in dimension (i) in order to reduce the opportunities for errors and delays. It is planned that with the World Bank support the link with the Treasury system will be established, and substantial modifications will be introduced to satisfy new requirements arising from the legislation that entered into force in 2013. Still the impact of those initiatives is to be assessed in the future. Currently, although internal controls for changes to personnel data and the payroll exist, the process continues to involve a number of considerable irregularities.

Nota D

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

The Office of the Auditor General conducted the last payroll audit in 2007 and 2008, which has been highlighted in the recent PEFA assessment. The OAG, in the absence of capacities, has not been performing regular periodic audits of the payroll system.

Instead, the OAG conducted a study of the payroll during the regularity audit of the MPA annual financial statements for 2011. The main findings of this study were also a part of the audit report of the consolidated financial statements of the government for 2011.

The 2012 OAG report concluded that 26 BOs in 2011 executed payments outside the payroll by processing them directly through the KFMIS in the Treasury. These amounts, according to the OAG, were paid to: i) employees who receive a regular salary through the payroll system, ii) persons engaged temporarily to perform a job, and iii) business services. According to the OAG, this practice shows that the payroll system is not used properly and that these payments outside the payroll are not transparent.

Score C

PI-18	Description	Score – M1
(i) Degree of integration and reconciliation between personnel records and payroll data	Score D (i) Integrity of payroll is largely undermined by the lack of complete personnel records and personnel database, or lack of reconciliation between the three lists.	
(ii) Timeliness of changes to personnel records and the payroll	Score B (ii) Up to three month delays occur in updating changes to personnel records	

¹⁰In February 2013 an initial testing for automatic approval of wage bill has started in the Treasury. This establishes an interface with payroll system, however it still remains to be seen whether it will function properly.

	and payroll, but there are only about a handful of changes. Sometimes there are retroactive changes	D+
(iii) Internal controls of changes to personnel records and the payroll	Score D (iii) Controls of changes to records are deficient and allow for errors in payments	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	Score C (iv) Partial payroll audits have been undertaken within the last 3 years.	

3.4.7 PI-19 Competition, value for money and controls in procurement

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

Since the 2009 PEFA assessment, public procurement legal and regulatory framework witnessed considerable improvements. On December 1, 2010 a new law entered into force. However, the law was viewed as deficient in ensuring adequate transparency and accountability of the procurement process. Subsequently, a number of amendments were adopted in the form of the Law on Public Procurement No. 04/L-042 (PPL) dated August 29, 2011, which aligned it closer with the EU procurement directives.

The most recent Country Fiduciary Assessment conducted by the World Bank in March 2012 reported that the current PPL “reflected adequately the main principles of a sound public procurement system and was consistent with international good practices in public procurement (page vii).

Further, the EU Commission assessed in its 2011 progress report on Kosovo that “a new version of the law adopted in August 2011 addressed most of the deficiencies of the previous law and significantly increased the compatibility with EU standards” (page 37), although “overall, procurement legislation is not yet in line with European standards” (page 38).

Table 12: Inclusion of listed elements in the procurement legal framework

1. Organized hierarchically and precedence is clearly established	YES	The current framework consists of the primary legislation in a form of the PPL No. 04/L-042, which entered into force in 2011 and secondary legislation, including Public Procurement Regulations and Operational Guidelines for Public Procurement dated in February 2012.
2. Freely and easily accessible to the public	YES	The PPL was published in the Official Gazette upon its promulgation. In addition, the entire legislative framework is published on the PPRC website http://krpp.rks-gov.net and is available to the public.
3. Legal framework is enforced for all undertaken procurements using Government funds	YES	According to the PPL Art. 2, the legal framework applies to the procurement activities of all public authorities, public service operators, and public undertakings, including central, regional, municipal or local executive, legislative, regulatory, public-administrative or judicial

		institutions. The PPL applies to all procurement estimated above Euro 1,000
4. Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	No	The PPL Part II, Chapter II provides for types and applicability of procurement procedures, including Open and Restricted Procedures (Article 33); Negotiated Procedure After Publication of a Contract Notice (Article 34); Negotiated Procedure Without Publication of a Contract Notice (Article 35); Price Quotation procedures (Article 36); Procedures for Minimal Value (Article 37); Public Framework Contracts (Article 38); and Design Contest Contracts (Articles 73-80). The PPL does not define the open procedure as the default method of procurement and contracting authorities can choose between the open and restricted procedures without the need for justification. However, the use of negotiated procedures and the price quotation methods is subject to specific authorization outlined in Articles 34-37.
5. Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	YES	The PPL Part II, Chapter III provides for rules on advertising and transparency.
6. Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	YES	The Procurement Review Body is an independent administrative review body. It is the institution in charge of administering and handling the public procurement complaints, while the PPL Title IX provides for procedures for review of procurement complaints.

Source: KLPP

Score D

(ii) Use of competitive procurement methods

In 2012 there were 12,045 public procurement contracts awarded with total value of 507,863,303.89 Euros. Open competition contracts constituted 84% of the total value of awarded contracts, whereas the use of negotiated procedures, especially those with no publication of contract notification, amounted to nearly 11% (see the table below). The residual included contracts negotiated after the publication of the contract notification, price quotation, and contracts with a minimum value under 1,000 Euros.

Compared to PEFA 2009, the number of contracts awarded with less competitive¹¹ methods declined by about 3%. This development was also noticed by the Office of Auditor General in the annual audit report of the 2011 Government consolidated financial statement (page 25)¹².

Although the value of contracts awarded with less competitive procurement methods has been decreased slowly, the justification while using those methods remains an issue.

Data on the number of contracts awarded with less competitive methods of procurement, that used reasonable justification, is not available at the national level. As of 2012 with amendments to LPP, the competence and

¹¹Negotiated after publication of the contract notification, negotiated without publication of contract notification, price quoting and minimum value procedure

¹²Office of the Auditor General(2012).The Annual Auditing Report of 2011

responsibility to initiate and approve a less competitive method of procurement are decentralized with each individual contracting authority, without any higher level approval required, as it used to be, prior to LPP changes. This way, the only requirement for all contracting authorities is to inform Public procurement regulatory commission (PPRC) at the central level, on procurements and methods used. PPRC on the other side have no further competence to argue if the justification for using less competitive methods of procurement is reasonable, and therefore there is no data kept at the institution level which in this case would have helped scoring properly. These data is hard to find even at the contracting authority level..

Table 13: Contracts awarded by contracting authorities and procedures used during 2012

VALUE OF CONTRACTS SIGNED BASED ON PROCUREMENT PROCEDURES(€)		
Procedure type:	Value of contracts 2012	Value of contracts 2012 in %
Open procedure	426,605,842.24	84%
Limited procedure	0.00	0.00%
Projection competition	1,193,137.72	0.2%
Negotiated after publication of contract notification	507,289.75	0.09%
Negotiated without a publication of contract notification	53,035,295.31	10.44%
Price quotation	24,124,914.80	4.75%
Minimum value procedure	2,396,824.07	0.47%
Total:	507,863,303.89	100%

Source: PPRC 2012 Annual Report

Score D

(iii) Public access to complete, reliable and timely procurement information

Procurement Government Plan

The PPL Article 39 requires that indicative procurement notice is prepared by every contracting authority that has the intention of awarding, over a future 12- month period, one or more supply, services or works contracts having an estimated value, alone or in the aggregate, of 500,000 Euros. Such indicative notice should be prepared as soon as possible after the beginning of the fiscal year.

Currently, procurement publication system does not provide any information on future contracting opportunities.

Tendering opportunities

According to the PPL Article 42 all contracting authorities are required to publish procurement documents, including contract notices and contract award notices. Such information is available from media publications and is regularly posted on the website of the Public Procurement Regulatory Committee (PPRC), which represents centralized electronic information system.

Contract Award

Contract award for all procurement methods used are published at least in one of the printed media and the official web page pwr PPRC: http://krpp.rks-gov.net/Default.aspx?PID=Notices&LID=1&PCID=-1&CtlID=SearchNotices&ind=1&PPRCMenu_OpenNode=63.

Data related to complaints resolution

All decisions on complaints resolution are available to the public on the PRB website: <http://oshp.rks-gov.net/>

Given that three of the key procurement information elements are complete and made public on official government websites a B score is justified.

Score B

(iv) Existence of an independent administrative procurement complaints system

The Procurement Review Body (PBR) is an independent administrative review body responsible for the review of complaints related to the public procurement process. The PBR was established by the decision of the Kosovo Assembly in 2008.

In 2012, the PRB received 379 complaints from economic operators, of which 331 were reviewed, 19 were refused due to their non-compliance with the legal time frame, 25 were withdrawn by economic operators before their review started, and 4 were out of the PRB competencies.

From 331 reviewed complaints 174 were approved in favor of contracting authorities, 102 were returned for re-assessment to the contracting authorities, and in 55 cases the PRB annulled completely the procurement activity and retendering was advised by respective authorities.

The table below outlines the extent to which the PRB meets PEFA criteria for an independent procurement complaints body.

Table 14: Institution for review of complaints and fulfillment of criteria

Criteria		Comments
The review body comprises of experienced professionals, familiar with the procurement legal framework, and includes members drawn from the private sector, civil society and Government.	No	<p>The PRB consists of the President and five Board members appointed for the term of five years. 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. Board members serve as a review panel.</p> <p>In accordance with the appointment criteria each Board member has a law degree, meets eligibility requirements for appointment as a judge; have a minimum of three years of professional experience in the legal field. However, as noticed in the World Bank report¹³ (page 18) “representatives of the private sector and the law enforcement community raised concerns that the decisions and appointments of <i>Procurement Review Board</i> members were not sufficiently transparent”.</p> <p>The PRB has 7 internal experts who contribute their expertise in the review process and administration of civil servants. . The PRB has also 12 experts available on needs basis.</p> <p>While in relation to the composition of the panel board the legal requirements have been met, the civil society and private sector are not represented in the review body.</p>

¹³Country Fiduciary Assessment, World Bank, March 2012

The complaints review body is not involved in any capacity in procurement transactions or in the process leading to contract award decision	Yes	None of the PRB members that serve on there view panels keep other Government position in the central or municipal level.
Complaints review institution does not charge fees that prohibit access by concerned parties	No	According to the PPL Article 118, all complainants are required to pay a complaints fee to the PRB in the amount of 500 Euros together with the filing of a complaint. The PRB shall dismiss the complaint if it is not accompanied by the fee. The fee is reimbursed to the complainant whenever the PPB approves the complaint as grounded. The Euro 500 fee for filing complaints may be considered prohibitive for low value contracts. The World Bank specifically recommended that the Government may need to reconsider Article 118 so to lower the fee of EUR 500 for filing a complaint especially for low value contracts (Country Fiduciary Assessment 2012, page 19).
Complaints review body follows processes for submission and resolution of complaints that are defined clearly and publicly available .	Yes	Complaints review process, including submission and resolution of complaints, is set out in details in “Work regulation of the Public Procurement Review Body of Kosovo” published on the PRB website: http://oshp.rks-gov.net/repository/docs/Rules_of_the-prb.pdf
Complaints review body exercises the authority to suspend the procurement process	Yes	The PPL Article 112 provides that “unless and until the review panel makes another determination in writing, the filing of a complaint shall automatically require the contracting authority to suspend the conduct of the procurement activity to which the complaint relates”. If requested by the contracting authority, the President of the PRB may issue an order removing the automatic suspension if, taking into account the probable consequences, the President determines that the negative consequences of such suspension exceed the benefits. Prior to any action the complainant shall be given an opportunity to submit written arguments to the President as to why the suspension should not be removed.
Complaints review institution issues decisions within the timeframe specified in the rules/regulations	Yes	Timeframe for the review of complaints and decisions is specified in the PPL and Work Regulations of the PRB. According to the PPL Article 117, the PRB shall issue its final decision within 15 days following the expiration of deadlines for providing any additional information as permitted by the PPL. In complex cases, the deadline might be extended for an additional 20 days. These deadlines are viewed to be mainly respected.
Complaints review institution issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	Yes	PRB’s decisions are administratively final and binding. In 2012, a few contracting authorities did not obliged and the PPRB issued penalties in value of 10,000. In accordance with the PPL Article 119, if a complainant believes that a final decision or determination of the PRB is contrary to the facts or the law, the complainant may request the Supreme Court to review such decision.

Score B

PI-19	Description	Score – M2
(i) Transparency, comprehensiveness and competition in the legal and	Score B (i) Legal framework fulfills four or five of the six mentioned requirements.	

regulatory procurement framework		C
(ii) Use of competitive procurement methods	<p>Score D</p> <p>(ii) when contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements for less than 60% of the value of awarded contracts OR reliable data is not available .</p>	
(iii) Public access to complete, reliable and timely procurement information	<p>Score B</p> <p>(iii) At least three main elements of procurement information elements are complete and reliable for government units that represent 75% of procurement operations (according to the value) and made available to the public through appropriate means.</p>	
(iv) Existence of an independent administrative procurement complaints system.	<p>Score D</p> <p>(iv) The procurement complaints system does not meet the criteria (i), (ii) and one of the other criteria</p>	

3.4.8 PI-20 Effectiveness of internal controls for non-salary expenditure

(i) Effectiveness of internal controls for non-salary expenditure

The public finance internal control function is defined in Law on Public Financial Management and Accountability and the Treasury Financial Rules, and is elaborated in the PIFC policy document. Central Harmonization Unit for Financial Management and Control is established within Treasury.

The Kosovo Financial Management Information System (KFMIS) provides the basis for internal financial control:

- Firstly, there is control at the level when the budget is allocated for each Budget Organization;
- Secondly, there is control at the level of fund allocation, which should be in accordance with the budget allocation.
- Thirdly, there is control at the commitment stage ensuring only allocated funds are spent. The system controls commitments to ensure that they are within the budget allocation and it does not allow funds to be committed if there is no allocation.
- Finally, funds should be committed before the procurement process starts, which provides a fourth control system for public expenditure management.

Good use of commitments prohibits gathering of unpaid liabilities at the end of the year (PI-4). Commitment controls for expenditures are in place procedurally and technically.

Despite the improvement of control by Treasury, the reports show that Budget Organizations do not fully comply with Financial Rules and Procedures. Hence, there are instances of unpaid bills resulting partly as a result of inadequate internal controls and partly as a matter of prioritization. This justifies score B which does not represent an improvement compared to 2009.

Score B

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

The framework for internal control procedures is established and defined in the applicable legislation. Internal control regime is comprehensive and highly relevant, with harmonization between legislation, secondary legislation and KFMIS application (including procedures and manuals that are developed and continuously modified). Since 2009, following the delegation of expenditure control by Treasury, BO process the payments directly, which have ensured better internal control and a higher level of autonomy and accountability for the budget organizations.

By end of 2012, a number of officials were trained and certified in all KFMIS modules. The table below provides statistics about the training and certification of government officials.

Table 15: Statistics of officers trained and certified in KFMIS modules by the end of 2012

MODULES	Number of officials trained and certified
Commitments	213
Procurement	206
Revenues	750
Assets	331
Reporting	119
Auditing	227
Received	267
Expenditures	282
Certifications	280
Allocations	47

In general, budget organizations operate according to established standards and there is a good understanding of relevant internal control procedures.

Score A

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

The rules governing registration of transactions are provided in Financial Rule No. 2 for spending of public money. Budget organizations are not allowed to sign contracts prior to entering the commitment in the system.

In 2012, the Central Harmonization Unit for Financial Management and Control (CHU / FMC) supported the senior managers of budget organizations in understanding their roles and responsibilities regarding the implementation of existing regulations.

CHU / FMC prepared and released self-assessment checklists to enable senior managers to determine the degree of best practices met and to provide a benchmark for internal and external auditors. Self-Assessment checklists must be filled in by the managers at least once a year and submitted to the CHU FMC. In addition, this initiative aims at providing information about the government's progress in implementing the FMC. In 2012, 66 of 95 BOs (i.e., 70%) completed self-assessment checklist.

It can be concluded that the budget organizations operate in accordance with a series of financial management and control rules, however the recent OAG annual report for 2011 still indicates some minor incidences of non-compliance with rules (e.g., discrepancies in the asset registry and delays in the payment of expenditures (see PI-4)). Despite efforts to strengthen the compliance exceptions continue to take place and monthly salaries for 26 BO processed outside the payroll through KFMIS justifies the score B.

Score B

PI-20	Description	Score – M1
(i) Effectiveness of expenditure commitment controls	<p>Score B</p> <p>(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.</p>	B+
(ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures	<p>Score A</p> <p>(ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood.</p>	
(iii) Degree of compliance with rules for processing and recording transactions	<p>Score B</p> <p>(iii) Compliance with the rules is fairly high, but simplified/ emergency procedures are used occasionally without adequate justification.</p>	

3.4.9 PI-21 Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

Since 2009, the legal framework for the internal audit function witnessed changes aimed at its harmonization with the International Internal Audit Standards.

As a result, Internal Audit is currently regulated by the Law No. 03/L-128 on Internal Audit, which entered into force on 27 September 2009. A series of administrative guidelines and other legal acts were enacted for the implementation of this law, as follows:

- Administrative Instruction No. 22/2009 on the establishment of criteria and procedure to obtain an interim license for public sector Internal Auditors;
- Administrative Instruction No. 23/2009 on the establishment and functioning of public sector internal audit units;
- Administrative Instruction No. 11/2010 on the functioning of Audit Committee within private sector entities;
- Administrative Instruction No. 05/2012 on the establishment of criteria and procedure for obtaining professional licenses for internal auditors in the public sector..

In addition to the above legal framework the following serve as a basis for internal audit: International Standards for Internal Auditing, Code of Ethics, best professional practices for internal audit, model charter for IAU, best practices for audit committees and model statute for audit committees.

In 2008 Central Harmonization Unit for Internal Audit (CHUIA) was established within the MoF that is responsible for the preparation of rules, policies, manuals, guidelines, and professional standards for the exercise of the internal audit function. It plays an active role in the development of the internal audit profession. The legal framework and methodological tools for internal audit are defined and applied in practice.

The central budget consists of 50 budget organizations, of which 32 are obliged to create IAUs. Currently, 31 budget organizations have established IAUs, with the exception being the newly created Ministry.

Some ministries have created independent units of IA for their sub-units. For example, MoF has established independent IAUs for Tax and Customs Administration of Kosovo; Ministry of Health has established IAU for the University Clinical Center of Kosovo; Ministry of Internal Affairs has created an IAU for Kosovo Police and Kosovo Academy for Public Safety.

Further, there are 17 independent institutions at the central level which are small in budget and size, and therefore do not meet the criteria set by AI. 23/2009 on the establishment of IAU. Despite this, seven independent institutions, as per their request, are audited by the IA Department within the MoF

According to the CHUIA Annual Report for 2012, internal audit function in 50 central budget organizations is as follows::

- 37 budget organizations have established IAUs¹⁴
- Total number of auditors is 82;
- Total number of trained and CIPFA certified auditors in accordance with International Audit Standards is 25;
- Number of certified auditors to continue the training and certification program is 12;
- 22 internal auditors are in the process of certification;
- 34 IAUs have developed their 2013-2015 strategic plans;
- 36 IAUs have developed and submitted their annual reports to the CHUIA;
- 26 budget organizations have established audit committees.

In general, Internal Audit in Kosovo is functional and meets professional standards.

Score A

(ii) Frequency and distribution of reports

Internal Audit reports are submitted to the audited entities, the Audit Committee, and senior management. IAUs draft quarterly and annual internal audit activities reports for BOs, which are submitted to the CHU.

CHU drafts an annual report on the activities and operations of IAUs and delivers it to the Minister of Finance for the review. The report with comments is submitted to the Government, Parliament and the OAG.

During 2012, CHU received 34 quarterly reports from central budget organizations and compiled the Annual Report, which was submitted to the MoF and the Government.

Score A

¹⁴ Office of President 1, Assembly 1, Prime Ministers Office 1, Ministries 18, Independent Agencies 10, 6 audit units for specific budget programs in MoF, MoH and MIA

(iii) Extent of management response to internal audit findings

In general, management’s response to recommendations varies, but increasing willingness to implement Internal Auditor recommendations was noticed during the recent years.

During 2012, the number of audits carried out was 273. Total number of recommendations amounted to 1,475, of which 845 (57.3%) have been implemented, as compared to 2011 when it was 53.7%. Recommendations in the implementation phase amounted to 367 (24.9%), however some take more time to be fully implemented. Number of unaddressed/not implemented recommendations was 263 (17.8%), with some provided only in the fourth quarter of 2012, therefore their implementation is expected to take place next year.

Score B

PI-21	Description	(Score- M1)
(i) Coverage and quality of the internal audit function	Score A (i) Internal audit is operational for all SN government entities and generally meets professional standards. It is focused on systemic issues (at least 50% of staff time).	B+
(ii) Frequency and distribution of reports	Score A (ii) Reports adhere to a fixed schedule and are distributed to the audited entity, the Ministry of Finance and the OAG	
(iii) Extent of management response to internal audit findings	Score B (iii) Immediate and comprehensive action is taken by most (but not all) managers.	

3.5 Accounting, recording and reporting

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Collection, saving and spending of public money is done through a Single Treasury Account (STA), which is reconciled on a monthly basis.

The STA consists of a “main account, and for the sake of easier revenue identification and reconciliation, Treasury established sub-accounts for each budget organizations that collect public revenues within the STA. Sub-accounts are classified as follows::

- a) Sub-accounts for the revenues collected from budget organizations
- b) Sub-account for trusted money and
- c) Sub-accounts for expenditures (salaries, pensions).

Payments from taxpayers are made in all licensed commercial banks in Kosovo with the destination in CBK sub-account opened for BOs.

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

All sub-accounts are reconciled at least monthly, by the end of each calendar month. The Treasury Department submits all sub-accounts reports electronically daily to the revenue collecting Budget Organizations (central and local level). These bank reports¹⁵ regarding the state of accounts enable BOs to enter their revenues collected into KFMIS classified by revenue type, economic code and respective department. The Revenue Division in Treasury monitors revenue recording and participates in the monthly reconciliation. In addition to the daily and monthly reconciliation of bank accounts, the Reporting and Accounting Division requires all BOs on a quarterly basis to reconcile Treasury records of KFMIS and BO for recorded revenues and expenditures and advance payments. The reconciliation process will not be signed between BOs and the Treasury if any of the reconciliation does not match, even if it is a minor amount. The reconciliation process is thus performed in a very transparent and timely manner as required by LPFMA so that no material differences are left unexplained

Score A

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

Treasury currently holds no suspense accounts to manage public money. All payments or expenditure from the Kosovo Consolidated Budget are made by the Treasury Single Account. Report on all STA transactions are received on a daily basis in the Treasury in electronic and hard copy. All transactions on this account are reconciled by Central Treasury on a daily basis with the data generated by the KFMIS.

Treasury, under the TSA also has opened accounts for BOs for Petty Cash and advances, and reconciliation is done on a monthly basis. Advance payments are provided mainly for travel purposes, including those for petty cash, and are managed through a budget category of goods and services. Opening petty cash advance is based on the request for petty cash expenditure needs. Compared to 2009 PEFA assessment, there has been progress in improving the reconciliation of advance accounts.

Travel advance payments are based on official and approved travel agendas and reconciled upon the presentation of document after the travel is completed. Value of petty cash expenditure in 2011 amounted to 788.719 EUR. The level compared to total government expenditure is not significant and the closure is done on time.

Petty cash is reconciled and closed by 27 of December as stated in Treasury financial rule¹⁶, on basis of the evidence submitted to the Treasury, followed by categorization and recording of expenditures by economic classification. If the allocated advance is not fully spent, allocated funds return to the consolidated fund, with supporting evidence.

¹⁵ Treasury approved an Administrative Instruction for the implementation of UNIREF – which enables accurate and timely revenue identification

¹⁶Financial rule no. 10/20121mf for the completion of the fiscal year

Treasury has issued the financial rule for fiscal year-end closure which includes travel expenses and petty which are generally compiled with by budget organizations.

Score A

PI-22	Explanation	Nota – M2
(i) Regularity of bank reconciliation	<p>Score A</p> <p>(i) Bank reconciliations for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</p>	
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	<p>Score A</p> <p>(ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward</p>	A

3.5.2 PI-23 Availability of information on resources received by service delivery units

Primary health care and primary and secondary education are the responsibility of municipality governments. Consequently, municipalities are responsible for service delivery, financing, budgeting, and reporting. Service delivery in these two sectors is primarily financed by municipalities from specific operating grants transferred from the central government. In addition, certain activities – such as major capital investment and pharmaceuticals distribution – are conducted by responsible line ministries within specifically designed programs within their budgets.

Education departments within local governments of Kosovo possess information on resources allocated to individual received for all schools under their jurisdiction of the respective municipalities. Respective departments have accurate information on the level of budget planning and budget execution at every high school, elementary or pre-school level. This was made possible by an initiative undertaken in 2009 to decentralize budget to recently made at the level of individual schools is done..

Similar decentralization has not happened for primary health care service delivery units and as a result municipalities do not possess a budget plan explicitly separated for spending units. However actual expenditure is recorded in accordance with accounting registry in KFMIS, which allows the generation of data for individual health care houses.

Information and details on the resources made available in nature - such as the centrally managed pharmaceutical program or wholesale purchases of heating oil distributed to individual schools and health centers - can be obtained from a database containing confirmation of the for receipt of goods that is signed by the spending units. Municipalities do not have summary reports of received resources for health and education, especially those in nature, in the absence of reliable information from their receiving units

In principle, the conditions (in particular the strengths and advantages of KFMIS) seem to exist for score A; however; there is a lack of reliable evidence for the consolidated annual reports, that is why a B score is assigned.

Score B

PI-23	Description	Score – M1
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash or in kind) by the most common frontline service delivery units (focus on primary schools and primary health clinics) in relation to overall resources made available to the sector(s), irrespective of which government level is responsible for the operation and funding of those units	<p>Score B</p> <p>(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 care clinics across most of the country with information compiled into reports at least annually.</p>	B

3.5.3 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. Budget organizations are connected to the KFMIS, which enables the generation of accurate budget reports throughout the year, for the purposes of management and reporting of public finances. The system allows the comparison of the original budget estimates with the latest information on allocations, commitments, actual expenditures up to date, budget balance and employment, in line with LPFMA requirements.

Score A

(ii) Timeliness of the issue of reports

Treasury in the Ministry of Finance produces regular quarterly reports on budget execution of the Kosovo Consolidated Budget. These reports are issued within 30 days of the end of each quarter and submitted to the Government and the Assembly of Kosovo (also available on the MoF web site) in accordance with the requirements specified in the LPFMA. Reports provide full coverage of the budget execution status.

Score A

(iii) Quality of Information

Information contained in reports is of good quality. In-year reports use KFMIS data reconciled with THV. The process of reconciling Budget Organization reported data with consolidated reports are used for

production of quarterly reports. Compared to 2009 PEFA, a good performance in data quality and update is achieved.

Score A

PI-24	Description	(Score-M1)
(i) Scope of reports in terms of coverage and compatibility with budget estimates	Score A (i) Classification of data allows for direct comparison with the original budget. Information includes all items of budget estimates. Expenditure is covered both at the commitment and payment stage.	A
(ii) Timeliness of reports issuance	Score A (ii) Reports are prepared quarterly or more frequently and published within four weeks of the end of period.	
(iii) Quality of information	Nota A (ii) There are no material concerns with respect to information accuracy	

3.5.3 PI-25 Quality and timeliness of annual financial statements

(i) Completeness of the financial statements

Consolidated financial statements are annually prepared by the Treasury in accordance with the LPFMA requirements, which sets the time of annual report submission and its content.

Consolidated financial statements contain information sufficient for receivables, payments, assets, financial liabilities, comparison with earlier years, outstanding obligations, capital assets, situation of government loans, situation of government reforms, recommendations, situation of government reforms, etc.

The review of the 2011 Kosovo's consolidated financial statements suggests that the statements presented complete information on public finances that allowed the external auditor to provide an unqualified audit opinion for 2011 in accordance with ISSAI 400.

The opinion of the external auditor read: "Annual Financial Statements of the Budget of the Republic of Kosovo represents, in all material respects, the true and fair view of the finances and financial condition for the fiscal year 2011." (Audit Report 2011, p. 12)..

Score A

(ii) Timeliness of submission of the financial statements

Article 46 of the LPFMA sets the deadline for the submission of annual financial statements which is until March 31.

Submission of the annual financial statements of the consolidated budget was made within the time limit set by law. The following table presents the submission of annual financial statements for the last three years in government and OAG.

Fiscal Year	Submission to the OAG
2010	29 March 2011
2011	26 March 2012
2012	28 March 2013

Score A

(iii) Accounting Standards Used

In accordance with the LPFMA, Minister of Finance is responsible for the preparation of annual financial statements of the consolidated budget.

The auditor's assessment confirmed that annual financial statements for the last three assessed years were prepared in accordance with the applicable standards for the public sector (IPSAS) as well as laws and regulations..

Nota A

PI-25	Description	Score- M1
(i) Completeness of the financial statements	Score A (i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets / liabilities.	A
(ii) Timeliness of submission of the financial statements	Score A (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year.	
(iii) Accounting standards used	Score A (iii) ISPAS or corresponding national standards are applied for all statements.	

3.6 External Scrutiny and Audit

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

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

Annual financial statements of the Republic of Kosovo Budget are audited on yearly basis by the external independent auditor- Office of the Auditor General.

The most recent audit report of financial statements for the year ending on 31 December 2011.

Auditing was done in accordance to international accounting standards issued by SNISA and it was a regularity audit defined as financial accounting verification, with review and assessment of financial statements, , financial transactions and financial management regularity. No performance auditing of consolidated statements of Republic of Kosovo was done.

Auditor General, under Law No. 03/L-075 on the establishment of the Office of the Auditor General and Audit Office (Section 2), has the complete discretion and independence in exercising his/her functions and powers. In particular, the Auditor General shall not be subject to any order:

- a) Whether or not there should be a particular audit?
- b) How to conduct a particular audit?
- c) The priority to be given to any particular matter?

Score B

(ii) Timeliness of submission of audit reports to legislature

The last report of the Auditor General for Financial Statements of Republic of Kosovo for the year ending on 31 December 2011 was submitted in the Assembly of Kosovo by OAG on 31 August 2012. Considering that the report was submitted by OAG in the end of August, which is 5 months from the end of covered period, we might say that score B is justified.

Score B

(iii) Evidence of follow up on audit recommendations

In the OAG annual report, respectively in the *previous year recommendations progress chapter* related to AFS 2010, 11 recommendations were presented on financial annual statements. Out of these, 4 were fully addressed, 4 were partially addresses, and 4 other were not addressed at all.

Recommendations addressed partially are:

- Deficient addressing of revenues, ranging from recording revenues in the respective economic codes, which has led to lower collection of revenue, and regular revenue reconciliation which is not done through bank accounts;

- Proper implementation of the approved budget and elimination of budget deviations. Implementation of legislation on spending public money is not adequate in relation to the level of the investment plan, documentation and execution should be improved further;
- The issue of Government (MoF) dividends has not completely improved. There exists no clear explanation of the purpose and adequate disclosures in the financial statements are not made regarding the results of the dividend by the MEF. Further decisions in this regard were not sufficiently documented.

Recommendation not addressed, according to OAG:

- Procurement processes that are not conducted in accordance with applicable laws, main obstacles which have proven to be addressed are associated with capital investment supervision, certification of payments and increased accountability;
- Effective supervision and management of public enterprises and management of the privatization of SOEs is not at the adequate level. Legal consistency between LPFMA and the Law on POEs is missing.
- Monitoring of subsidies provided by the Government through formerly MEF is not at the adequate level and there is room for improvement. Lack of adequate analysis regarding subsidies, controls and monitoring is weak, and transparency is not developed, and
- The level of the quality of financial reporting in connection with municipalities remains very low and not even close with the requirements, and adequate systems of internal financial controls are lacking.

Score B

PI-26	Description	Score – M1
(i) Scope / nature of audit performed (incl. adherence to auditing standards)	<p>Score B</p> <p>(i) all entities of the national Government that represents at least 75% of general aggregate expenditures are audited on yearly basis where revenues and expenditures are covered at least. A number of auditing are performed and in general these are in compliance with auditing standards and are focused in system issues. There is a clear distinction of responsibilities between units of auditing..</p>	B
(ii) Timeliness of submission of audit reports to legislature	<p>Score B</p> <p>(ii) ii) Auditing reports are submitted to legislature within 8 months from the completion of covered period whereas in case of financial statements from the time of their receipt from the audit office.</p>	
(iii) Evidence of follow up on audit recommendations	<p>Score B</p> <p>(iii) A formal response is made in timely manner, but there is a little evidence of systematic follow up.</p>	

3.6.2 PI-27 Legislative scrutiny of the Annual Budget Law

(i) Scope of legislative scrutiny

Legislature under the Law on Public Financial Management and Accountability (PFMA) has a clear role in the Annual Budget Law Review. Under the Rules of Procedure of the Assembly of the Republic of Kosovo this role is delegated to the Committee of Budget and Finance which has recently had up to 4 weeks to review the budget document submitted by the Government.

Besides the role for review of the annual Budget of Kosovo, the scope of the Committee of Budget and Finance includes discussion of budgetary and financial issues, examining the impact of the budget draft laws in the first year and subsequent years, review expenditures of Kosovo institutions as independent organizations that report directly to Parliament.

Assembly of Kosovo for the 2013 budget, according to LPFM, had available the textual and tabular part of the budget and fiscal policies that make fiscal aggregate figures, as well as detailed assessments of costs and revenues. Although this documentation submitted at the same level as in previous years it has not limited the improvement of the discussions and reviews. However, given that the draft annual budget is submitted to

Parliament in the final stage, it gives no opportunity to improve alignment of the review by the Budget and Finance except to concentrate the focus on information that revenue and expenditure that are set in the Annual Budget Law. Therefore, despite the achievements, it is considered that Grade C is deserved.

Nota C.

(ii) The extent to which Assembly procedures are established and respected

Budget and Finance Committee makes budget decisions under well established procedures. The procedures foresee the involvement of other Assembly Committees, MoF, Government, and budget organizations in the conduct of budget hearings and debates regarding the proposed budget. However, in practice other committees are not actively involved in reviewing the budget, although there is some sort of superficial reviewing of the draft budget by these committees. On the other hand, some practices of the Budget and Finance Committee hearings involving budget organizations, have proven to be inefficient and focus away from issues of high strategic level. Therefore, score B is considered meritorious and this estimate does not represent any change compared with the 2009 PEFA assessment.

Score B

(iii) Adequacy of time available for the Assembly to provide a response on budget proposals, detailed estimates and where possible, macro-fiscal proposals at aggregate level, in the early stages of the budget preparation cycle (time allowed in practice for all stages combined).

According to the Law on Public Financial Management and Accountability, the budget must be submitted to the Assembly at least 2 months before the start of the new fiscal year, i.e. before 31 October. Due to political circumstances, the 2011 budget was submitted to the Assembly on XXX and approved on 11 March 2011, while for the first 3 months of 2011 the continues resolution was implemented in accordance with the applicable LPFMA provision. The 2012 Budget was submitted on 31 October 2011, whereas the budget for 2013 was submitted on 29 October 2012.

Score A

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

There are clear rules for budget amendments by the Government within the year and these are usually respected. The law does not allow for the increase in the overall level of budget appropriations outside of the formal budget review process.

During the last three budget cycles many reallocations occurred outside of the mid-year budget review process.

In response to the necessity to reduce under-spending some special provisions on the rules on budget amendments were introduced into the Annual Budget Law. As a result, the Minister of Finance, with the approval of the Government, during the last three months of the fiscal year may transfer funds from one budget organization with high tendency for budget under-spending to another organization. Under this provision, the transfer can reach up to 5% of the total budget of the Budget Organization without the subsequent approval by the Parliament.

In general, the rules laid down in the LPFMA and in the Annual Budget Law provide for the possibility of extensive reallocations of budget. But considering that these rules are respected, and changes do not affect the level of total expenditure score B is justified.

Nota B

PI-27	Description	Score – M1
(i) Scope of the legislature’s scrutiny	(iii) Score C (i) The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	C+
(ii) Extent to which the legislature’s procedures are well-established and respected.	(ii) Score B (ii) simple procedures exist for the legislature’s budget review and are respected.	
(iii) Adequacy of time for the legislature 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)	(iii) Score A Legislature has at least two months to review the budget proposals.	
(iv) Rules for in-year amendments to the budget without ex-ante approval by legislature	(iv) Score B Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	

3.6.3 PI-28 Legislative scrutiny of external audit reports

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

Generally, during the last three years audit reports were reviewed by the Assembly of Kosovo within three months from their receipt. The reports were reviewed at the relevant committees, including the Committee on supervision of public finances. Also, the reports were discussed at a plenary session of the Assembly of Kosovo.

The following outlines the actual receipt and review dates for the Audit Reports on consolidated annual financial statements of the Government:

- For 2009: received on 2 September 2010; discussed and approved on 30 September 2010;
- For 2010: received on 2 September 2011; discussed and approved on 14 November 2011;
- For 2011: received on 31 August 2012; discussed and approved on November 8, 2012.

Score A

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

Since 2009 when the PEFA assessment was conducted, the Assembly has established a special Committee for the Supervision of Public Finances, which began operating in 2010. The role and responsibilities of the committee is to institute government's accountability for the expenditure of public money. The Committee consists of 9 members representing political parties in the Assembly, and is chaired by the largest opposition party.

The Committee for the Supervision of Public Finances initially examines and then discusses the external audit reports on consolidated annual financial statements during special plenary sessions of the Assembly. In such dedicated plenary sessions the Auditor General and the Finance Minister or his/her representative are usually present. Members of the Committee and other members of the parliament actively participate in discussions.

For the most recent 2011 audited financial statements, the Committee invited the audited entities, who received qualified or unqualified audit opinions, to separate discussions. These reviews concluded with a public hearing with the participation of the Ministry of Finance, Ministry of Local Government, all Mayors, Office of the Auditor General, Anti-Corruption Agency, and Association of Kosova Municipalities. This was the first time such an arrangement was made, and it remains to be seen whether this practice will be consistent in the future.

Score B

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

Following PEFA assessment in 2009, an oversight parliamentary committee for public finances was established. This marked a progress in terms of the creation of a focus group within Parliament, with the potential for making recommendations to BOs and monitoring their implementation. The Committee has begun issuing specific recommendations to BOs within prescribed time limits. For example, the committee has dealt with the issue of property management, which was regularly raised in the OAG remarks during recent years. The Committee asked the MoF and the Ministry of Public Administration to create a working group that would resolve the issue. As a result, a working group was created and continues to work under the mandate given. This is just one case, while the Committee for Supervision of Public Finances has not established as yet a general evidence about the recommendations and their monitoring status.

The Committee began regular practice of issuing specific recommendation and implementation deadlines only recently in 2012, thus it remains to be seen how it will evolve in the future, which would potentially improve the score. Until then, the Assembly to a large extent continues to resort to the findings and recommendations of the external auditor for the government.

Score C

PI-28	Description	(Score – M1)
(i) Timeliness of examination of audit reports by the legislative (for reports received within the last three years).	<p>Score A</p> <p>(i) Examination of audit reports by the Assembly is usually done within 3 months from their receipt.</p>	C+
(ii) Extent to hearings conducted by the Assembly on key findings	<p>Score B</p> <p>(ii) More thorough hearings on key findings take place routinely with representatives of audited entities who have received qualified or unqualified audit opinions.</p>	
(iii) Issuance of recommended actions by the legislature and implementation by the executive	<p>Score C</p> <p>(iii) Actions are recommended but rarely taken by government or there is a lack of information on monitoring</p>	

3.7 Donor Practices

3.7.1 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).

Since the period of early post-conflict reconstruction phase (i.e., years 2000-2004), when the direct budget support comprised up to 50% of total revenue, revenue collection capacity significantly increased. The budget is currently almost entirely funded by own revenue, privatization receipts, domestic and foreign borrowing.

Despite the multi-year pledges (in total) of €208.4 million made at the donors' conference in 2008 the actual budget support as planned during annual budget formulation process is lower.

During the years 2010 through to 2012, total received donor budget support amounted to €86 million and on average constituted around 2.5% of total revenue each year as presented in the table below. Compared with the 2009 PEFA, in the 2013 PEFA assessment period, budget is almost entirely funded by domestic revenues and budget plan includes this direct support. This direct budget support has been included in the original approved budget. Two main donors are the European Commission and the World Bank.

Score A.

Table 16: Budget Support Grants

Description	2012 '000 €	2011 '000 €	2010 '000 €
European Commission	-	-	30,000
World Bank	37,417	19,240	-
Total	37,417	19,240	30,000

Source: Annual Financial Statement

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

Disbursement of funds received as direct budget support was done once during each of the assessed fiscal years. There was no disbursement schedule agreed upon at the beginning of the fiscal year and the timing of disbursement was not agreed in advance with the Kosovo authorities.

Score D.

D-1	Description	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 (or equivalent approving body).	<p>Score A</p> <p>(i) In no more than one out of three last years has direct budget support outturn fallen short of the forecast by more than 5%</p>	D+
(ii) Timing of in-year payments from donors (compliance with quarterly aggregate assessments)	<p>Score D</p> <p>(ii) The requirements for score C (or higher) are not met</p>	

3.7.2 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

From the assessment conducted in 2009, there were some institutional changes in the management of donor aid programs.

The coordination of foreign assistance to Kosova is currently done through the Department for Development Support in the Ministry of European Integration (MIE), which was established in 2010 and took over this responsibility from the former European Integration Agency. The Ministry, with the assistance from the EC, has developed an electronic platform for the management of foreign aid.

Based on data reported by donors through this aid management platform, assistance provided to Kosova has been continuously decreasing during the last three years. Foreign development aid amounted to 214.6 million euro in 2011, 10% less than in 2010. While in 2012 it was € 208 million. Aid came mostly in the form of technical assistance. European Commission and USAID represented the largest donors of aid (about 61% of total).

All donors are required to report their projects' commitments, disbursement plans, and other projects' relevant information. Despite the fact that these data are reported as official by the Ministry of European Integration concerns remain as to the quality, reliability and timeliness. To date there are no mechanisms in place to validate the data.

As a result, donor project aid and commitments are not incorporated into the budget formulation process. Moreover, there is still no automatic communication between the platform for the management of foreign aid in MEI and budget management in the Ministry of Finance.

The only exception is financing from the European Union within the framework of IPA, where the EU provides to Budget Organizations estimates for future support in the form of IPA and required co-financing from the budget. This program still represents less than half of donor support to Kosova.

Score D

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

The Ministry of European Integration continues to rely on reporting by donors on the implementation of their programs. However, the delays in regular reporting occur and the quality of reporting is questionable. For example, as of May 2013 donor reporting for fiscal year 2012 has not yet been fully completed.

Score D

D-2	Description	Score – M1
(i) Completeness and timeliness of budget estimates by donors for project support	<p>Score D</p> <p>(i) Not all major donors provide budget estimates on the disbursement of project funds, for at least next fiscal year and at least three months before the start of fiscal year</p>	D
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	<p>Score D</p> <p>(ii) Donors do not provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification</p>	

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3.7.3 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

Only donor funds channeled through the Treasury and processed through the KFMIS are consequently considered to have used national procedures, including procurement, audits, payments, etc. Donor funds that have been provided in a form of designated grants or direct budget support (see D-1 (i)) were insignificant and generally less than 10% of total donor assistance as per data presented in D-2 (i). In general, all other aid funds continue to be managed in accordance with procedures established and required by donors.

Score D

D-3	Description	Score – M1
(i) Overall proportion of aid funds to central government that are managed through national procedures	<p>Score D</p> <p>(i) Less than 50% of aid funds to central government are managed through national procedures</p>	D

4. Reform Agenda

Despite considerable achievements in this PFM performance report, compared to that 2009, this assessment also highlights the shortcomings of the public finance management system which hinder a more efficient and transparent use of public financial resources, and in turn lower the positive results from the implementation of state policies.

The Government of Kosovo is further advancing the public administration reform including the introduction and standardization of grading system, development of a human resource management information system which would automatically interface with payroll system, further approximation of procurement laws and procedures with EU legislation and best international practices, further capacity building in internal audit area and continuing the certification of internal auditors by CIPFA in all budget organizations, strengthening the external scrutiny through strengthening the OAG and legislative role.

Based on this most recent 2013 PEFA assessment, and other assessments under various diagnostic tools such as the Public Expenditure Review conducted in late 2012, the Government plans to advance the reforms in public finance management based on domestic implementing capacities, to introduce policies oriented toward program-based budgeting, and further improvements in the Treasury systems.

In addition, further advancements are planned in the administration of local taxes, capacity building in the compulsory collection of taxes as well as addressing the issue of arrears within the tax collection authority – TAK. This will also be accompanied by the development of a tax management system that would support these reforms.

Kosova Government will take the lead in implementing these reforms, being supported by donors such as USAID, EC, World Bank, IMF, SIDA, GIZ, etc. Past experience with this reform has shown positive results in the above mentioned areas whereas commitment to further advancement paves the opportunity for new achievements.

To implement these reforms in public finance management, the Government will undertake to update the PFM Reform Action Plan, issued since 2009, when the PEFA assessment has been completed at that time. Building on that experience, the Government of Kosova will soon develop an action plan for these reforms, by the end of 2013, and through a working group established for this purpose will monitor its implementation and report on the progress every six months.

Appendix 2: The Interviewed

No.	Name and Surname	Title	Institution/ Municipality
1	Adelina Cervadiku	FreeBalance Officer in the treasury Department	Ministry of Finance
2	Adriatik Stavileci	Media Office Manager	Media Office/ Kosovo Custom Services
3	Agron Ibishi	Consultant at the World Bank Project for Advancing Public Administration	World Bank
4	Alban Fetahu	Unit for Debt Management	Debt Unit, Treasury
6	Ardian Behra	Chairman	Procurement Review Body (PRB)
7	Bastri Dedinca	IT Coordinator	Regulatory Committee of Kosovo Public Procurement (KRPP)
8	Besim Curri	Head of Claims Unit	Legal Department/Kosovo Custom Services
10	Burim Gashin,	Department of Budget and Finance	Kosovo Custom Services
11	Catriona Mchugh,	Expert in the project “ European Cooperation for Stronger Municipalities- Service provision planning”	Project funded by EU managed by European Union in Kosovo EU-PIP
12	Driton Azemi,	Head of investigation	Kosovo Custom Services
13	Emrush Haxhiun	Director of the Department for General Administration	Kosovo Assembly
14	Fatime Qorri	Coordinator of the Committee for Supervision of Public Finance	Kosovo Assembly
15	Ferid Sylejmani	Former Manager of the Claims Unit	KTA
16	Graham Burnett	Team Leader	USAID project/Support to Tax Administration (ESTAK)
17	Hajdar Korbi,	Advisor to the Minister of Finance for Economic Policies	GFSI/USAID
18	Holtjana Bello	SDC Consultant in the Unit for Policies and monitoring of PEs	SDC

19	Ibrahim Gjylbederen	Deputy of the General auditor of Kosovo	OAG
20	Ismail Rushiti	Senior Legal Officer	Regulatory Committee of Kosovo Public Procurement (KRPP)
21	Jeton Kryeziu	PIP system Manager for Municipalities ;	EU-PIP
22	Milaim Aliu	Senior Analyst at the Budget Department	Ministry of Finance
23	Muhamet Latifi	Director at the Civil Service Administration Department (DASHC)	Ministry of Public Administration
24	Muharrem Kosumi	Director a of the Harmonization Central Unit .	Ministry of Finance
25	Neziha Ismajli Hoxha	Head of the sector for money, auditing and control	Kosovo Custom Services
26	Neziha Selmani	Head of the Risk Assessment Sector	Kosovo Custom Services
27	Nysret Koca	Deputy Director of the Treasury	Ministry of Finance
28	Ramadan Sejdiu	Head of the Unit for PE monitoring	Ministry of Economic Development
29	Ruzhdi Halili	Director of Strategic Planning Office	OPM
30	Sami Salihu	Taxpayers Education and Services at KTA	Kosovo Tax Administration (ATK)
31	Sanije Himaj	PIP system Manager for the central level	Central Budget Department
32	Shpresa Dushi	Department of the Civil Service Administration (DASHC)	Ministry of Public Administration
33	Skender Kolgeci	Head of the Independent Review Board	Independent institution
34	Xhemajl Fejza	Head of the Auditing Unit	Kosovo Custom Services
35	Xhevat Hasolli	Manager of the Tax Unit in the treasury Department	Ministry of Finance

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