EC Multiple FRAMEWORK CONTRACT BENEFICIARIES Programme

REPUBLIC OF KOSOVO, CENTRAL GOVERNMENT REPEAT PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT (PEFA)

Central Government

PEFA REPORT

31st January 2016

This project is funded by
The European Union

A project implemented by AECOM International
Development Europe SL in Consortium with 4assist

Republic of Kosovo
Central government repeat Public Expenditure and Financial Accountability Assessment (PEFA)
31 January 2016

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat
February 16, 2016

Type of report: Second draft

Project No. 2015/358550/1

Presented by

AECOM International Development Europe (Spain)

in Consortium with 4Assist Development Consulting

REPUBLIC OF KOSOVO, CENTRAL GOVERNMENT
REPEAT PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT (PEFA)
Central Government
Final draft

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CURRENCY AND EXCHANGE RATES

Currency unit = Euro (€)

€1 = US$ 1.093 (as of 1 June 2015)

Government Fiscal Year: January 1 – December 31

List of Acronyms

AC	Audit Committees
AGA	Autonomous Government Agencies
ASYCUDA	Automated System for Customs Data Administration
AW	ASYCUDA World
BDMS	Budget Data Management System
BO	Budget Organization
CHU	Central Harmonization Unit
CIAHU	Central Internal Audit Harmonization Unit
COFOG	Classification of the Functions of Government
DMU	Debt Management Unit
EC	European Commission
FN	Fiscal Number
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoK	Government of Kosovo
HQ	Headquarters
HRMS	Human Resource Management System
IA	Internal Audit
IAU	Internal 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
INTOSAI	International Organisation of Supreme Audit Institutions
KCB	Kosovo Consolidated Budget
KCB	Kosovo Central Bank
KC	Kosovo Customs
KEK	Kosovo Electricity Corporation
KFMIS	Kosovo Financial Management Information System
KPA	Kosovo Privatization Agency
LTU	Large Taxpayers Unit
LLGF	Law on Local Government Finances
LPE	Law on Public Enterprises
LPFMA	Law on Public Finance Management and Accountability
MoF	Ministry of Finance
MTI	Ministry of Trade and Industry
MPA	Ministry of Public Administration
MED	Ministry of Economic Development
MTEF	Medium Term Expenditure Framework

MTFF	Medium Term Fiscal Framework
OAG	Office of the Auditor General
PE	Public Enterprises
PIFC	Public Internal Financial Control
PM	Prime Minister
PIP	Public Investment Program
POE	Publicly Owned Enterprise
PPRC	Public Procurement Regulatory Commission
PPL	Public Procurement Law
PPP	Public Private Partnership
PPRC	Public Procurement Regulatory Commission
PRB	Procurement Review Body
RASM	Risk Audit Selection Model
RMU	Risk Management Unit
RRP	Risk Response Plans
SEED	System for Electronic Exchange of Data.
SIGTAS	Standard Integrated Tax Administration System
SNG	Sub National Government
SOE	Socially Owned Enterprise
STA	Single Treasury Account
TAK	Tax Administration of Kosovo
ULT	Unit for Large Taxpayers
UPMPOE	Unit of Policy Monitoring Publicly Owned Enterprises
USAID	United States Agency of International Development
VAT	Value Added Tax

Summary Assessment

(i) Integrated assessment of PFM performance

Credibility of the budget (PIs 1-4)

Credibility is reasonable, but significant revenue over/under performance detracts from it (PI-3), as do reallocations of resources between BOs during the year, and, in 2014, the allocation of a contingency reserve that was significantly higher than in previous years. Inaccurate budgeting may be one reason: PI-11 on policy-based budgeting scores high, but this does not rule out under or over budgeting. Robust forward expenditure estimates (projections of the future costs of providing public services at current service levels under current policies) and periodic spending reviews would help to make budget preparation more accurate (PI-12).

Of concern is increasing levels of end-year payments arrears, which increased to 2.3% of expenditure in 2014 from only 0.14% at the end of 2008. The reasons are BOs committing expenditures that are not covered by budget allocations (an internal control issue under PI-20) and delays in paying invoices Payments arrears have to be paid off eventually, to the detriment of public service delivery in future years that has to be cut back in order to pay off the arrears. The GoK is obviously very aware of the issue and is trying to find a solution.

Comprehensiveness and transparency (PIs 5-10)

Performance is generally good. The monitoring of the financial performance of publicly owned enterprises (POEs) has improved. The Unit of Policy Monitoring of POEs (UPMPOE) in the Ministry of Economic Development now prepares annual reports on the financial performance of POEs for the Inter-Ministerial Commission that is responsible for providing oversight. POEs pose significant fiscal risk for GoK through seemingly operating at higher cost than necessary and thus receiving a larger subsidy than necessary from GoK. The OAG also points out the fiscal risks posed by POEs in its annual reports and emphasizes the need for close monitoring of their financial performance.

The OAG reports on local governments also highlight several problems in PFM performance that potentially put GoK at risk. The GoK is able to monitor the financial situation of local governments at any time, as their transactions are processed through the Treasury Single Account (TSA) and reflected in their annual financial statements.

The annual MTEF documents contain references to fiscal risks, but mainly those created through macroeconomic shocks rather the risks posed by POEs and local governments. .

Policy Based Budgeting (PIs 11-12)

PI-11 on policy-based budgeting scores well, but this does not mean that budgets are accurately prepared in terms of selection of what to budget for and in terms of correctly estimating quantities and costs. PI-12 continues to score low, indicating that a medium perspective to budgeting has not yet been developed. This is often the case in countries which are still establishing credibility in their annual budget systems. But preparation of robust forward expenditure estimates (as defined above under the budget credibility core dimension) would strengthen preparation of a robust annual budget. Such estimates should include the future recurrent costs implied by committed capital projects. These are still not being prepared through both the PIP selection process and the recurrent budget preparation process.

Improvements since the 2009 PEFA assessment are: (i) Establishment of the Strategic Planning

Office (SPO) in Office of the Prime Minister, which prepares strategic priorities to guide preparation of the next year's budget; these priorities are contained in the MTEF document submitted to Parliament at the budget preparation exercise; (ii) the preparation by SPO of methodology for preparing strategic plans; (iii) the submission of the MTEF to Parliament at the beginning of the budget preparation season, as required by the 2010 version of the LPFMA. The Cabinet approves the MTEF and the first budget circular, indicating its early involvement in the process, and stays involved at the later stage when 'hard' ceilings are set in order for BOs to prepare detailed estimates ; and (iv) improved quality of the budget preparation templates, due in part to the upgrading of the Budget Development Management System (BDMS)..

Predictability and control in budget execution (PIs 13-21)

(a) Revenue administration (PIs 13-15)

Performance has strengthened under PIs 13 (transparency) and 14 (controls) due to: (i) enhanced taxpayer education (PI-13), (ii) fiscal numbers becoming the main control tool for tax registration instead of business licenses (PI-14); (iii) increased effectiveness of penalties due to lowering of fines and more effective follow-up on non-compliance; (iv) up-grading of SIGTAS and establishment of ASYCUDA World, contributing to strengthening of the audit function; and (v) establishment of Risk Response Units in TAK and Blue Channel and Post Clearance Control units in KC, also strengthening the audit function. On the negative side, the appeals process appears not to be functioning as it should; the Independent Review Board was disbanded, but its replacement by the Basic Court system as a mechanism for adjudicating appeals appears to be less than satisfactory, due to the lack of tax administration expertise in the system. Penalties have become less effective as people can delay tax payments by appealing through the Court system,

The level of tax arrears and the collection of these is an issue under PI-15. The level of arrears is over 20% of tax collections and the collection of these is only about 20% each year.

(b) Budget execution and cash and debt management (PIs 16-17).

PI-16 on the predictability of funds for budget execution scores A, unchanged from the 2009 assessment. This is due to good cash flow forecasting by BOs, facilitating the preparing of cash plans by BOs themselves, the setting of budget allocation limits, and to the Treasury Single Account (PI-17). The TSA assures a higher level of available liquidity to finance budget execution than a multiple bank account system would have provided. The effective use of the Financial Management Information System (KFMIS) has been an important tool in managing and executing the budget. The Law on Public Debt (2010) and the establishment of a Debt Management Unit in MoF have facilitated good debt management (PI-17).

(c) Internal control systems (PI-18-21).

Payroll control (PI-18) has been a challenge for a number of years, but it is beginning to improve, due to:

- Establishment of a Human Resource Management System (HRMS) in 2013 in Ministry of Public Administration (MPA). To date, this has improved control over recruiting; it is no longer possible for BOs to by-pass MPA and recruit directly.
- The relocation of the payroll system from MPA to Treasury Department in MoF. BOs can now submit their next month's payroll electronically directly to Treasury, with

much reduced risk of errors. Errors may still arise through inaccurate personnel records in BOs, but these are being updated through the HRMS project. Eventually HRMS will be electronically integrated with the payroll system.

Procurement management (PI-19) is assessed through a revised (2011) methodology and performance is not comparable with the previous methodology. The 2011 Law on Public Procurement is close to international best practice and the procurement system is generally transparent in terms of procurement –related information available to the public. The score is held down, however, by (i) the Public Procurement Regulatory Commission being unable to determine whether use of non-competitive procurement procedures by BOs is justified, a procurement audit system not yet being in place; and (ii) the independent Procurement Review Body not having any private sector representatives on its Board, dimensions (ii) and (iv) scoring D as a result. Somewhat anomalously, both these dimensions score A, if using the testing version of the revised PEFA Framework. This is because the bulk of procurement is in fact carried out through competitive tendering and private sector representation on the procurement review body is no longer required.

Non-salary internal controls (PI-20): The main issues are expenditure commitment controls not being fully adhered to, contributing towards payments arrears, and a degree of non-compliance with other internal controls, as pointed out in the annual reports of the Auditor General. Both these dimensions score C.

Internal audit (PI-21): This is more or less fully operational in BO, but a transactions checking approach to audit is still prevalent, the systems approach still in its relatively early stages (score C). The main issue is the extent of implementation of audit recommendations (score B, indicating a high degree of response, but recommendations tend to be repeated each year).

Accounting, recording and reporting (PIs 22-25)

Performance was already good at the time of the 2009 PEFA assessment and remains good, helped by the robustness of KFMIS and the STA. The quality of the annual financial statements has improved through formal public debt being disclosed in the 2014 annual financial statements for the first time, thus enabling full compliance with the cash-based version of International Public Sector Accounting Standards (IPSAS). There are some issues with data accuracy that remain (e.g. real assets valuation and disclosure of third party payments), but the OAG reports consider these to be of limited material concern.

Information on resources received by service delivery units is available (PI-23). This has become possible in terms of the education sector through the initiative to decentralize budget management to individual schools. Similar decentralization has not yet happened for the primary health care sector, though it is planned. Actual expenditure of primary health care units is recorded in KFMIS, but the information is not yet consolidated into reports

External scrutiny (PIs 26-28).

Performance improved under PI-26 (external audit) due to an increase in audit coverage to virtually 100% of the expenditure of BOs. Performance audits are increasingly being performed. OAG audit recommendations are implemented to some extent, but there is still no effective formal mechanism for ensuring implementation (score C).

Under PI-27 (legislative scrutiny of the draft budget), performance has improved due to the submission of the MTEF to the National Assembly at the start of the budget preparation process, as mandated by the 2010 amendment to the LPFMA. The MTEF contains GoK's strategic priorities (now prepared by the Strategic Planning Office), the medium term macro-fiscal framework, and the medium-term budget framework. It is a useful document that facilitates review of the draft budget later in the year.

Under PI-28 (legislative review of external audit reports), performance has improved due to the establishment of a Committee for Oversight of Public Finance (COPF) in 2011. This holds hearings on the findings of OAG audit reports and requests BOs to prepare actions plans on how to implement these recommendations. BOs appear to be complying with these requests.

Donor practices (D1-D3)

These continue to score low, but this is not a big issue. Planned spending by donors is not incorporated into annual budgets, partly because donors have financial years that are different from GoK's financial year. Actual aid provided is appropriated by GoK when it arrives, so comparison of actual versus planned spending of aid is meaningless. An Aid Management database is in place in the Ministry of European Integration and donors are supposed to enter their planned and actual spending into it. Compliance with this requirement appears to be half-hearted and BOs themselves do not appear to take it seriously.

Donors channel their cash aid through the TSA and the spending of it is reported on and accounted for through KFMIS. Otherwise, donors continue to use their own systems for financial management, procurement and auditing, In any case, the amount of aid provided each year has fallen significantly as Kosovo continues to mature as a new country, and the spending of it comprises only a small proportion of total public expenditure.

(ii) Assessment of the impact of PFM weaknesses

Aggregate fiscal discipline. Kosovo's PFM system generally supports aggregate fiscal discipline. Revenue shortfalls are responded to by expenditure cutbacks. The GoK sought financial support from IMF through a Standby Agreement in 2011-12 when it considered such support was necessary in order to avoid drastic cutbacks in spending in response to fiscal problems. The fiscal problems have not gone away; GoK signed off on a new support program in June 2015.

Aggregate fiscal discipline could be undermined if payments arrears become a big problem. These have to be paid at some point, requiring cutbacks in budgeted spending which might not be politically feasible, Payments arrears have increased sharply as a ratio to total expenditure, but from low levels. Fiscal risk posed by Publicly owned Enterprises (POE) and local governments could, if it materialized, place some strain on aggregate fiscal discipline. Monitoring and analyzing this risk is therefore important. GoK's monitoring of fiscal risk posed by POEs has improved.

Strategic allocation of resources. The current sectoral allocation of resources appears to be what the Government wants it to be. The budget preparation system supports this to some extent. Significant reallocations of budgetary funds between BOs during the year and allocations from significantly sized contingency funds implies that budget preparation could be improved in support of a more robust process of allocating resources according to strategic priorities. A medium term perspective to budgeting is still evolving. The first priority should be the preparation of robust forward expenditure estimates (projections of spending based on current service levels and policies and taking into account the future recurrent costs implied by committed capital projects). Periodic spending reviews would also help to determine if spending is effective in terms of meeting policy objectives.

'New spending' requested by BOs during the first stage of budget preparation needs to be carefully analysed to determine if it is consistent with policy objectives. The establishment in 2012 of the Office of Strategic Planning under the Office of the Prime Minister helps this regard, as already manifested in the Strategic Priorities section of the annual MTEF documents presented to Parliament as the start of the budget preparation process.

Efficiency in service delivery

PFM systems should also support value for money in the delivery of public services. The PFM reforms over the last 10 years have undoubtedly contributed to this. For example, over 80% of public procurement is now conducted through open tendering. The annual reports of the Auditor General indicate, however, areas of non-compliance with rules and procedures that perhaps distract from efficiency.. The 2013 report of the Auditor General indicates that payroll control is no longer a significant risk, whereas it was perceived to be a risk in earlier reports.

The main areas of risk now seem to be: (i) the commitment control systems, as indicated by increasing payments arrears: the spending being financed through unauthorized use of public financial resources might not be achieving value for money; and (ii) assets management, which appears to be deficient, as indicated in the OAG reports.

Conclusion

The Government of Kosovo is making significant progress in strengthening PFM performance, to the benefit of budgetary outcomes: aggregate fiscal discipline, the strategic allocation of resources and efficient service delivery.

Progress may slow, however, due to growing signs of weakness in expenditure commitment controls that have led to payments arrears increasing significantly. Failure to arrest this trend could further damage budget credibility and therefore impact negatively on budgetary outcomes. Strengthening the accuracy of budget preparation and the timeliness of budget execution would reduce the chances of commitment controls being avoided, as would greater progress in strengthening other internal control systems, including the internal audit function. The risk of inefficient and ineffective spending would be lower and the probability of desired budget outcomes being achieved would be higher.

A. Budget Credibility		2007 Score	2009 Score	2015 Score
PI-1	Overall (aggregate) expenditure outturn compared to approved	**B**	**C**	**B**
PI-2	Composition of actual expenditure compared to original approved	**NA**	**NA**	**B+**
PI-3	Overall (aggregate) revenue outturn compared to approved budget	**A**	**B**	**C**
PI-4	Stock and monitoring of expenditure payment arrears	**D+**	**B+**	**C+**
B. KEY CROSS-CUTTING ISSUES: *Comprehensiveness and transparency*				
I-5	Budget classification	**D**	**A**	**A**
PI-6	Comprehensiveness of information included in budget	**C**	**B**	**B**
PI-7	Extent of unreported government operations	**C+**	**A**	**A**
PI-8	Transparency of intergovernmental fiscal relations	**A**	**B+**	**A**
PI-9	Oversight of general fiscal risks by other public sector entities	**C+**	**C+**	**B+**
PI-10	Public access to key fiscal information	**A**	**B**	**A**
C. BUDGET CYCLE				
C(i) Policy-based budgeting				
PI-11	Orderliness and participation in the annual budget process	**B+**	**B**	**A**
PI-12	Multiyear perspective in fiscal planning, expenditure, policies, and	**D+**	**C**	**C**
C(ii) Predictability and controls over budget execution				
PI-13	Transparency of taxpayer obligations	**B+**	**B**	**B+**
PI-14	Effectiveness of taxpayer registration and tax assessment measures	**C**	**D+**	**B**
PI-15	Effectiveness in collection of tax payments	**B**	**D+**	**D+**
PI-16	Predictability of funds available for expenditure commitment	**B+**	**A**	**A**
PI-17	Recording and management of cash balances, debt and guarantees	**A**	**A**	**A**
PI-18	Effectiveness of payroll controls	**D+**	**D+**	**C+**
PI-19	Competition, value for money, and procurement controls	**NA**	**NA**	**C**
PI-20	Effectiveness of internal controls over non-salary expenditure	**C+**	**B**	**C+**
PI-21	Effectiveness of internal audit	**C**	**B+**	**C+**
C(iii) Accounting, recording, and reporting				
PI-22	Timelines and orderliness of account reconciliation	**B**	**B+**	**A**
PI-23	Availability of information on resources received by service delivery	**D**	**D**	**B**
PI-24	Quality and timeliness of in-year budget reports.	**B+**	**B+**	**B+**
PI-25	Quality and timeliness for annual financial statements	**A**	**A**	**A**
C (iv) External controls and audits				
PI-26	Scope and follow-up nature of external audits	**D+**	**B**	**B+**
PI-27	Legislative scrutiny of the annual budget law	**B+**	**C+**	**B+**
PI-28	Review of external audit reports by the legislature	**C+**	**C+**	**B**
D. DONOR PRACTICES				
D-1	Predictability of direct budget support	**NR**	**D**	**NA**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**NR**	**D**	**D**
D-3	Portion of aid that is managed through the use of national procedures	NR	D	D

Frequency distribution of scores

	2009	2015
No. A	**5**	**10**
No. B & B+	**12**	**11**
No. C & C+	**5**	**6**
No. D & D+	**7**	**3**
No. NA 1/	**2**	**1**
Total	**31**	**31**

1/ NA = Not Applicable because of different methodology for PIs 2 & 19 in 2009 assessment, and only 1 year of budget support (2012) in 2015 assessment (3 years needed to score)

The table clearly shows significant improvement in performance, the number of As and Bs increasing to 21 from 17, and the number of Cs and Ds decreasing to 9 from 12.

Kosovo 2015 Repeat PEFA: Summary Assessment Scores by dimension

	A Budget Credibility	**Score 2009 PEFA**	**Score 2015 PEFA**	**Assessment**
PI-1 (M1)	Aggregate expenditure performance	**C**	**B**	**Performance improved d**ue to strengthened spending capacities and the close-to-plan implementation of a large capital project.
PI-2 (M1)	Variance in composition of expenditure	NA *(old meth. A)*	**B+** (i) B (ii) A	**Performance not comparable with 2009 assessment due to change in methodology.** ***(i) Variance in expenditure composition exceeded 10% in no more than one of the last 3 years.*** Variance was 8.9%, 8.8% and 12.8% in 2012, 2013 and 2014 respectively. The big increase in 2014 was mainly due to: (i) the allocation of the contingency fund that was much larger than in the first 2 years; and (ii) the allocation to Ministry of Labour and Social Welfare of savings of 15% on purchases of goods and services identified in other BOs.
PI-3 (M1)	Revenue performance	**B** *(rev. meth.)*	**C**	**Performance fell.** Lower than projected economic growth and dependence on one off revenue collections that did not materialise led to revenue under-performance averaging 7% in 2012-14..
PI-4 (M1)	Stock and monitoring of expenditure payment arrears	B+ (i) A (ii) B	**C+** (i) C (ii) B	**Performance fell,** the stock of arrears reaching 2.3% of expenditure in 2014. The arrears monitoring system is improving, but still poses challenges. **(i) Performance fell.** Arrears increased from 1.3%, of expenditure in 2012, to 2.3% in 2014. They were only 0.14% of total expenditure at the end of 2007. The increase is mainly due to the reluctance of various BOs to register their commitments in the KFMIS prior to signing of contracts and/or to pay invoices on time. ***(ii)* Performance unchanged.** The procedures for arrears monitoring have improved. However, the data are still not fully satisfactory, because some of the BOs still do not register their commitments and bills on time. An age profile of arrears is still not in place, essential to arrears monitoring. .
	B. Comprehensiveness and Transparency	**Score 2009 PEFA**	**Score 2015 PEFA**	**Assessment**
PI-5 (M1)	Classification of the budget	**A**	**A**	**No change in score but performance has improved.** The upgrading of KFMIS enabled the 2015 Budget to be the first budget to be shown according to functional/sub-functional classification. In principle this was already possible, but could only be done manually.
PI-6 (M1)	Comprehensiveness of budget	**B**	**B**	**Performance unchanged**. The 2015 Budget documentation, which includes the 2015-17 MTEF, fulfilled 6 of the 9

	documentation			information benchmarks.
PI-7 (M1)	Extent of unreported government operations	**A** (i) A (ii) A	A (i) A (ii) A	**Performance unchanged under both dimensions** *(domestic and external extra-budgetary operations)*.
PI-8 (M2)	Transparency of Inter-Governmental Fiscal Relations	**B** (i) A (ii) D (iii) A	**A** (i) A (ii) B (iii) A	**Performance improved under (ii).** Delays still occur, however, in providing municipalities with information on their grant allocations. The D score in 2009 was due to special factors, otherwise it would have been C (and overall score of B+).
PI-9 (M1)	Oversight of aggregate fiscal risk	**C+** (i) C (ii) A	**B+** (i) B (ii) A	**Performance improved under dim. (i).** **(i) *Performance has strengthened through UPMPOE playing a more pro-active role in monitoring POEs. UPMPOE*** now prepares annual reports on the financial position of POEs, based on their annual reports and audited financial statements. OAG's annual reports also look at the financial and operational performance of POEs and highlight possible fiscal risks to GoK. **(ii) *Performance improved.* (i)** Municipalities are required to seek the approval of MoF to borrow. Approval does not constitute a loan guarantee. (ii) Nearly all municipalities channel their funds through TSA, thus facilitating their preparation of annual financial statements and the submission of these to the Treasury, which can then monitor the fiscalposition of municipalities.
PI-10 (M1)	Public access to key fiscal **information**	**B**	**A**	**Performance strengthened.** The government makes available to the public 5 of the 6 listed types of information. Special factors prevented the score from being A in the 2009 PEFA.
	C. BUDGET CYCLE	**Score 2010 PEFA**	**Score 2014 PEFA**	**Assessment**
C (i) Budgeting				
PI-11 (M2)	Budget preparation process	**B** (i) B (ii) C (iii) B	**A** (i) A (ii) A (iii) A	**Performance strengthened under all dimensions.** ***(i) Performance strengthened,*** BOs having close to 6 weeks to prepare budget requests, an increase from 4 weeks at the time of the 2009 assessment. ***(ii) Performance strengthened*** • GoK has been issuing 'statements of priorities' since 2010 via the Strategic Planning Office. The statements are included in the Cabinet-approved MTEF (approved before the issue of the first circular), which helps guide BOs in their prioritizing of 'new spending' and budget preparation in general. The MTEF includes indicative spending ceilings for each BO. The MTEF became a legal instrument in 2010 , through amendment to LPFMA • Budget preparation guidelines and templates have been

				strengthened and are now included in the first circular. . The Cabinet approves the first circular, which includes the initial spending ceilings for each BO. It also approves the third circular, which establishes hard ceilings under which BOs prepare detailed estimates following the hearings on the budget requests earlier submitted by BO to MoF. Cabinet reviews any changes made by MoF in response to BOs requiring adjustments to ceilings when they submit their detailed estimates. ***(iii) Performance strengthened.*** The Parliament approved the draft 2013, 2014 and 2015 draft budget before the start of the respective new FY.
PI-12 (M2)	Multi-year perspective in in budgeting	**C** **(i) C** **(ii) B** **(iii) C** **(iv) D**	**C↑** **(i) C** **(ii) A** **(iii) C↑** **(iv) D**	**Performance unchanged, but strengthening under (iii).** ***(i) Performance unchanged.*** The 2 outer years of the MTEF are still mainly extrapolations rather than rigorously derived baseline projections. 'New spending' js, however, increasingly explicitly identified in the annual MTEF documents. ***(ii) Performance strengthened.*** DSA capability has strengthened. DSA is included in each annual MTEF. ***(iii) Performance unchanged.*** A multitude of uncosted or fiscally unrealistically costed sub-sector strategies have been prepared. Starting in 2014, such strategies are required to be submitted to MoF for fiscal impact assessment analysis. ***(iv) .Performance unchanged on investment budgeting.***
C (ii) **Budget execution & controls**				
PI-13 (M2)	Transparency of taxpayer obligations and liabilities	**B** (i) A (ii) C (iii) B	**B+** (i) A (ii) A (iii) C	**Performance improved under (ii)** ***(i) Performance unchanged.*** Article 43 of the Law on Tax Administration provides an element of discretion In terms of possible write-off of tax debt, but the scope of the use of this discretion is strictly limited. ***(ii) Performance improved in several areas,*** e.g. large expansion in e-services. Establishment of Call Centre. ***(iii) Performance reduced:*** The Independent Review Board was abolished in late 2012 and replaced by the Basic Court system for review of appeals. Performance appears to be unsatisfactory due to insufficient expertise in tax administration in the court system.
PI-14 (M2)	Effectiveness of measures for taxpayer registration and tax assessment	**D+** (i) D (ii) C (iii) C	**B** (i) B (ii) C (iii) B	**Performance improved under all dimensions.** ***(i) Performance improved.*** Fiscal Numbers (FN) have replaced business registration numbers as the main taxpayer identifier. Registration has become simpler and quicker. SIGTAS (TAK) and ASCUDA (KC), established in 2011, can communicate electronically with each other, enabling checking.

				The lack of links with the unemployment agency and social security numbers implies the possibility that some potential tax payers may not be registered. ***(ii) Performance unchanged:*** Performance improved on the one hand through: • More effective follow-up on non-compliers, higher penalties for larger taxpayers; • KC: Importers now need FN, cannot avoid penalties through re-registration with MTI, level of fines sharply lowered to encourage payments, establishment of ASYCUDA. On the other hand, the abolition of IRB and its replacement by the basic court system has made it more difficult for TAK and KC to enforce penalties (PI-13). Non-compliers have an incentive to use this system as they can delay payments ***(iii) Performance improved.*** • *TAK*: Compliance Strategy 2012-2015, creation of Risk Response Units in 2011, covering individuals as well as businesses. Full establishment of risk-based audits may take a few years, due to the learning process involved. • *KC*: Establishment of ASYCUDA (2012) and creation of Blue Channel (2014) and Post Clearance Control unit (2015) have strengthened audit effectiveness.
PI-15 (M1)	Effectiveness in collection of tax payments	**D+** (i) D (ii) A (iii) A	**D+** (i) D (ii) A (iii) A	**Overall performance unchanged, but improvement under (ii).** ***(i) Performance unchanged*****.** The average debt collection ratio in the two most recent fiscal years 2013 and 2014 was 22.9%, while the total amount of tax arrears was 21.6% of total annual collections. ***(ii) Performance improved.*** The score should have been B in 2009. All tax revenues are paid into accredited commercial banks, the transfers to the Treasury being made daily, instead of 48 hours, as was the case under certain circumstances in 2009. ***(iii) Performance unchanged.*** The reconciliation of taxes paid into commercial banks and STA's receipt of them is performed daily. Complete reconciliation of tax assessments and collections, taking arrears into account, is conducted monthly by TAK and KC.
PI-16 (M1)	Predictability in the availability of funds for commitment of expenditures	**A** (i) A (ii) A (iii) A	**A** (i) A (ii) A (iii) A	**Performance unchanged.** ***(i) Performance unchanged*****.** As in 2009, a cash flow forecast is prepared for each fiscal year, and is updated monthly. ***(ii) Performance unchanged*****.** The Treasury uses transparent cash control mechanisms, so that BOs are able to plan and commit expenditure for up to 12 months in advance, in

				accordance with the budgeted appropriations. ***(iii) Performance unchanged.*** Significant in-year adjustments of budget allocations take place only once or twice a year through an adjusted budget presented to the Assembly for approval and are realized in a transparent and predictable way. Minor reallocations (not exceeding 5% of the allocated amounts) between expenditures categories or BOs are authorized by LPFMA and are frequent
PI-17 (M2)	Recording and management of cash balances, debt and guarantees	**A** (i) NA (ii) A (iii) NA	**A** (i) A (ii) A (iii) A	**Performance unchanged under dim. (ii).** Dims. (i) & (iii) were not scored in 2009, as GoK was not borrowing. In line with the 2010 Law on Public Debt, domestic and foreign debt records are complete, and updated and reconciled monthly by DMU. Comprehensive management and statistical reports are prepared monthly and quarterly. ***(ii) Performance unchanged.*** All TSA sub-accounts are well monitored, including government controlled project accounts, and all cash balances are calculated and consolidated on a daily basis. ***(iii)*** GoK contracts loans and issues guarantees against transparent criteria and fiscal targets, and which are always approved by a single responsible government entity, the National Assembly. The amendment to LPFMA in July 2013 added teeth to the 2010 Law of Public Debt by specifying a maximum fiscal deficit/GDP ratio of 2%.
PI-18 (M1)	Effectiveness of payroll controls	**D+** (i) D (ii) B (iii) D (iv) C	**C+** (i) C (ii) B (iii) B (iv) C	**Performance improved under (i) & (iii) due to implementation of HRMS and transfer of the Payroll Division to Treasury from Ministry of Public Administration** (MPA). Further improvement is in process as HRMS continues to be rolled out and eventually integrated electronically with payroll system. ***(i) Performance improved due*** to: • Installation of HRMS in MPA and progress in updating personnel records in BOs. A BO cannot recruit someone without making a request through HRMS. Once MPA approves and registers the new vacancy in HRMS, BOs start the recruitment process, while being monitored by the HR Department in MPA. • Relocation of payroll division to MoF from MPA, enabling direct electronic contact between BOs and payroll system and a large reduction in payroll processing errors. BOs can compare their personnel records with those of the payroll data base.. ***(ii) Performance unchanged.*** The procedure of recording changes has remained the same. ***(iii) Performance improved due*** to transfer of Payroll Division from MPA to MoF. This has automated the process

				of transferring payroll-related data from BOs to the payroll system. Errors occur but a proper audit trail is now in place. ***(iv) Performance unchanged.*** OAG has not performed a direct payroll audit in the last three years. However, its annual audit of MPA includes the payroll function. Payroll is not considered high risk by OAG.
PI-19 (M2)	Competition, value for money and controls in procurement	**NA** *(B, old meth.)*	**C** (i) B (ii) D (iii) B (iv) D	**The assessment methodology changed in 2011.** The 2009 and 2015 scores are not comparable**.** (***i) Legal framework: 5 of 6 benchmarks met.*** . No legal step has been taken to make competitive procurement the default method of procurement. **(*ii) Justification for using non-competitive procurement methods.*** The PPL requires justification for using non-competitive procurement methods, but it has not received any such justification. Over 90% of procurement is conducted using competitive methods. ***(iii) Public access to complete, reliable and timely procurement.*** *3 out of 4 information elements met*. The public does not have access to procurement plans. ***(iv) Criteria for an independent procurement complaints body,*** The PRB doesn't meet criterion (i), as it has no members from private sector and civil society. Even though it meets the 6 other criteria it can't be scored higher than D.
PI-20 (M1)	Effectiveness of internal controls for non-salary expenditures	**B** (i) B (ii) B (iii) B	**C+** (i) C (ii) A (iii) C	**Performance improved under (ii) due to** training and certification of officers. **(i)** ***Performance reduced.*** The Treasury adopted new financial rules (01/2013) on public expenses thus tightening controls. Also PPRC issued an administrative instruction requiring proposed commitments being checked through KFMIS prior to signing contracts. Nevertheless, these measures seem to be having limited effectiveness in controlling commitments. The OAG report for 2013 points to incidences of unpaid bills due to rules and procedures not always being complied with. As noted under PI-4, expenditure arrears are growing. ***(ii) Performance improved due to*** extensive training and certification of officers across line ministries. A new version of KFMIS introduced in 2014 has increased efficiency in transactions processing and staff understanding of KFMIS procedures. ***(iii*****)** ***Performance unchanged.*** CHU/FMC is making progress in implementing the PIFC policy. For greater effectiveness, it was combined with CHU/Internal Audit in 2014. However, implementation is taking time resulting in continuing non-compliance by some BOs with rules and procedures (OAG Report 2013). The rating seems to have been too high in the 2009 assessment.

PI-21 (M1)	Effectiveness of internal audit	**B+** (i) B (ii) A (iii) B	**C+** (i) C (ii) A (iii) B	**Performance unchanged.** It is improving under dims. (i) and (iii).but not yet by enough to increase the scores. ***(i) Performance unchanged.*** IA is operational in all BOs, except newly established ones. Auditors are making progress in complying with professional standards. Focus on systemic issues is still in a relatively early stage, occupying less than 50% of staff time. The rating in the 2009 assessments seems to have been too high. ***(ii) Performance unchanged.*** Each year, IAUs conduct audit of PFM functions in the BOs under which they fall and submit a report containing their findings and recommendations to their senior management. The IAUs prepare quarterly consolidated reports on these findings and recommendations and submit them to CHUIA. As part of its quality assurance function, CHUIA then monitors selected IADs (based on risk analysis) in detail and prepares an annual consolidated report for Minister of Finance, who then submits it to Parliament with comment. ***(iii) Performance unchanged.*** **T**he management of BOs is paying increasing attention to IA reports, but in some cases findings are not being addressed in a timely manner, resulting in repeat findings in subsequent reports. Hence, the score remains at B.
	C (iii) Accounting, Recording and Reporting	**Score 2010 PEFA**	**Score 2015 PEFA**	**Assessment**
PI-22 (M2)	Timeliness and regularity of accounts reconciliation	**B+** (i) A (ii) B	**A** (i) A (ii) A	**Performance unchanged.** The score for dim. (ii) should have been A in the 2009 assessment**.** **(i)** ***Performance unchanged*****.** Bank reconciliation for all central government bank accounts takes place daily due to the STA system. ***(ii) Performance unchanged.*** The score should have been A in the 2009 assessment as suspense accounts were no longer being used and clearance of advances was weekly. This is still the situation
PI-23	Availability of information on resources received by service delivery units	D	**B**	**Performance improved in terms of education service delivery units to which budget management was decentralized during 2009-10.** These can therefore prepare their own budgets and in principle prepare in-year and annual budget execution reports through KFMIS in the same way that BOs do. In practice, however, municipal education departments are executing the non-salary components of these budgets on their behalf and prepare budget execution reports accordingly through KFMIS. The reports are backed up by the reports prepared by the central government Department of Education, which

				provides most of the funding for primary education through a specific grant. Similar decentralization is being planned for primary health service delivery units.
PI-24 (M1)	Quality and timeliness of in-year budget reports	**B+** (i) A (ii) A (iii) B	**B+** (i) A (ii) A (iii) B	**Performance unchanged. Under (iii) there are no** material concerns regarding data accuracy. However, some issues remain unresolved and Treasury is taking steps to resolve these
PI-25 (M1)	Quality and timeliness of annual financial statements	**A** (i) A (ii) A (iii) A	**A** (i) A (ii) A (iii) A	**Performance unchanged for dims. (i) & (ii) and improved under dim. (iii).** ***(i) Performance unchanged.*** The consolidated AFS are prepared on a cash basis, and include full information on revenue, expenditure and cash balances. There are some weaknesses in consolidation and assets monitoring, but they do not represent material misstatements. ***(ii) Performance unchanged*.** The AFS are submitted to OAG within 3 months of end of each fiscal year. *(iii)* ***Performance improved*.** GoK was not borrowing at the time of the 2009 PEFA assessment so disclosure of formal public debt in AFS was not an issue. The score would have been C if Kosovo had been borrowing. Starting with Note 25 of the 2014 AFS (unaudited), end-year stocks of debt owed to creditors were disclosed. Thus, AFS became fully compliant with IPSAS-cash in terms of disclosure requirements regarding non-financial assets and financial liabilities. .
	C (iv) External Scrutiny and Audit	**Score 2010 PEFA**	**Score 2015 PEFA**	**Assessment**
PI-26 (M1)	Scope, nature and follow-up of external audit	**B** **(**i) B (ii) B (iii) B	B+ (i) A (ii) B (iii) B	**Performance improved mainly due to increased audit coverage.** (i) ***Performance improved,*** mainly due to an increase in audit coverage to almost 100% of expenditures of BOs from 80% at the time of the 2009 PEFA*.* Performance audits are also now being conducted in BOs. ***(ii) Performance unchanged.*** The audit report on the KCB annual financial statements are submitted to the Assembly by the deadline of 31st August, as mandated by LPFMA, 5 months after receipt of the consolidated AFS from GoK (within 4 months required for A score). ***(iii) Performance unchanged.*** OAG audit recommendations are implemented to some extent, but there is no effective formal mechanism for ensuring implementation
PI-27 (M1)	Legislative scrutiny of the annual budget law	**C+** (i) C (ii) B	**B** (i) A (ii) B	**Performance improved due to submission of MTEF to the Assembly in April each year and the draft annual budget law being presented to the Assembly prior to the end of**

		(iii) B (iv) B	(iii) A (iv) B	**October** **(i)** ***Performance improved.*** The MTEF is submitted to the Assembly in April. This was not the case at the time of the 2009 assessment. The MTEF contains GoK's strategic priorities, the medium term macro-fiscal framework, and the medium-term budget framework. It is a useful document that facilitates review of the draft budget later in the year. ***(ii) Performance unchanged.*** The Committee for Budget and Finance and Public Finance Oversight Committee (PFOC) have agreed to further cooperation in budget oversight. . ***(iii) Performance improved.*** Two months are available for discussing and approving the budget in the assembly. The time was less than 2 months at the time of the 2009 assessment ***(iv) Performance unchanged.*** LPFMA provides for clear rules for in-year amendments and they are well respected by the Government. However, they allow for extensive administrative reallocations.
PI-28 (M1)	Legislative scrutiny of external audit reports	**C+** **(i) A** (ii) B (iii) C	**B** **(i) B** (ii) B (iii) B	**Performance improved due to the** establishment of PFOC in 2010. ***(i) Performance fell due to*** delays in discussing and approving the audit report for 2013 (5 months after receipt). ***(ii) Performance improved due*** to the establishment of PFOC by the Assembly. PFOC holds extensive hearing with officers from audited institutions. However, the coverage of institutions is limited. ***(iii) Performance improved.*** PFOC started issuing recommendations to BOs in 2012 on addressing OAG findings and asking them to report back with action-plans to address them. The majority of BOs have complied with this requirement and have reported back to the committee
	D. DONOR PRACTICES	**Score 2009 PEFA**	**Score 2015 PEFA**	**Assessment**
D-1 (M1)	Predictability of Direct Budget Support	**D**	**NA**	Kosovo has not received budget support since 2012.
D-2 (M1)	Financial information provided by donors for budgeting and reporting on project and program aid	**D** (i) D (ii) D	**D** (i) D (ii) D	**Performance unchanged.** Since the 2009 PEFA, some institutional changes in the management of donor aid programs have been made. These changes improved ex-post reporting on donor activity, but didn't help the planning and budgeting process. ***(i) Performance unchanged.*** Donors continue to provide only limited information that GoK can use for the budget

				planning process. *(ii)* ***Performance unchanged.*** All donors are required to enter their projects' commitments, disbursement plans, and other project relevant information into the Aid Management Platform (AMP) in MEI. These data are reported as official by MEI, but concerns remain as to their quality and timeliness. To date mechanisms are not in place to validate the data. AMP does not have an electronic connection with budget management in MoF..
D-3 (M1)	Proportion of aid that is managed by use of national procedures	**D**	**D**	**Performance unchanged.** Most aid funds continue to be managed in accordance with procedures established and required by donors

1. Introduction

1.1. Background

This 2015 PEFA Performance Report is the third official one on Kosovo at central government level, following the reports prepared in 2007 and 2009 (12 PEFA assessments were conducted at municipal government level in 2011). The Government prepared a PEFA report in 2013. This was generally of good quality, but it didn't pass the PEFA Checks mechanism that was introduced in 2012 in order to strengthen quality assurance *' as the exercise was not co-ordinated with the PEFA Secretariat and procedures for quality assurance were not followed. Thus, for the purposes of this contract, the 2009 national assessment will be considered as the reference point for comparisons' (*italicized words from *Section 1.4 of the Terms of Reference issued to the PEFA assessment team)*. '

The 2015 assessment has been carried out by a team of consultants contracted through the EUD, Pristina office. The team consists of Mr. Peter Fairman, Ms. Valmira Rexhebeqaj (from Kosovo), Mr. Bernard Nikaj (from Kosovo), and Mr. Nicolas Drossos. Most of the field work was conducted between 24th May and 13th of June. Mr. Drossos (the chartered accountant for the assessment) was unable to join the team until 4th June. He was contracted to replace a consultant who had already been selected but was unable to commit himself to the time period that was required for him to be in the field. The contractual procedures themselves were protracted.

The external consultants returned in July for a week to collect outstanding information and to finalise preparing of the first draft report and to commence work on the Testing version of the PEFA Framework. The main findings were presented verbally at a meeting of the Reference Group on 17th July (discussed in the next sub-section).The first draft report was submitted to Ms. Angeliki Votsoglou, Task Manager/Public Finance in the EU office in Pristina on 21st July, 2015. Comments from PEFA Secretariat, EU Office Pristina, 3 EU Directorates (DG NEAR, DG Devco, DG Budget) and GIZ were provided to the assessment team by the EU .Office in Pristina on 30th September. This was a few weeks later than planned (according to the ToR). No comments were received from GoK and IMF, although they are members of the Reference Group. All the team members had other commitments in October, and were unable to start incorporating the comments until early November. The second draft was presented to the EU Office in Pristina on 16th November. The PEFA Secretariat's response to this was provided to the assessment team on 2nd December. The EU did not provide a formal response. This third draft incorporates the comments made by the PEFA Secretariat.

The assessment team has used the analysis and data in the 2013 report extensively, while also updating it to reflect the situation two years later, incorporating the unincorporated comments of the PEFA Secretariat on the 2013 report, and making general editorial changes.

The start of the round of meetings typical of a PEFA assessment was delayed somewhat due to the unexpected presence of an IMF team that arrived in Pristina to negotiate a new financial support programme with the Government. The team managed to have a handful of meetings outside the Ministry of Finance during the first and second week of the visit (PPP Unit, Office of Auditor General, Public Procurement and Regulatory Commission, Procurement Review Body and Ministry of Education, but most the meetings were held during 9th-12th June following the Deputy Minister of Finance's go-ahead provided on 8th June. Meetings were held with Treasury Department (a number of meetings with Mr. Nysret Koca, head of the PEFA Secretariat in Ministry of Finance (established for the 2013 PEFA self-assessment) and Deputy Director of the Treasury Department, Central Harmonisation Unit in MoF (responsible for Internal Audit and implementation of the Public Internal and Financial Control Strategy), Tax Administration Department, Customs Department, the Budget Department, the Municipal Budgets Department, the Unit for Policies and Monitoring of POEs (UPMPOE), located in Ministry of Economic Development, the Budget and Finance Committee in Parliament, and Committee of Public Oversight in Parliament.

At the request of Ministry of Finance, the team conducted a 2 hour workshop on 4th June on the ''testing' version of the revised PEFA Framework, the team leader delivering a presentation based on the one prepared by the PEFA Secretariat. The meeting was attended by a number of senior managers in MoF. The previous day, the team met (in the EU office) Mr. Lewis Hawke, head of the PEFA Secretariat, who wanted to discuss possible issues that may come up in the process of scoring the indicators contained in the revised Framework.

The team leader delivered an Inception report to Ms. Votsoglou on 7th June, as required by the Terms of reference.

1.2. Objective

The beneficiary countries for financial resources from EU through the Instrument for Pre-Accession (IPA) II are expected to prepare and implement PFM reform programmes. These would provide an overall multiannual framework for addressing countries' PFM reform needs. Under IPA II, the EU foresees that much of the assistance will be in the form of direct Sector Budget Support (SBS). This PEFA assessment would provide a baseline assessment of the PFM system in Kosovo which would inform the preparation of a PFM reform programme.

The overall objective of this assignment, according to the ToR, is to provide an independent assessment of progress on public financial management (PFM) in Kosovo based on the PEFA methodology. The specific objectives are to:

1) Carry out an assessment of PFM performance in Kosovo since the 2009 PEFA assessment, using the PEFA methodology for conducting repeat PEFA assessments, the methodology being based on the January 2011 PEFA Framework (that replaced the original June 2005 Framework).

2) Assess the indicators contained in the 'testing' version of the revised PEFA Framework. Work on the revision commenced in 2012. A consultation draft was issued to governments, donor agencies and consultants for comment in August 2014. The team leader was one of the consultants. Based on the comments received, the PEFA Secretariat issued a 'testing' version in January 2015, for testing in a number of countries, including Kosovo. The scores for the indicators will comprise a baseline for future assessments if there are no changes in the scoring criteria. The scores and brief analysis are contained in an Annex. Changes are likely, however, so the scorings will comprise only a provisional baseline. The team is also requested to provide its own comments on the scoring criteria, which are also contained in an Annex.

As expressed to the team, the EU considers that that the main priority is to conduct the repeat PEFA assessment.

1.3. Scope of assessment

As with the previous assessments, this assessment covers revenue and spending of the central Government, which includes ministries, subordinated institutions, autonomous and semi-autonomous agencies. The main focus is on Budget Organizations (ministries and subordinated institutions) of which there are about 50.

Central government expenditure comprises about 95% of total consolidated central and municipal government expenditure (also known as 'general' government expenditure. Expenditure includes transfers to municipal governments, which are then spent by the municipal governments. These comprise about 21% of total consolidated expenditure, so 'genuine' central government expenditure is about 75% of total consolidated expenditure. The transparency of these transfers is assessed under PI-8. About 2% of municipal government financial resources come from their own revenues (Own Source Revenue), the expenditures of which are not included in the general government expenditure figure.

For the annual financial statements (assessed under PI-25), it is not possible, or is difficult to separate out, central government performance alone, as municipal governments conduct their transactions through the Single Treasury Account (STA), which is located in the Kosovo Central Bank under the control of the Ministry of Finance through its Treasury Department.

1.4. Organisation of the assessment, including quality assurance

The assessment process is being managed jointly by the EU and the Government of Kosovo (GoK). The GoK counterpart to lead the process is MoF. The leadership on the EU side is being provided by the EU Office in Kosovo.

To ensure that the assessment is conducted effectively and transaction costs are avoided, The following coordination mechanisms are being used: to ensure that the assessment is conducted effectively and transactions costs minimized.

1) Reference group: chaired by MoF and co-chaired by the EU. Its purpose is to ensure that relevant stakeholders, including other Development Partners (DPs), NGOS and associations active in the area of PFM, are included/consulted. A representative from Parliament may be invited (e.g. represented by the Budget and Finance Committee). The Reference Group will review the various reports produced by the consultants.

Originally, the assessment team was to meet the Reference Group at or near the start or near the start of the assessment. This was not possible, due to the IMF-related preoccupations of MoF, as referred to above. The team finally met the Reference Group on 16th July in MoF, the Deputy Finance Minister and Ms. Votsoglou co-chairing the meeting. Most of the attendees were from the MoF. On the donor side, there were representatives from the Austrian and Swiss Governments, from GIZ and from the Organisation for Security in Europe (OSCE). The team leader gave a verbal presentation on the main findings of the assessment so far.

2) A Management Committee: a smaller committee composed of the government

coordinating body (MoF) and the EU Office in Kosovo. The Committee is responsible for the daily management of the evaluation process and contract management related to the consultants.

3) An Assessment Oversight Team, composed at least four reviewers representing four PFM engaged institutions including GoK, European Commission, IMF and the PEFA Secretariat.

4) 'PEFA Check'. This is provided at the end of the process by the PEFA Secretariat, according to a check list containing 6 criteria.

2. Country Background Information

2.1. Economic context

Table 1 summarizes the economic situation in Kosovo

Table 1: Kosovo: Selected Economic Indicators	2010	2011	2012	2013	2014
Total population, 000s	1775	**1802**	**1807**	**1825**	1842
% average annual growth					1
National income and prices					
GDP per capita (€)	2480	2672	2799	2935	2989
Nominal GDP, € millions	4402	4815	5059	5327	5506
GDP % annual real growth	3.3	4.4	2.8	3.4	2.7
Consumption % real growth	3.7	3.7	2.6	2.2	3.9
Investment, % real growth	10.9	7.9	12.9	-0.3	0.9
CPI inflation (annual average)	3.5	7.3	2.5	1.8	0.4
Monetary sector					
% growth bank credit to private sector	12.6	14.7	4.5	2.7	3.9
Fiscal sector *(% GDP)*					
Revenue	26.4	27.1	26.1	24.6	24.2
External grants	0.9	0.5	0.7	0	0
Current expenditure	17.3	17.3	17.5	17.8	19.7
Capital expenditure & net lending	11.4	11.4	10.9	9.7	7.3
Total expenditure	28.7	28.7	28.4	27.5	27.9
Primary balance (excl. net interest)	-2.6	-1.6	-2.4	-2.9	-2.4
Overall balance (incl. net interest)	*-2.2.*	*-1.8*	*-2.6*	*-3.1*	*-2.6*
Financed by external borrowing	0.2	0	1.6	-0.1	-0.2
Financed by domestic borrowing	0	0	1.4	1.5	1.9
& run-down in cash balances	2.2	1.7	-1.1	1.1	1.0
Public debt	16.1	14.6	17.1	17.6	18.5
External sector % GDP					
Current a/c balance, incl. official transfers	-11.7	-13.7	-7.8	-6.4	-7.1
Excl. official transfers	-19.0	-20.4	-15.4	-12.8	-12.3
Remittances, net (€ millions)	493	489	519	592	571
Capital & finance accounts	6.8	8.7	3.8	3.1	5.3
Debt service/exports ratio	2.3	2.1	2.1	2.2	2.4
Gross international reserves (€ mlns.)	686	626	892	850	995

Source: 2015 IMF Article IV Consultation report (based on reports prepared by Kosovo Agency of Statistics, Central Bank of Kosovo and Ministry of Finance).

During 2010-2014, real GDP increased by 3.3% a year on average, the political uncertainty in 2014 dragging the rate down somewhat. Consumption expenditure has been the main driver of growth in recent years, financed in part by remittances. The current account deficit is large, but has fallen in recent years relative to GDP. According to the very recent IMF Article IV consultation report, the current account deficit is not a source of instability as it is mainly financed by stable financing sources, namely remittances, foreign direct investment and official transfers. Gross international reserves are about 18% of GDP, considered ample by the IMF.

Following a large rise in 2011, the inflation rate has decreased sharply, falling to only 0.4% in 2014, the large fall in international crude oil prices having an impact.

The fiscal situation at first sight looks good, with low public debt and debt service ratios, but the trends are not so good.. The fiscal deficit has been exceeding the 2% of GDP mandated by the amendment to the Law on Public Finance Management and Accountability (LPFMA) in 2013. The revenue/GDP ratio has been falling. The expenditure/GDP ratio has also fallen, though by not as much, and the fall has been on the capital expenditure side, which could have detrimental effects on growth. Recurrent expenditure rose sharply in terms of GDP in 2014 due to wage increases. The deficits are being financed by domestic borrowing and running down cash balances to some extent, these representing a safety cushion; the exception was in 2012, when GoK received financing from the IMF under a Standby Agreement (SBA). The SBA expired in December 2013 and wasn't renewed in the context of a politically tense environment.

This deteriorating situation was the reason for the IMF mission to Kosova at the same time as the visit of the PEFA team. The IMF and GoK reached agreement on the parameters for a new financial support programme. The PEFA team does not know the details of this, but it would undoubtedly require some fiscal tightening, as had already been recommended in the Article IV consultation report.

2.2. Budget outturns

Table 2: Revenue and expenditure outturns, Central Government Budget, 2010-14

millions euros	Actual	Actual	Actual	Actual	Actual
	2010	**2011**	**2012**	**2013**	**2014**
Total revenue & grants	**1152**	**1303**	**1323**	**1313**	**1334**
Domestic revenues	1115	1277	1284	1313	1333
Direct (mainly income tax)	146	151	170	174	188
Indirect (customs VAT, other)	79 6	949	975	985	1007
Non-tax revenue	208	205	172	192	171
VAT refunds	-28	-28	-33	-37	-31
External grants	38	26	37	0	1
Primary current expenditure	***761***	***832***	***888***	***951***	***1060***
Wages & salaries	311	385	408	417	485
Goods & services	182	177	191	216	206
Subsidies & transfers	268	270	289	318	369
Capital expenditure & NL	***503***	***550***	***553***	***518***	***404***
Total primary expenditure	***1264***	***1382***	***1433***	***1469***	***1464***
Primary Balance	**-112**	**-79**	**-110**	**-156**	**-130**
Net interest income	14	-6	-10	-11	-12

millions euros	Actual	Actual	Actual	Actual	Actual
	2010	**2011**	**2012**	**2013**	**2014**
Overall Balance	**-98**	**-84**	**-120**	**-168**	**-142**
Externally-funded	16	2	83	-8	-10
Domestic funding	13	85	47	178	153
Memo items.					
GDP, euros mlns.	4402	4815	5059	5327	5506
Domestic revenue, % GDP	26.4	27.1	26.1	24.6	24.2
Total expenditure, % GDP	28.7	28.7	28.4	27.5	26.8
Overall balance, % GDP	-2.2	-1.7	-2.4	-3.2	-2.6
Primary balance, % GDP	-2.5	-1.6	-2.2	-2.9	-2.4
Wages & Salaries,% expend.	24.6	`27.9	28.4	28.4	33.1
Goods & services, % expend.	14.8	12.8	13.3	14.7	14.0
Subsidies & transfers	21.2	19.5	20.2	21.7	25.6
Capital & Net Lending	39.8	39.8	38.6	35.3	27.0

Source. IMF Article IV Consultation Report, May 2015

The key features of Table 2 are:

- The fall in the domestic revenue/GDP ratio since 2010.
- The increase in the primary deficit in terms of GDP until 2014, when it fell back again.
- The large increase in the ratio of wages and salaries and subsidies and transfers to total expenditure and the large fall in the share of capital expenditure out of total expenditure.

Table 3 shows the functional classification of Government expenditure according to the UN's Classification of Functions of Government (COFOG). Starting from 2014 following the upgrade of the Kosovo Financial Management Information System (KFMIS), the functional classification can supposedly be automatically generated (as discussed under PI-5 in Section 3).

Table 3 shows that the functional classification changed very little during 2012-2014 in terms of ratios to GDP and total government expenditure. Reflecting infrastructure projects, Economic Affairs was the largest element of expenditure comprising 8.9% of GDP and 30% of expenditure in 2012, but this proportion had fallen to 4.8% of GDP and 18% of expenditure by 2014 In contrast, expenditure on Social Services (aggregating the last five items) comprised 11.5 % of GDP and 40.7% of expenditure in 2012, this proportion rising to 13.2% of GDP and 49.6% of expenditure by 2014. . Administrative and Law and Order Services (the first five items excluding Economic Affairs) comprised 8.2% of GDP and 29.2% of expenditure in 2012, these proportions increasing to 8.6% of GDP and 32.4% of expenditure in 2014.

Table 3: Government Expenditure by COFOG Function

Description	2012	2013	2014	% of GDP		
				2012	2013	2014
General Services	266.9	313	306	5.3%	5.9%	5.5%
Protection	31.3	31	37	0.6%	0.6%	0.7%
Public Order and Safety	117	116	124	2.3%	2.2%	2.3%
Economic Affairs	429	388	266	8.5%	7.3%	4.8%
Environment Protection	2	3	7	0.0%	0.1%	0.1%
Housing and Community Affairs	29	35	37	0.6%	0.7%	0.7%
Health	128	138	155	2.5%	2.6%	2.8%
Recreation, culture and religion	30	30	32	0.6%	0.6%	0.6%
Education	197	203	229	3.9%	3.8%	4.2%
Social Protection	198	218	269	3.9%	4.1%	4.9%
Total	**1,429.0**	**1,474.7**	**1,463.5**	**28.2%**	**27.7%**	**26.6%**

GDP *nominal values	5059	5327	5506

2.3. Central Government institutional relations

Overall

According to the Constitution of Republic of Kosovo[12] "Kosovo is a democratic Republic based on the principle of division of powers and control of balance between them, as provided for by this Constitution." The Assembly of the Republic of Kosovo exercises the *legislative power*, the Government of Republic of Kosovo is responsible for implementation of state laws and policies *(Executive Branch*) and is subject to parliamentary control, whereas the President of the Republic of Kosovo represents the unity of the people and is the legitimate representative of the country within and outside the country as a guarantor of democratic functioning of institutions of the Republic of Kosovo. *The judiciary* is unique, independent and is exercised by the courts, whereas the Constitutional Court is an independent body, which protects constitutionality and is the final interpreter of the Constitution.

Executive Branch: This is comprised of government ministers, and is led by the Prime Minister. In accordance with Article 95 of the Constitution, after elections the President of the Republic of Kosovo proposes to the Assembly a candidate for Prime Minister (PM), in consultation with the political party or coalition that has won the majority in the Assembly necessary to establish the Government. The candidate for PM, not later than fifteen (15) days from appointment, presents the composition of the Government to the Assembly and asks for Assembly approval. The Government is considered elected when it receives the majority vote of all deputies of the Assembly of Kosovo. Government Ministers oversee approximately 50 Budget Organisations (BOs) that provide various types of public services (e.g. education).

[1] Article 4 [Form of Government and Separation of Power]

Legislative branch: The Assembly of Kosovo has 120 members elected for a four-year term. The Assembly includes twenty reserved seats: ten for Kosovar Serbs and ten for non-Serb minorities (e.g., Bosniak, Roma, etc). The seats in the Assembly are distributed amongst all parties, coalitions, citizens' initiatives and independent candidates in proportion to the number of valid votes received by them in the election to the Assembly[3]. The Assembly passes all laws in Kosovo, ratifies international treaties, appoints the President, Prime Minister, ministers, and justices of all courts, adopts the budget and performs other duties as established by the Constitution.

Judiciary branch: Chapter VII of the Constitution stipulates that judicial power in the Republic of Kosovo is exercised by the courts, mandating the Supreme Court of Kosovo as the highest judicial authority[4].The Constitution establishes the Kosovo Judicial Council (KJC) as the responsible body for ensuring the independence and impartiality of the judicial system. As a fully independent institution in the performance of it functions, the KJC ensures that Kosovo courts reflect the multi-ethnic nature of Kosovo and follow the principles of gender equality[5].

Ministry of Finance structure:

Central Budget Department and Municipal Budget Department (combined until 2011): Each is responsible for the development of respective parts of the Medium Term Expenditure Framework, the Draft Budget of the Republic of Kosovo, as well as evaluation of requests for changes to budget appropriations. The work is based on the Medium Term Fiscal Framework, which is prepared by the Department of Economic and Public Policy: The competencies of Budget Departments are specified in Article 5 of LPFMA.

Treasury: 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, debt management preparation of procedures and rules for financial management and controls

2.4 Changes in the legal and institutional framework for PFM and its key features since the 2009 PEFA assessment.

2.4.1. Changes in Legal Framework

LPFMA: 2010 Amendment: The original law dates back to 2003. It was amended in 2008 and then again in 2010 and 2013. The 2010 amendment (03/L-221) provides (Article 19) for the establishment of a Medium Term Expenditure Framework (MTEF) in the form of an annual document to be issued to Parliament prior to the issue of the first budget circular in May (discussed under PI-11). Each year, the differences between the first year of the new MTEF period and the second year of the previous MTEF should be explained. The MTEF document should contain a table summarizing policy induced changes in the fiscal framework and their impact on revenues, expenditures and financing. Actual performance under this Law is discussed under PI-12 in Section 3.

Article 36 of the amended LPFMA stipulates, with regard to financial management control

[3] Article 64 [Structure of Assembly]
[4] Article 103 [Organization and Jurisdiction of Courts]
[5] Article 108 [Kosovo Judicial Council]

that “A Budget Organisation shall record a commitment of allocated funds in the KFMIS in accordance with the FMC (Financial Management and Control) rules prior to initiating any procurement process that is intending to result in an Obligation (i.e. a payable) in the current fiscal year.” Article 37.1 stipulates that a BO should not enter into an obligation for the current year that requires expenditure above allocated amounts. Article 37.2 stipulates that the CFO of a BO should ensure that all invoices and other obligations are entered into KFMIS according to FMC rules within 3 days of their receipt (invoice) or incurrence (obligation) As noted under PIs 4 and 20 in Section 3, non-compliance with these requirements has been an issue.

Article 17 stipulates that the annual financial statements should be prepared in accordance with International Public Sector Accounting Standards (IPSAS).

Articles 47 and 48 are reformulated to clarify and strengthen the responsibilities of the Auditor General (elaborated on under PI-26 in Section 3)

LPFMA, *2013 Amendment:* The main purpose was to strengthen the legal underpinning of macro-fiscal stability by specifying a 2% of GDP ceiling on budget deficits (Article 22a): ‘No law on budgetary appropriations shall include an overall deficit exceeding 2% of forecasted GDP’. Article 5 of the Law on Public Debt (Law Nr. 03/L-195, 29 December, 2009) stipulates a ceiling of 40% of GDP on the stock of public debt, but, in itself was not enough to preclude the debt dynamics that might result in the ceiling being breached. Hence the ceiling on budget deficits. The law provides for temporary breaches of the ceiling due to emergencies, bank crises, unexpected revenue shortfalls and the like. The law also provides the Minister of Finance the authority to take measures to mitigate against ‘Excessive Deficits’, defined as a ‘deviation from the Deficit Ceiling in excess of 0.5% of Forecasted GDP in a single fiscal year, or cumulative over 2 fiscal years’.

Law on Public Debt, December 2009: As mentioned above. The provisions are elaborated on under PI-17 in Section 3.

Tax laws: The main tax laws have been updated since the 2009 PEFA assessment: the Personal Income Tax Law (Law No. 03/L-161), the Corporate Income Tax (CIT) Law (Law No. 03/L-162), and the VAT Law (Law No. 03/L-146), all on 1 January 2010, and the Tax Administration & Procedures Law (TAPL: Law No. 03/L-222) in August 2010. The updating does not represent any radical departure from the meaning of the original laws. The changes are elaborated on under PI-13 in Section 3. The Customs Code, which represents the legal underpinning of customs administration, is basically unchanged.

Public Procurement legislation: The public procurement legal and regulatory framework has improved considerably since the 2009 PEFA assessment. A new law entered into force on December 1, 2010. 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.

Law on Public Private Partnerships*:* The Law on PPPs (04/L-045) came into effect on 25 November 2011. The Law was designed in accordance with international best practice, with

TA provided by a USAID-funded project located in MoF. The Law does not provide for explicit contingent liabilities, such a provision being successfully excluded from consideration (in marked contrast to the experience in many other countries). The risk burden is mainly on the private partner side. Para. 3 of Article 22 specifies that any funding provided by the Government to the private partner has to be appropriated in accordance with LPFMA and annual budget laws. The selection process for private partners must comply with the Public Procurement Law. All PPPs have to submit annual reports to the PPP Commission (PPPC), an inter-ministerial body chaired by the Minister of Finance, and which is responsible for policies regarding PPPs and approving PPP projects.

Local Government Finance. This is governed by the Law on Local Government Finance (No. 03/L-067, 2008). This has not been changed since the 2009 PEFA assessment. The Law's provisions are elaborated on under PI-8 in Section 3.

Law on Publicly Owned Enterprises. As mandated by the 2008 Law on Public Enterprises, GoK monitors the financial performance of POEs, elaborated on under PI-9 in Section 3

2.4.2. Changes in Institutional Framework

The main changes in the institutional framework since the 2009 PEFA assessment have been:

- The change in the name of Ministry of Finance and Economy (MFE) to Ministry of Finance in 2011 as a result of a government restructuring exercise. The Unit for Policies and Monitoring of POEs (UPMPOE), which had been established in 2009 in MFE, was transferred to the new Ministry of Economic Development (MED).
- The establishment of the Office of Strategic Planning (OSP) in 2010 under 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 Kosova.
- The establishment of Policy Coordination and European Integration Departments in most BOs.
- The merging of the Central Harmonisation Unit//FMC/PIFC and CHU/Internal Audit in 2014. These had been established separately in 2006 and 2007 respectively.
- Establishment under the 2010 LPFMA of the Municipal Budget Department in MoF separately from the Central Budget Department.
- The relocation of the payroll system in MPA to Treasury in 2014. This had the benefit of reducing errors in payroll processing, as BOs can supply monthly payroll data in electronic form directly to the payroll system in Treasury.

2.3.3. Changes in Key Features of the PFM System

- The enhancement in the role of the MTEF, as legislated for in the amendment of the LPFMA in 2010. The MTEF became a legal document to be submitted to Parliament at the start of the budget preparation cycle (elaborated on under PIs 11-12 in Section 3).
- Establishment of ASYCUDA World (AW) in Kosovo Customs in 2012, replacing an aging customs administration IT system. The AW is used in many countries. AW is the most

recent version of ASYCUDA, which started life in the 1990s under the United Nations Council for Trade and Development (UNCTAD). The AW is internet based and has many efficiency advantages over previous versions (elaborated on under PI 14 in Section 3).

- Upgrading of Standard Integrated Tax Administration System (SIGTAS) in 2012. SIGTAS has been used by TAK for many years. The upgraded version is more user friendly and efficient (PI-13, Section 3).
- Upgrading of KFMIS in 2013, also more user friendly and efficient. One immediate benefit is that the budget can now be prepared electronically according to functional classification (as elaborated on under PI-5 in Section 3).
- Upgrading of the Budget Data Management System (BDMS) and the Public Investment Programme (PIP) preparation system. The upgrading enabled BOs to make more accurate budget plans
- Efficiency gains arising from the decentralization in 2009 by MoF of the final point of expenditure controls to budget organizations, including the decentralization of procurement decision making (via the strengthening of the Law on Public Procurement (PI-19). BOs had more flexibility to manage expenditures. The efficiency of processing of payments improved in particular.
- Commencement of Human Resource Management System (HRMS) in 2013 in MPA. Only the recruitment module has been installed so far, but this already proving successful in ensuring that only MPA can authorize the hiring of new staff and that any hiring can only be funded through the budget preparation process. BOs had been hiring staff without the authority of MPA and without budgeting adequately for them, the result being payrolls submitted to Treasury that exceeded budget allocations.

Section 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

This indicator measures actual total primary expenditure compared to originally budgeted total primary expenditure (as defined in government budget documentation and fiscal reports). Primary expenditure is defined as total expenditure less two expenditure categories over which the government has little control: (a) debt service payments, which in principle the government cannot alter during the year and which may change due to interest and exchange rates movements, and (b) donor funded project expenditure.

Actual expenditure fell short of budgeted expenditure by 6.6% in 2012, 9.9% in 2013 and 10.3 % in 2014.

Table 4 presents the difference between actual and originally budgeted primary expenditure. Expenditure refers to central government expenditures only, including the independent agencies.

Table 4: Budget Plan and Execution 2012-2014 (million euros)

	2012	2013	2014
Original Budget	1,143.4	1,212.5	1,193.2
Budget execution	1,068.4	1,092.5	1,070.2
Difference	-75.0	-120.0	-123.0
Difference (%)	-6.6%	-9.9%	-10.3%

Source: Annual Financial Reports, 2012, 2013, 2014 , and Annual Budget Laws.

Under-execution of expenditures during 2012 and 2013 resulted mainly from savings under certain programs. A number of decisions (specifically Government Decision no: 12/158 dated 29.11.2013) were approved by Cabinet to reduce expenditures by € 88 million through non-allocation of funds and specific identified savings. The decisions were taken in the context of the IMF, 20 month Standby Agreement (SBA) program initiated in April 2012. Revenue shortfalls, as noted under PI-3 were detracting from fiscal sustainability, thus necessitating the decisions that required restoration of a sustainable fiscal stance and maintenance of an adequate level of government cash buffers. The amount of the cutback was a structural criterion under the SBA.

Other reasons for underperformance of expenditure in 2014 were the general political situation that led to slowdowns and delays in the execution of certain capital individual programs, particularly the construction of Route 6 (Highway to Skopje) but also other capital projects.

Despite the expenditure cuts undertaken during 2012-2013, and the political situation during 2014, performance improved compared to the 2009 assessment, due to increased spending capacities across Government, and the execution of a number of large scale capital investments, the largest one in particular, that went more or less according to plan[6].

Improved spending capacity was partly as a result of efficiency gains arising from the decentralization in 2009 by MoF of the final point of expenditure controls to budget organizations. The efficiency of processing of payments improved in particular. Developing and strengthening the use of BDMS and PIP also enabled BOs to make more accurate budget plans. Increased flexibility of BOs to manage expenditures provided under LPFMA also contributed towards improved efficiency (discussed further under PI-16).

Score B

PI	Score 2007	Score 2009	Score 2015	Assessment 1/
PI-1	B	C	B	**Performance improved.** Actual expenditure deviated from budgeted expenditure by – 6.6%, - 9.9% and -10.3% in 2012, 2013 and 2014 respectively. Deviations were larger during 2006-08: 10.2%, 10,8 % and 16,7%, respectively. Despite reduced allocations to BOs arising from revenue shortfalls, improvement was due to strengthened spending capacities across GoK institutions and the close-to-plan implementation of a large capital project.

1/ Relative to 2009 PEFA assessment

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

The methodology for this PI was changed in January 2011 through the adoption of a different method for calculating the variance in the composition of expenditure and the addition of a new dimension on the extent that budgeted contingency/reserve expenditure items are allocated to BOs during the year. The different method for calculating the variance in the composition of expenditure adjusts first for any changes made to the overall resource envelope and then calculates deviations of expenditure by BO in relation to its adjusted ceiling (estimated by applying the overall % change in the resource envelope to the original approved budget for each BO). With regard to the expenditure of the contingency fund, best practice in terms of transparency is that it is all allocated to BOs. Worst practice is that actual expenditures out of the fund are non-transparently charged to the fund itself.

(i) Variance in expenditure composition

Variance in expenditure composition was 8.9%, 8.8% and 12.8% in 2012, 2013 and 2014 respectively. The higher variance in 2014 was due to a much larger budgeted contingency fund compared to other years: €66.0 million (5.6% of the budget) versus €12 million in 2012 and €9.3 million in 2013. Most of the contingency funds were allocated to respective BOs through Government decisions approved during the last quarter of 2014.

[6] The large share of capital expenditure in the overall budget (about 40%), affected the performance of overall budgeted expenditures. During 2012 and 2013 about 55% of central government capital expenditure was spent on the construction of highway Route 7 only under a single contract.

The 2014 Budget comprised several contingency funds, including:

1) The contingency for wage increases amounting to €45 million (foreseen to cover the cost of the wage increase announced for the 2014 budget). The contingency fund was allocated to individual line ministries in line with the proposal submitted by the Ministry of Public Administration.

2) Contingency for former political prisoners in the amount of €15 million (foreseen to cover the costs of a related Law); The contingency was allocated to the Ministry of Labor and Social Welfare for payment of pensions and other social assistance and the

3) Contingency for energy in the amount of €6.8 million. A share of this was transferred to the Contingency for Wages.

Another reason for the higher variance was the allocation of savings of 15% (over €29 million) on the purchase of goods and services to the Ministry of Labor and Social Welfare to cover the cost of the implementation of the Government decision to raise pensions and other social benefits by 25%. (Decision No. 06/198).

Most of the variations and adjustments to overall expenditures in 2012-14 were driven by the mid-year reviews in 2012 and 2013 provided for under LPFMA and the Annual Budget Laws. They also took place in the context of the IMF programs with significant focus on fiscal consolidation.

Table 5 summarises aggregate deviation and composition of expenditure variance..

Table 5: Aggregate and composition of expenditure variation deviation 2012-2014

Year	% Aggregate. Expenditure. Deviation (for PI-1)	% Variance Expenditure Composition (for PI-2 i)	Contingency fund expenditure charged to contingency fund as % of total expenditure (for PI-2 ii)
2012	**6.6**	**8.9**	**0.6%**
2013	**9.9**	**8.8**	
2014	**10.3**	**12.8**	

Source: KFMIS

Score B

(ii) The average amount of expenditure actually charged to the contingency vote s

Actual expenditures executed directly from the contingency reserve fund instead of being allocated to BOs amounted to 1% of the original budget in 2012, 0.8% in 2013 and 0% in 2014. The average is 0.6%, implying an A rating according to the January 2011 PEFA framework.

PI-2	Score 2007	Score 2009	Score 2015	Assessment
(M-1)	NA 1/	A	B+	**Performance not comparable with 2009 assessment due to change in methodology**.
(i)		NA	B	*Variance in expenditure composition exceeded 10% in no more than one of the last 3 years*. Variance was 8.9%, 8.8% and 12.8% in 2012, 2013 and 2014 respectively. The big increase in 2014 was mainly due to: (i) the allocation of

PI-2	Score 2007	Score 2009	Score 2015	Assessment
				the contingency fund that was much larger than in the first 2 years; and (ii) the allocation to Ministry of Labour and Social Welfare of savings of 15% on purchases of goods and services identified in other BOs.
(jj)		NA	A	The average amount of expenditure actually charged to the contingency fund during 2012-2014 was 0.6%. (<3% required for A).

1/ 2007 score not comparable as appropriations were on a commitment authorization basis in 2003 2004 and then on a cash basis in 2005.

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

The methodology for assessing this indicator was changed in January 2011, with revenue over- performance being penalized as well as under-performance (proposals for spending the surplus may receive less parliamentary scrutiny than if the revenues had been forecast accurately in the first place). It is straightforward to assess PI-3 in the 2009 assessment on the basis of the revised methodology, thus enabling tracking of performance since then.

Realistic forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. Table XXX below shows actual revenues in comparison to the approved budget estimates. Revenue forecasts are based on projections of macro-economic indicators, import price movements, prices and estimates of revenue impact of strengthening revenue administration (PIs 13-15). Revenues collected by Kosovo Customs (KC) and Tax Administration of Kosovo (TAK) account for about 90% of total revenues, KC accounting for two-thirds of all revenue collected.

Revenues were generally over-estimated in 2012-14 due to economic growth and one-off revenues being less than projected, while efforts to bring the informal economy into the tax net bore less fruit than projected. In 2013, lower than initially projected international economic growth led to lower international prices and import volumes, both affecting customs revenue collection. Nevertheless, other types of revenues increased markedly in 2013 such as dividend and the royalty tax.

With regard to 2014, the main reason behind the shortfall in collection of customs revenues was the low level of execution of public capital spending relative to budget amounts, which consequently affected domestic demand and hence, imports. With regard to TAK, the main reasons for the shortfall in its revenue collections were: (i) the inability to collect planned one-off revenues of €37 million from the Privatization Agency of Kosovo (PAK) and the Kosovo Pension Savings Trust (KPST); and (ii) execution of budgeted capital expenditures being lower than budgeted, leading to shortfalls in VAT collection. The data in Table 6 suggest that a more conservative approach to revenue forecasting should be adopted.

Table 6: Revenue performance

Revenue	2012			2013			2014		
Sources	Bud.	Act.	%	Bud.	Act.	%	Bud.	Act.	%
Customs	874.7	844.8	97	914.7	837.3	92	934.1	871	93
TAK	287.8	283.9	99	301	305.1	101	367.3	303.7	83
BO NTR	48.1	41.1	86	44	43.1	98	47.8	47.4	99
BO OSR	51.1	44.8	88	72.5	39.1	54	50	36.6	73
Royalties	45	45	100	22	24.7	112	22	26.5	121
Total	1306.7	1259.7	96	1354.3	1249.2	92	1421.2	1285.2	90

Source: MoF Financial Reports

Notes: (i) BO = Budget Organisation, NTR = Non-Tax Revenue, OSR = Own Source Revenue

(ii) Main sources of TAK revenue are VAT, Corporate Income Tax, Personal Income Tax.

PI-3	Score 2007	Score 2009	Score 2015	Assessment
(M-1)	A	*B (revised method.)*	C	**Performance fell.** Lower than projected economic growth and dependence on one off revenue collections that did not materialize led to revenue under-performance of 96%, 92% and 90% in 2012-14 respectively. In contrast, revenue over-performed by large margins in 2006-2008: 110%, 133.4% and 105.4% respectively. *Scoring criterion for C*: Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years *Scoring criterion for B*: Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years

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 provisions for the payments of arrears in Kosovo are established in the Treasury Financial Regulation 04/2011 *on reporting outstanding obligations of budget organizations (including salaries)*. The Regulation is based on LPFMA (as amended in 2010). According to the Regulation, all claims received by Budget Organizations (BO) need to be paid within the period of time specified in the contracts. MoF has defined that all payments should always be paid within 30 days after an invoice/claim is received. Any outstanding overdue obligations (payment arrears) should be reported by BOs to Treasury and included in the financial statements of each BO, while commitments should be registered daily and reflected in KFMIS within a month.

In order to reduce arrears, MoF has decided that any invoice/claim not paid by 30 days can be presented directly to the Treasury by suppliers. In these cases, the Treasury will proceed with immediate payment.

The stock of payment arrears (outstanding obligations), reported at the end of the last three fiscal years, is relatively low, but it has been increasing since 2012, as indicated in Table

7. Notwithstanding the urgings of Treasury, BOs appear to be reluctant to pay their bills on time after receipt of invoices and/or may not be registering their commitments in KFMIS prior to signing of contracts. KFMIS would reject a request from a BO to register a commitment if it was not consistent with the approved budget and budget allocations. Arrears would then arise if the BO has already signed a contract with a supplier.

Table 7: End-year payment arrears 2012-2014 (million euros)

	2012	2013	2014
Total expenditure	1,068.4	1,474.7	1,463.5
End-year arrears	13.9	27.9	33.8 **1/**
Arrears as % total expenditure	1.3%	1.9%	2.3%

Sources: MoF Annual Financial Reports; Budgets, 2012-2014, Annex 1: Budget Appropriations; Annex 2: Expenditures (Payments); Annex 9: Statement of un-paid bills

1/ End-2014 arrears have been adjusted by the PEFA team. The 2014 annual financial statements (AFS) report very high arrears of €148.2 million, because of exceptional items reported by the Ministry of Environmental Planning. These arrears were related to the expropriation of properties and amounted to €114.3 million. The beneficiaries and MoF agreed to a 3 year payment schedule, and thus the Treasurer General does not consider the amounts as arrears. The adjusted amount of arrears is calculated as the difference between the total arrears and the exceptional arrears.

Score C

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

In order to check that BOs are not running up payments arrears, the Treasury has continually made efforts to record and monitor commitments and payments made by BOs. In principle, the LPFMA (2003) forbids BOs from running up arrears. In 2008, the Treasury amended Article 44 of Treasury Financial/Fiscal Rule 02 – Spending of Public Money, so that BOs and their CFOs are responsible for the creation of mechanisms enabling (i) the recording of invoices, immediately upon receipt, in the Treasury IT system and (ii) the monitoring of their payments. Para. 37.1 of the amended LPFMA (2010) states that "a BO shall not enter into any obligation (i.e. payable) for the current year that requires expenditure in excess of allocated funds." Para. 37.2.states "The CFO of a BO shall be responsible for ensuring that invoices and all other obligations in accordance with FMC (Financial Management Center) Rules are recorded in KFMIS within 3 business days after such invoice or obligation is first received or incurred".

In 2011, the Treasury also established a dedicated Unit for Expenditure Monitoring (UEM) responsible for the monitoring of expenditure payments by all budget organizations.

Expenditure commitments that are registered by BOs (i.e. they are now budget allocations) are systematically included in the Financial Reports on Budget execution prepared by MoF. Arrears data are now included in the Annual Reports, but not in the quarterly and the monthly reports. Since 2012, the upgraded IT system has been facilitating the automatic generation of arrears reports without relying on reports from individual budget organizations.

Nevertheless, the reports are not necessarily complete as BOs continue to delay registration of the invoices/bills in KFMIS. The main likely reason for delaying such registration is that the expenditure commitment that led to the payable/obligation was made manually outside the system (as noted under PI-20 dim. i). Knowing that attempts to submit invoices for payment into KFMIS would be rejected due to lack of budget allocation, BOs instead hang onto the invoices, hoping they can be paid the following year. The accounting system is cash-based (i.e. payables are excluded from accounts), so Treasury does not necessarily know the level of unpaid invoices. Payment of the invoices the following year may be at the expense of expenditures budgeted for that year, the extent of which would be captured under PI-2. The end-year arrears data shown in Table 7 may therefore be an understatement, but not by so much that they reach of 10% of expenditure.

In 2013, the IMF acknowledged the efforts of the Republic of Kosovo authorities for the implementation of an action plan to address some remaining shortcomings in arrears' monitoring. Nevertheless, it indicated that shortcomings remained, notwithstanding all the efforts made to strengthen monitoring and compliance with rules. The 2015 IMF Article IV consultant report (May) recommends further strengthening of monitoring of domestic arrears' monitoring.

Ongoing and planned activities

MoF is striving to further improve arrears monitoring by:

(i) BOs being required (under revised Treasury Rule 2) to register proposed expenditure commitments in KFMIS prior to the signing of any contracts. Registration indicates confirmation of funds to pay obligations arising from the commitments.

(ii) Requiring BOs to upload scanned copies of invoices to the Treasury's electronic archive (originally established in the 2000s as a way of monitoring arrears, but only partially implemented due to capacity constraints). In this way, it would be possible to generate an age profile of invoices, such a profile being essential to arrears monitoring. It would not be possible to change invoices and dates on scanned copies.

(iii) Strengthening the capacity of UEM.

(iv) Finalizing modification of the sanctions for non-compliance with LPFMA through issue of a new rule, whereby MoF would be able to impose sanctions directly.

(v) Evaluating the possibility to issue a new rule, whereby the Treasury would be able to inspect BOs to check if they were respecting the established financial processes.

Score B

PI-4	Score 2007	Score 2009	Score 2015	Assessment
(M1)	**D+**	**B+**	**C+**	**Performance fell,** the stock of arrears reaching 2.3% of expenditure in 2014.
(i)	**A**	**A**	**C**	***Performance fell.*** Arrears increased from 1.3%, of expenditure in 2012, to 1.9% in 2013, and to 2.3% in 2014. They represented only 0.14% of total expenditure at the end of 2007 (2009 PEFA). The increase in arrears is mainly due to the reluctance of

PI-4	Score 2007	Score 2009	Score 2015	Assessment
				various BOs to make timely payments after receipt of invoices and/ or to register their commitments in the KFMIS prior to signing of contracts.
(ii)	D	B	B	***Performance unchanged. The arrears monitoring system is improving, but still poses challenges***. The procedures for the monitoring of the arrears have improved, so that reliable data on the stock of arrears are generated using pre-established procedures at the end of each month, calendar quarter and fiscal year, as part of the regular financial reporting. However, the data are still not fully satisfactory, because some of the BOs still do not register their commitments and bills on time. Moreover, an age profile of arrears is still not in place, essential to arrears monitoring. .

3.1 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 April 2015, Kosovo Treasury has been using the upgraded version of Free Balance 7.0 which is an upgrade from the previous version of Free Balance used by Treasury, enabling all users including all budget organizations in Kosovo better quality access through internet (web based), which was not available with the previous version.

The Chart of Accounts provides for the 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 KFMIS, Treasury making these upon the request of BOs.

Budget documentation is produced consistently for the following classifications:

Budget Formulation: Detailed budget statements are prepared and produced in accordance with administrative and economic classifications. The budget documents for 2012-2014 did not contain a specific table that shows budgeted spending according to functional and sub-functional classification. The budget for each ministry however shows the functional and sub-functional classification codes (e.g. 042 represents the agriculture sub-function under the Economic Affairs function and falls under the Ministry of Agriculture, Code 013 represents the General Services sub-function that falls under the General Public Services function, and falls under the Ministry of Agriculture and other ministries). The functional/sub-functional codes are linked with the relevant administrative classification (e.g. Department of Agriculture Policies) and are shown in the budget documents. But until 2015 it was not possible under KFMIS to aggregate the functional and sub-functional codes into one table.

Budget Execution: The actual execution/implementation, including budget appropriations, allocations, commitments and expenditures to date, is recorded in accordance with the above-mentioned classifications.

Budget Reporting: Reports can be generated electronically in accordance with all three classifications and allow a comparison of the budget plan with budget execution

The 2015 Budget was the first budget to be recorded in KFMIS by functional classification. The 2015 Treasury Financial Report will therefore be able to generate comparison reports with actuals according to functional classification. The economic and administrative classification can produce consistent documentation according to GFS 2001 and COFOG standards at the functional level as well.

PI-5	Score 2007	Score 2009	Score 2015	Assessment
	D	A	A	**No change in score but performance has improved.** The upgrading of KFMIS enabled the 2015 Budget to be the first budget to be shown according to functional/sub-functional classification as well and economic classification within this. In principle this was already possible, but could only be done manually and therefore did not appear in the detailed budget documentation.

3.2.2. PI-6: Comprehensiveness of information included in budget documentation

This indicator assesses whether the coverage of the annual budget documentation as submitted to the legislature for scrutiny and approval allows a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. Budget documentation used for the purposes of this assessment includes the 2015 annual budget document of GoK adopted by the Assembly of Republic of Kosovo in December 2014, and the Medium Term Expenditure Framework (MTEF) covering 2015-2017. The MTEF document does not require Assembly approval, but Cabinet still submits it to the Assembly, the contents assisting its scrutiny of the draft budget.

The following table presents the scope of information included in the 2015 budget document:

Table 8: Scope of 2015 budget documentation

	Budget 2015	Comments
1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	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 2015 budget book.
2. Fiscal deficit , defined according to GFS or other internationally recognized standards	Yes	Fiscal balance - defined as total revenues minus total expenditures - is presented in the budget tables of the budget document approved by the Assembly of Kosovo.
3. Deficit financing, describing expected composition	Yes	Budget tables present deficit for current and following years with explicit financing items from foreign and domestic sources. . In addition a detailed description of deficit financing is provided within the macro-fiscal framework of the Budget Book
4. Debt stock, including details at least for the beginning of the current year	Yes	The Annual Debt Program is sent every year to the Government together with the draft Budget. It includes detailed information on debt stock. In addition, Table1 of the Budget includes information on the debt stock /GDP ratio.
5. Financial assets (such as OSR carried forward), including details at least for the beginning of the current year	Yes	Declaration of financial assets is included in the Annual Financial Statement which is presented to the Parliament
6. Prior year's budget outturn , presented in the same format as the budget proposal	No	Budget tables include information on the prior year budget outturns for revenues and expenditures, but only in aggregate form (Table 1) and not in the same format as the budget proposal.
7. Current year's budget (either the revised budget or the expected outcome), presented in the same format as the budget proposal	No	Some information on current year expenditure is presented by administrative category but is insufficient to satisfy the requirement of element 7. See Table 3.1 Budget 2015.
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	No	The summarized budget data included in the 2015 Budget document comprise the main categories of revenues and expenditures by economic classification only and are highlighted in a separate special budget schedule. The data include those for the current and prior year, but do not include a summary by administrative head. This element appears to have been incorrectly scored as Yes in the 2009 and 2007 assessments.
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	Yes	Government initiatives on new policies that may have budgetary implications are not explained in the annual budget document prepared by the government, but are explained in the MTEF document.

Sources: 2015 budget, 2015-17 MTEF, 2013 Annual Financial Statements.

Score B

PI-6	Score 2007	Score 2009	Score 2015	Assessment
	C	B	B	**Performance unchanged**. The 2015 Budget documentation, which includes the 2015-17 MTEF, fulfilled 6 of the 9 information benchmarks.

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 GoK operates under the Single Treasury Account (STA) system. The Law on Public Financial Management and Accountability (LPFMA) requires that all public money that is collected by all budget organizations (BO) - central and local - be deposited into the STA and cannot be spent until it is appropriated. Violation of this legal requirement by BOs has not occurred Extra-budgetary funds are non-existent.

Score A

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

All donor funding received by GoK - both central and local governments – from donorsin cash is channeled through the STA at the Central Bank and is accounted for in KFMIS. There are no bank accounts operated outside STA by project implementation units or BOs for the implementation of donor-funded projects. All designated donor grants are appropriated as they are received from donors in STA. 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 DPs in 2013 and 2014. The following table provides information on grants and loans received as compared with total GoK expenditures.

Table 9: Funding from development partners (DP) 2013-2014

€ millions	2013	2014
Grant funding from DPs	12.6	12.1
Loan funding from DPs	83.8	112.1
Total funding from DPs	96.4	124.2
Total GoK expenditure	1,480	1,475
Funding from DPs as % total GoK expenditure	**6.5%**	**8.4%**

Source: 2016-18 MTEF (April 2015, Ministry of Finance).

The high scores shown here may *prima facie* seem at odds with the D ratings for the donor practice indicators D-2 and D-3. This is because the spending funded by DPs is not budgeted for according to GoK's budget preparation process, the funds being appropriated as they are received and deposited in STA. Thus D-2 (i) on the budgeting for the use of DP funds scores D. D-2 (ii) on the reporting of actual DP-funded spending relative to budget amounts also scores D, as the spending of the funds was not budgeted for and was therefore 'off-budget'. But it is 'reported off-budget' as the funds are appropriated for expenditure as they are received.

Score A

PI-7	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment 1/
(M1)	**C+**	**A**	**A**	**Performance unchanged**
(i)	**A**	**A**	**A**	***Performance unchanged.***
(ii)	**C**	**A**	**A**	***Performance unchanged.***

1/ Change assessed relative to 2009 PEFA.

3.2.4. PI-8: Transparency of inter-governmental fiscal relations

The team met the Director of the Municipal Budgets Department in MoF, and who is also head of the Grants Commission. The Grants Commission, an intergovernmental body, oversees compliance with the Law on Local Government Finance (2008) and transparency in the process of administering it.

(i) Transparency and objectivity in the horizontal allocation of fiscal transfers among municipal governments

The system of inter-governmental fiscal relations has not changed since the 2009 PEFA assessment. Rules governing municipal finances are regulated by the Law on Local Government Finance, whichsets the legal framework, including definition of transfers from central government, appropriation formulas,and standards underpinning the distribution of transfers.

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

- *General Grant*: Based on population, minority population, size of municipality's territory; the allocations and the formula-based derivations of these for the 2016 budget are shown in the 2016-18 MTEF (page 44).[7]
- *Specific Primary Health Care Grant:* Based on population, number of visits and services per capita and fixed rates per capita (page 46, 2016-18 MTEF).;
- *Financing of secondary health care:* Fixed amounts of financing for 3 ethnic minority municipalities.
- *Specific Pre-University Education Grant*: Based on student enrollments, pupil-teacher ratios, pupil-administrative staff ratios, wages and salaries (page 46, 2016-18 MTEF).

Actual transfers tend to be close to budgeted allocations, thus supporting transparency. The main issue concerns the specification of the health specific grant criterion:

- Whether population size is sufficient in itself as a basis for horizontal allocation, or should health specific criteria be added; and

[7] The weights are: 89% (population), 6% (area), 3% (number of minority population, & 2% (municipalities with majority ethnic population); *Chapter 3.2 of 2016-18 MTEF.*

- Whether the population of municipalities is measured accurately. Incorrect measurement implies that some municipalities may receive less than they should and some more, such a situation potentially leading to inter-municipality frictions, as apparently is the case in reality, according to the Chairman of the Grants Commission.[8] The 2011 Census has made population size less of an issue, but it seems that it has not been completely resolved.

In addition, the central government allocates specific purpose funds to selected municipalities, such as capital grants for complete financing or co-financing of capital projects being executed in these municipalities by the Ministry of Infrastructure and Ministry of Local Government Administration. Allocation is on a case by case basis and is not determined by a transparent and objective allocation system. The allocations amount, however, to only about 6% of the total central government grant to municipalities.

Score A

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

The LPFMA sets the legal timeframe for the key steps in the municipal budget preparation 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 the coming year and the next two years. The Grants Commission meeting on 23rd April, 2015 approved the total amount of grants to municipalities for the 2016 budget (and indicative amounts for 2017-18) and the allocations to each municipality, based on the formula noted above under dim. (i). The first budget circular, issued in May, includes initial estimate of transfers to municipalities for the coming budget year. The second budget circular, issued in July, provides the final financing and budget expenditures ceilings together with instructions on the finalization of the budget process. Municipalities are obliged to present draft budget proposals to their Municipal Assemblies for their review by August 31 and to approve them by 30 September.

This dimension scored D in the 2009 assessment due to delays in finalizing the 2009-11 MTEF and the organization of a Donors’ Conference. The introduction of a new municipal financing system under the 2008 Law on Local Government and Finance may have contributed to the delays. Considerable progress has since been since in improving the timeliness of information to municipalities on allocations.

Score B.

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

Municipal budget execution, reporting and accounting continues to be carried out through KFMIS and STA, using the same rules as for central government BOs. Municipal Own Source Revenues are consolidated within STA and their spending is also conducted through KFMIS.

[8] The 2007 PEFA report raised this as an issue: “Population figures play a central role in the present allocation formulae, notwithstanding that there is great uncertainty as to what are the actual numbers.” Arguably, non-transparency in the underlying numbers undermines the transparency of the formula. The rating for this dimension has scored lower than A In some PEFA assessments in other countries where such a situation has been the case.

The Treasury Department is therefore able to prepare quarterly consolidated general government budget execution reports and annual financial statements. Preparation of reports on a functional classification basis is problematic, however, as the functional codes at central government level aren't easily applicable at municipal level.

Score A

PI-8	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment 1/
(M2)	**A**	**B+**	**A**	**Performance improved under dim. (ii)**
(i)	A	A	A	***Performance unchanged.***
(ii)	A	D	B	***Performance improved,*** but still some delays in providing municipalities with information on their grant allocations**.** This scored D in the 2009 PEFA due to: (i) delays in finalizing the 2009-11 MTEF; (ii) the time it took to organize a Donors' Conference, and; (iii) the uncertainty caused by the introduction of a new municipal financing system under the 2008 Law on Local Government and Finance.
(iii)	A	A	A	***Performance unchanged.***

1/ Change assessed relative to 2009 PEFA.

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

(i) Extent of central government monitoring of Publicly Owned Enterprises (POEs)

As mandated by the 2008 Law on Public Enterprises (LPE), GoK monitors the financial performance of POEs, which are required to prepare quarterly and annual reports and to have their annual accounts audited. The GoK owns 17 public enterprises (POEs), including 9 central POEs (including Post and Telecommunications, Radio and TV, Electricity Company, District Heating), 6 regional water companies, and 2 regional irrigation companies. POEs are organized as Joint Stock Companies.9 All POEs are required to have Boards of Directors, which have the obligation to monitor the work of management. All POEs have Audit Committees.

GoK monitoring is performed by the Unit for Policies and Monitoring of POEs (UPMPOE). This was established in 2009 by the Ministry of Economy and Finance (MEF). As a result of government restructuring in 2011, it was later transferred to the Ministry of Economic Development (MED).

The UPMPOE is answerable to an Inter-ministerial Commission for monitoring POEs, led by the MED and the Commission for Public Finances Monitoring in the Parliament. UPMOE's reports are available to the public on its website: http://mzhe.rks-gov.net/npmnp/repository/docs/Ndermarrjet_Publike__raporti_vjetor_2011.pdf. It is required to submit an annual summary report on the operational and financial performance of POEs to the Commission, the report including the opinion of the auditors on their annual financial statements. The Commission may request POEs to prepare plans for implementing

[9] Several POEs were transferred to municipal governments in 2009. They have the responsibility to monitor the financial and operational performance of them. Currently such POEs number 44.

audit recommendations.

According to UPMPOE, all POEs have presented reports for 2014 to it. At the time of the work of the PEFA team, the audits of the financial statements of POEs for 2014 were still in the process of being finalized (the due date was 31st May).10 The quality and timelines of the reports has improved since the time of the 2009 PEFA assessment, though further improvements would be desirable, according to UPMPOE.

The UPMPOE has recently finalized its report for 2014, the report also covering 2012 and 2013, as political factors precluded the preparation of reports for those years. At the time of the PEFA field work, the report was due to be reviewed by the Commission.

UPMPOE claims that its summary of the financial position of POEs, is comprehensive, though it does not include a formal risk assessment analysis. This is not necessary, according to UPMPOE, as it is only the regional water companies that make significant losses (up to 60%) due to consumers not paying on time. This is partly a political factor as about 40% of water goes to the northern municipalities. The amount of loss is predictable and is covered by a subsidy from GoK. Furthermore, social assistance programmes cover those in lower income groups who cannot afford to pay their electricity bills in full. In general, in the view of UPMPOE, the likelihood of 'nasty' shocks is low.

Notwithstanding UPMPOE's claims, the OAG has highlighted deficiencies in its monitoring effectiveness. For example, its report for 2011 highlighted that the monitoring of water companies could have been better in terms of identifying management inefficiencies in the use of taxpayer's money that fund subsidies from GoK. (http://www.oag-rks.org/repository/docs/RaportiAuditimit_Ujerat_2011_Shqip_185551.pdf). The report recommended: (i) raising accountability of POEs by enforcing the implementation of the amended LPE (including establishment of internal audit functions in POEs) and strengthening POE management and Board of Directors' oversight; (ii) the Assembly to more closely follow the quality of services provided by POEs and to request UPMPOE to prepare a report on the performance of POEs.

As indicated in its report for 2012 (which focuses on POEs and Socially Owned Enterprises), UPMPOE prepared such a report. OAG welcomed this as a positive first step towards increasing the accountability of POEs, but considered that UPMPOE should still play a more proactive role in checking that POEs are implementing audit recommendations. OAG indicated that GoK- owned POEs continued to display weaknesses, as implied by financial losses and dependence on subsidies from GoK, thus implying possible fiscal risk to GoK. Operating costs were probably higher than need be due to procurement management not complying with regulations, inefficient asset management and lack of controls in human resource management.

OAG's audit report for 2013 (the latest one at the time of the PEFA fieldwork acknowledged that UPMPOE had improved its performance through: (i) developing a standardized set of

[10] The auditors may be private companies if OAG is not in the position to conduct the audits Unlike in some countries, the OAG does not have a procedure for accrediting private audit companies. POEs select auditors through the public procurement process. Commission members, during their review of UPMPOE's reports, may ask questions about the competence of the auditors.

assessment criteria to be used by POEs in preparing performance reports; and (ii) following up on the implementing by POEs of audit recommendations and discussing these at the annual meeting between GoK and POEs.

OAG noted, however, that the Assembly was not playing an active follow-up role, thus detracting somewhat from UPMPOE's strengthening monitoring performance It had not held any meetings with POE management to discuss audit findings. The OAG report recommended, *inter alia,* that: MED carry out analysis of the financial statements of POEs and specify standard information for an effective monitoring and oversight function. [11].[12]

A recent article in an academic Italian journal discusses the corporate governance of POEs in Kosovo. It notes the need to strengthen the professionalism of Boards of Directors and UPMPOE's ability to supervise POEs. Up to now, this ability t has been hampered by its focus on checking that POEs are in compliance with laws rather than on strengthening corporate governance in POEs so that they can more effectively and efficiently provide the public services that they are mandated to provide. [13]

The MTEF documents should be a good place for the discussion of fiscal risks posed by POEs, but these are not being discussed. The 2016-18 MTEF includes a section of fiscal risks, but these are more in terms of macro-fiscal factors (e.g. risk of decline in remittances). The risk posed by POEs is not mentioned. The MTEF in place at the time of the 2009 PEFA assessment did however include a section on the risks posed by POEs. It is not clear why this section was dropped in later MTEFs. The 2007 PEFA assessment emphasized the poor insight of the Government into the financial state of affairs of POEs, the PFM systems generally being poor.

On-going and planned activities

UPMPOE has been considering for some years the creation of a new electronic database that would enable direct collection ofinformation on POEs performance but this remains still at a concept stage. This would assist the Government inexercising better supervision and monitoring of POEs and in preparing consolidated fiscal risk reports. The UPMPOE is currently in discussions with International Finance Corporation (IFC, the private sector wing of the World Bank) on the financing of the establishment of this.

In conclusion, GoK has made some progress in strengthening its oversight over the financial situation of POEs, further strengthening is needed in terms of its ability to conduct analytical fiscal risk analysis.

[11] Also, that MED take measures to ensure that Board of Director remuneration is results-based (remuneration has tended to be very high without any linkage to results)

[12] The OAG's 2013 report also, for the first time, included observations on the functioning of PPP arrangements, particularly in connection with GoK's failure to address shortcoming in the implementation of the Pristina Airport modernization project (e.g. failure to secure a construction license for the project, and to resolve some land-use issues). . The 2011 PEFA Framework does not cover fiscal issues arising from PPPs, but the draft 2015 PEFA Framework has added a dimension on the monitoring for fiscal risks posed by PPPs..

[13] 'Challenges of Public Enterprises in Kosovo on Corporate Governance', Bahri Hyseni, Academic Journal of Interdisciplinary Studies, Rome Italy, April 2015.

Score B

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

A new legal framework, based on the Law on Public Debt (2009. Nr. 3L-175) , was established after the 2009 assessment. Article 30 enables municipalities to enter into borrowing arrangements. No such municipality has done this yet. Only 2 municipalities fulfill the basic legal requirement of two consecutive unqualified annual financial statements that would allow entering into debt. According to the Law on Local Governments, municipalities are required to seek the approval of the MoF to borrow. 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 the Serbian government) through TSA and submit their annual financial statements to the Treasury. This facilitates the Treasury's monitoring of the fiscalposition of municipalities through its regular preparation of consolidated quarterly and annual reports.

The Treasury reports and annual reports prepared by OAG point to PFM weaknesses in municipality governments that may represent fiscal risk to GoK: poor management of liabilities, large and increasing debts owed to municipalities (tax arrears), imprudent expenditures, insufficient controls in the procurement system, lack of control in managing capital project implementation, incomplete asset registrars, and failure to implement audit recommendations.

Despite GoK's ability to monitor the financial position of municipalities, the 2016-18 MTEF makes no reference to fiscal risks posed by them..

Score A

PI-9	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment 1/
(M1)	**C+**	**C+**	**B+**	**Performance improved under dim. (i)**
(i)	**C**	**C**	**B**	***Performance improved.*** UPMPOE is playing a more pro-active role in monitoring POEs. It now prepares annual reports on the financial position of POEs, based on their annual reports and audited financial statements.. OAG's annual reports also look at the financial and operational performance of POEs and highlights possible fiscal risk to GoK.
(ii)	**A**	**A**	**A**	***Performance unchanged*****: (ii)** Municipalities are required to seek the approval of MoF to borrow. Approval does not constitute a loan guarantee. (ii) Nearly all municipalities channel their funds through TSA, thus facilitating their preparation of annual financial statements and the submission of these to the Treasury, which can then monitor the fiscalposition of municipalities.

1/ Change assessed relative to 2009 PEFA.

3.2.6. PI-10: Access to key fiscal information

(i) Number of element of public access to information that are fulfilled

The procedures and deadlines for reporting and publication of key fiscal information are set in the LPFMA.

No.	Information	Available	Comments
1.	Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature	√	**Improvement.** The following link takes one to the budget law, aggregate table with mid-term revenue/expenditure/balance projections, and detailed annual budget appropriations tables for central and local level. The information is available after the first reading by the Parliament. This was not the case in 2009. http://www.kuvendikosoves.org/?cid=2,122
2.	In-year budget execution reports: the reports are routinely made available to the public through appropriate means within one month of their completion. .	√	**No change.** 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/en-us/Reports/Reports-and-Publications/Reports-and-Financial-Statements
3.	Year-end financial statements: the statements are made available to the public through appropriate means within six months of completed audit	√	**No change**. The un audited annual financial statements are made public by the Ministry of Finance on 31 of March of each year. (http://mf.rks-gov.net/en-us/Reports/Reports-and-Publications/Reports-and-Financial-Statements . The audit of the financial statements by the OAG is conducted until the end of August, and is then published in the form of OAG's annual report. The Annual Report on the 2013 fiscal year was published in September 2014). http://www.oag-rks.org/repository/docs/RaportiVjetorAuditimit2013_Eng_938421.pdf

No.	Information	Available	Comments
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.	√	**No change**. The external annual audit reports of individual BOs are made available to the public no later than 30th of June of the following fiscal year. Audit work starts in January. **http://www.oag-rks.org/sq/Raportet-e-%20Auditimit?date=2014**
5.	Contract Awards: Award of all contracts with value above approx USD 100,000 equiv. are published at least quarterly through appropriate means	√	**No change.** 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=63
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	**No change**. 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, the information being available through budget execution reports (element 2). Such devolution has not yet happened at the level of health care centre, this being still at the planning stage. Information on resources available to health care centers can be provided upon request to the municipal administration. This requires a special initiative, however, and as such cannot be considered public access

PI-10	Score 2007	Score 2009	Score 2015	Assessment
	A *(should have been B)*	B	A	**Performance strengthened.** The government makes available to the public 5 of the 6 listed types of information. The score could also have been A in the 2009 PEFA, but the 2009 budget law was not made available to the public; amendments were presented by the Government, which required the law to be returned to the Assembly for review.

Score A

3.1 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

A clear fixed budget calendar exists and it is set out in Article 20 of LPFMA. A defined budget calendar is established at the start of the budget process, which is communicated to BOs through the first budget call circular, elaborated on below. The calendar is reproduced in Annex..

The 2015-2017 MTEF was approved by GoK on 29th April 2014, and was submitted the same day to the Assembly for information purposes only. Accordingly, three budget circulars were issued by MoF to central government BOs for the budget cycle 2015-2017. The first budget circular was issued on **May 15, 2014**, the second circular on **September 11, 2014**, and the third circular on **October 16, 2014**.

The first budget circular provides the first instructions on the preparation of Kosovo Budget for the fiscal year 2015, projections for 2016-2017, indicative budget ceilings for each BO and the timetable for drafting the budget. The deadline for budget requests' submission was set at 20th June 2014, thus allowing BOs close to 6 weeks for the preparation of initial budget requests. BOs complied with this timeline.

The second budget circular provides for adjustments to spending ceilings in line with revisions to the Macro-Fiscal Framework. With regard to the preparation of the 2016 budget, an agreement in June 2015 between GoK and the IMF on a new support programme required, amongst other things, a reduction in the overall expenditure ceiling from that stipulated in the first circular.

Following receipt of budget requests, perhaps revised by BOs in response to additional requirements stipulated in the second circular (for the 2016 budget, the deadline for submission of revised requests was 21st August) a series of budget hearings on the requests are held between MoF and BOs during August/September. As specified in the second circular, the dates for the hearings were August 29thth –September 4th. Representatives from Office of the Prime Minister and the Parliament's Committee on Budget and Finance may attend, thus adding a political dimension to the hearings. Following the hearings, the MoF prepares hard expenditure ceilings for each BO according to broad economic classification. These are discussed during September and eventually agreed to with the Government (i.e. the Cabinet).

The third budget circular, issued to BOs in October (October 16, 2014, October 6, 2015), provides instruction for finalization of estimates, based on the ceilings set for each BO and a table of the ceilings. The deadline for submission of estimates **was October 22 2014 in relation to the 2015 budget** and **October 12, 2015** in relation to the 2016 budget (i.e. about a week following receipt of the circular). . Much of the estimation work has already been done, so one week is sufficient to prepare the final estimates. Following receipt of the finalized estimates, BOs have 3 days to 'appeal' against the ceilings set in the circular. The Government (Cabinet) then may take up to 3 days to review the appeals and authorize any changes if considered warranted. The MoF then makes further revisions to the draft budget if required and sends the official draft budget to Government (Cabinet) for review and then to Parliament by the end of October, as legislated for in LPFMA.

Compared with the 2009 PEFA assessment, a notable improvement is marked in terms of providing sufficient time (approximately six weeks compared to 4 weeks)) to BOs for their preparation and submission of budget requests.

Score A

(ii) Guidance in the preparation of budget submissions

Compared to 2009 the Budget Circular has been further improved by a reference to the MTEF, which became a legal instrument in 2010 (through amendment to LPFMA) and the statement of priorities (see next paragraph), more detailed guidelines to line ministries and independent agencies on budget preparation, including improved templates for baseline budgeting and additional information on the level of debt and co-financing. Recurrent budgets are prepared using the IT-based Budget Development Management System (BDMS). Capital budgets are prepared through the Public Investment Program (PIP) system. The user manuals for both these systems are posted on the MoF website (www.bdms-ks.org; www.pip-ks.org). Any revisions made following budget hearings use the same systems.

A further development since 2009 was the establishment of the Office for Strategic Planning (OSPS within PM Office in 2010 (see PI-12), one of its roles being the preparation of an annual statement every year of GoK's priorities. These are then allocated by MoF to respective BO budgets as a guide to the budget process. The statement of priorities is included in the MTEF, which is approved by the Cabinet at the end of April.

Budget preparation is a two stage process in Kosovo: (i) budget request preparation stage; and (ii) estimation phase, the same process as in many other countries.

(i) First stage: The first budget circular (approved by Cabinet) for preparation of the 2015 budget. The purpose of the circular is to provide guidance to BOs for the preparation of budget requests. The circular emphasises:

- The importance of total proposed spending not exceeding the aggregate ceiling set forth in the MTEF; and
- The need for BOs to prioritise 'new' spending proposed by them in line with GoK's annual statement of priorities, as contained in the MTEF document. New spending represents spending that is not included in 'baseline' spending as approved in the previous year's budget, (as technically adjusted to this year for factors such as revised price and wage projections). The indicative ceilings in the first circular are in fact baseline ceilings representing the projected costs next year of providing the public services that are being provided this year. If BOs want additional funding above baseline projections in order to expand the level of services they are currently providing, or to introduce new services, they have to justify this in their budget requests.

Second stage: Second and third budget circulars: A second budget circular, if one is issued, requests BOs to make adjustments to their budget requests, For example, the BOs may be requested to provide additional information to justify the additional funding they have requested, if any, above the initial ceilings stipulated in the first circular. If they have not already done so in their budget request, they have to indicate whether they have taken into consideration the performance of the 2014 budget when formulating their budget requests and projections for the next 2 years. As noted under dim. (i) BOs were requested to adjust their requests in light of the new agreement with IMF, which resulted in a reduction in the aggregate spending ceiling for the 2016 budget.

Score A[14]

(iii) Timely budget approval by the legislature

The 2015 budget was approved on December 30, 2014. The approval of the 2014 Budget by the Assembly of Kosovo was on time, 29 December 2013. The 2013 budget was approved on December 17, 2012.

Score A

PI-11	Score 2007	Score 2009	Score 2015	Assessment
(M-2)	**B+**	**B**	**A**	***Performance strengthened under all dimensions***
(i)	B	B	A	***Performance strengthened,*** BOs having close to 6 weeks to prepare their budget requests, an increase from 4 weeks at the time of the 2009 assessment.
(ii)	A	C	A	***Performance improved***: • GoK has been issuing 'statements of priorities' since 2010 via the Strategic Planning Office. The statements are included in the Cabinet-approved MTEF (approved before the issue of the first circular), which helps guide BOs in their prioritizing of 'new spending' and budget preparation in general. The MTEF includes indicative spending ceilings for each BO. The MTEF became a legal instrument in 2010 , through amendment to LPFMA • Budget preparation guidelines and templates have been strengthened and are now included in the first circular. . The Cabinet approves the first circular, which includes the initial spending ceilings for each BO. It also approves the third circular, which establishes hard ceilings under which BOs prepare detailed estimates following the hearings on the budget requests earlier submitted by BO to MoF. Cabinet reviews any changes made by MoF in response to BOs requiring adjustments to ceilings when they submit their detailed estimates.
(iii)	B	B	A	***Performance strengthened.*** The Parliament approved the draft 2013, 2014 and 2015 draft budget before the start of the respective new FY. The 2008 budget was approved 2 months late due to the request from the newly elected government to give it the opportunity to review the proposed budget more completely

[14] This dimension was scored C in the 2009 assessment due to changes in ceilings shortly after the draft budget was submitted to Parliament.

3.3.2. PI-12: Multiyear perspective in budgeting

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

The 2015-2017 MTEF that was approved in April 2014 presents a three-year forecast (on an annual basis) of revenues and expenditures by economic classification and the budget at organization level. The 2015 budget that was approved in December 2014 respects fully the fiscal framework presented in the 2015-17 MTEF, namely it contains the same aggregate amounts. Minor changes were made to the expenditures allocated to specific BOs.

An MTEF shows projected baseline spending, also referred to as forward expenditure estimates, according to current policies and service levels. Typically the MTEF covers three years and is annually rolled forward one year. Apart from the annual roll forward, which implies new spending, the MTEF may change over time for two reasons: (i) adjustments to the baseline, due to, for example, revision to price projections, wage and salary projections, school student enrolment projections; and (ii) introduction of new spending that is not in the current 3 year baseline, e.g. pension spending increase on top of that provided in the baseline. For these reasons, the first year of the next MTEF period (e.g. 2015-17) may be different from the second year of the current MTEF (2014-16). The first year of the 2016-18 MTEF will be even more different from the third year of the 2014-2016 MTEF, not only because of the baseline adjustments and new spending (also termed new policies or new initiatives) in the 2015 budget which then carry over to the following year, but also because of baseline adjustments and new spending in the 2016 budget.

For transparency, and to demonstrate that the budget really does have a medium term perspective, it should be possible to trace back from a new budget to the second year of the previous MTEF period and to the third year of the MTEF period before that, while also explaining that ‘new spending’ is based on strategic plans. In practice, this process is too convoluted, so explanation of differences boils down to explaining the difference between the budget in year n with the second year (n + 1) of the previous MTEF period.

In the case of Kosovo, significant differences exist between the second year of the MTEF 2014-2016 and the first year of MTEF 2015-2017, mainly because of new spending measures.. The differences are explained in the MTEF 2015-2017, where a specific part of the table for each sector includes detailed information on new policies approved by the Government, for example in the case of Ministry of Finance (contingency for wages and health insurance funds) and Ministry of Labour and Social Welfare (implementation of Government Decision to increase pensions by 25%).

Compared to the 2009 PEFA assessment, the macro framework presented in both consecutive MTEF documents (2014-2016 and 2015-2017) contained detailed data on the level of borrowings disaggregated by each program including expected disbursement for the next three years. However, similar to the 2009 assessment, the macro framework still lacks information on donor commitments, including the future recurrent expenditures that donor-financed capital projects may generate. The main exception is the USAID-funded G2G (Government to Government), the projections for which are contained in Table 3 of the 2016-18 MTEF. With donor project funding now only a relatively small percentage of total GoK expenditure, the omission of much of this from the MTEF has become less significant.

Generally, the MTEF document focuses more on the annual budget projections whereas figures for the two following years in most of the cases are extrapolated rather than being based on the use of rigorous baseline/forward expenditure estimates methodology. For example, the Ministry of Education budget department visited by the assessment team claimed that it doesn't even have a full one year perspective in budgeting, let alone a longer term perspective. This is not peculiar to Kosovo. Robust multi-year expenditure projections tend to be difficult to make in countries going through rapid socio-economic change. The exceptions are large scale projects (e.g. highway expenditure) for which medium term spending is exactly known and clearly presented. This information is not, however, accompanied by theestimates of associated recurrent costs in the medium term.

Score C

(ii) Scope and frequency of debt sustainability analysis

Since the 2009 PEFA assessment, the Government has made progress in consolidating the Debt Management Unit into the Treasury and in building capacity for regular debt sustainability analysis (DSA). Comprehensive analysis of domestic and foreign debt is prepared regularly 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 interest paid to total revenues, and the ratio of annual debt to total domestic revenues. These indicators are also included in the Annual Debt Programme which is published each year following Government approval.

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

An updated DSA is developed each year by the Macroeconomic Unit /Ministry of Finance.. The analyses are included in both consecutive MTEFs (2014-2016 and the 2015-2017). The DSA is built upon three scenarios: a) exceeding the deficit ceiling, b) lower than projected economic growth, and c) lower exports growth, and gives respective recommendations. The DSA is also part of the National Economic Reform Programme 2015, submitted to the EC at the end of January 2015.

Score A

(*iii) Existence of costed sector strategies*

Since 2009, the Government has undertaken several initiatives aiming to enhance the coordination of strategic planning of long-term policies in support of budget planning. In this regard the Office of Strategic Planning (OSP) was established within the Office of Prime Minister in 2010 (also noted under PI-11). The Office is mandated with the coordination of sector strategies and preparation of a consolidated document representing the Development Strategy of the Republic of Kosova. Most budget organizations have established Policy Coordination and European Integration Departments.

Since 2012, OSP has been drafting the annual 'Declaration of Priorities' (description of the priorities for each sector), as a basis for the MTEF, the annual budget, and possible funding from donors and borrowing. The Strategic Planning Group was established in 2012, including representatives of key sectors and line ministries, mandated to oversee the process of setting

Government Priorities and to ensure that these are in line with the budget ceilings. The OSP developed the administrative procedures, such as approval of the Administrative Instruction 02/12, on the procedures, criteria and the methodology for the preparation and approval of strategic documents and plans for their implementation. The main aim was to put in place a unified practice for the process of planning and drafting strategic documents by determining a set of uniform criteria and methodology and the detailed procedural steps for the preparation and approval of strategy documents. The methodology includes the preparation of cost estimates. SPO finalized a manual on sector strategies in June 2013, with the aim of improving the drafting of strategies by line ministries.

Beginning in 2014, all Strategic Documents are required to be submitted to the Budget Department, MoF for an assessment of fiscal impact; a strategic plan may be consistent with GoK priorities, but the costs need to be fiscally realistic. Once the fiscal impact assessment is issued by MoF, Strategic Documents are submitted to the Strategic Planning Office, for checking further their compliance with the priorities set in the MTEF. As a result since 2014 no strategies are accepted for further analysis by SPO without cost estimates being provided by MoF.

Notwithstanding the above, GoK continues to operate with a large number of strategies, currently amounting to 90, which provide incomplete information on multi-year costing of recurrent and investment expenditure. The number of strategies should roughly correspond to the number of sectors, which are far less than 90. Most of these pre-date 2014. Such strategies include the Strategic Plan for Education (2011-16), the Strategy and the Action Plan for Fighting the Informal Economy, 2014-18, and several strategies in the agriculture sector. These strategies are costed but the costs are inconsistent with aggregate fiscal forecasts.

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 2006. PIP is used to plan capital projects while other budget categories are planned within BDMS.

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 2013, 2014 and 2015, budget cycles. In addition since 2014, through Budget Circulars, BOs are also required to incorporate in the PIP system, sources of financing for each project.

Compared to the 2009 PEFA assessment a number of processes related to PIP planning have improved:

a) A project implementation monitoring function was added to PIP. BOs are obliged to report quarterly on the physical progress of individual projects. During 2014, about 90% of BOs reported on the physical progress of individual projects. In addition, financial progress reports on project implementation are submitted monthly to MF.

b) Cost/benefit analysis is required for projects above €1,000,000

c) Projects under implementation are recorded as old projects (ongoing projects) in the following years;

d) Information regarding transfers occurring from one project to another are recorded in PIP;

Although progress has been made in terms of system upgrade to assess the overall recurrent cost implications of capital projects, the efforts to collect future current expenditures associated with capital projects are undermined by the failure of BOs to provide such estimates, once they record capital investments projects into the PIP system. The use of the system still falls well short of its full potential. This is mainly due to the lack of adequate regular training in the use of the PIP system. Furthermore, the absence of fully costed sector strategies means that projects are often developed in isolation.

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 ensureproper 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.

Score D

PI-12	Score 2007	Score 2009	Score 2015	Assessment
(M-2)	**D+**	**C**	**C+**	**Performance unchanged.**
(i)	C	C	C	***Performance unchanged.*** The 2 outer years of the MTEF are mainly extrapolations rather than rigorously derived forward expenditure estimates/baseline projections. 'New' spending Is increasingly explicitly identified in the annual MTEF documents.
(ii)	NA	B	A	***Performance strengthened.*** DSA capability has strengthened. DSA is included in each annual MTEF document.
(iii)	D	C	C▲	***Performance unchanged.*** A multitude of uncosted or fiscally unrealistically costed sub-sector strategies are prepared. Starting in 2014, such strategies are required to be submitted to MoF for fiscal impact assessment analysis.
(iv)	C	D	D	***Performance unchanged.***

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

3.2 Predictability and control in budget execution

3.4.1. Revenue administration

3.4.1.1. PI-13: Transparency of taxpayer obligations and liabilities

The Tax Administration of Kosovo (TAK) and Kosovo Customs (KC) are executive agencies under the Ministry of Finance and have operational autonomy. They both have the same legislative responsibilities that they had at the time of the 2009 PEFA.

TAK's activities are based on its multi-year strategy. The Government has approved a new strategy for TAK to replace its 2010-15 strategy. It prepares annual business reports in both Albanian and English, though the last English-version report dates back to 2010. The KC also has a strategy and prepares annual reports that are available online. The latest English language report covers 2014.

The IMF has recently developed a tax administration diagnostics tool (TADAT) that, in effect, is a 'drill-down' of the PEFA Framework revenue administration PIs 13-15. An IMF team was testing TADAT in Kosovo in May, prior to the arrival of the PEFA team. The team prepared a draft report and the EU Office in Pristina asked IMF whether it could share a copy of the report with the team. IMF informed the team that it was not at liberty to provide a copy, but that the team should request TAK for a copy. Unfortunately, the TAK informed the team that it should request IMF for a copy.

(i) Clarity and comprehensiveness of tax liabilities

TAK

The main tax laws have been updated since the 2009 PEFA assessment: the Personal Income Tax Law (Law No. 03/L-161), the Corporate Income Tax (CIT) Law (Law No. 03/L-162), and the VAT Law (Law No. 03/L-146), all on 1 January 2010, and the Tax Administration & Procedures Law (TAPL: Law No. 03/L-222) in August 2010. The CIT Law was further amended in May 2012 in order to change the appeals process in line with the amendments to the TAPL, as indicated in dim. (iii). A package of amendments to the VAT Law was enacted in 2012 to bring it into line with the changes in the appeals process and to bring it further into line with EU laws. Administrative Instructions (AI) on the use of fiscal electronic devices (e.g. cash register) and systems were issued in 2014 (31st March) and 2015 (MF. No. 2/2015, 17th March), taking into account advances in IT in recent years.

The updates in the tax laws since the 2009 PEFA do not represent any substantive change.

Discretion in the administration of the tax laws. Article 43 of TAPL explicitly provides for a level of discretion in the administration of the tax laws. The TAK may determine that a tax debt is not collectible and place it in a 'passive' file, thus removing the debt from the 'active collection data base.' The ability of the taxpayer to pay the debt is based on TAK's assessment of the financial situation of the debtor. The debt is not written off through this action, but TAK has the discretion at a later date to write it off if collection turns out not to be possible.

According to TAK, a very recent (May 2015) Government Decision provides for debt forgiveness, including tax debt forgiveness. The team was told that the Decision was on the website of the Office of the Prime Minister, but was unable to find it.

Kosovo Customs (KC)

The legal framework for KC has changed little since the 2009 PEFA assessment. The main changes have been in terms of subsidiary legislation. For example, excise duties were increased on a number of goods in 2012 and a new rule introduced in 2014 stipulates that duties and penalties have to be paid prior to cargo being released. In 2012, the range of fines was reduced to €500 from a range of €5000 -€10000 in order to encourage payment. The legislation does not provide for discretionary exemptions.

Score A

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

TAK

Each tax law is supplemented by AIs, which are sub-legal acts that give further clarification on to the application of the law together with examples. Guides for each of the tax types along with flyer pamphlets cover the main points. Both the tax laws and the AIs are posted on TAK's web-site in Albanian, Serbian and English. The laws are also accessible on the Government of Kosovo and National Assembly website and in a "Tax Laws Handbook" (2011). The guides and flyers are also available in hardcopy form at each of TAK's six regional offices.

TAK provides a range of informational materials to help taxpayers comply with their obligations. These include:

- Guides and brochures for understanding the tax laws, including the requirements for registration, declaration and payments.
- Information on tax deb, tax audits, reporting corruption.

The entire structure of the TAK website has changed since the 2009 assessment in order to make it more user-friendly. It contains all the tax legislation and the various guides and brochures referred to above. It describes electronic services available to taxpayers, such as e-filing (as of 2013). It contains public rulings, including information on passive taxpayers, referred to above. It includes an FAQ section, which allows taxpayers to ask questions from TAK via e-mail.

Introduction and expansion of electronic services – taxpayers must now download their tax formsfrom 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.

TAK continues to provide taxpayer outreach services (e.g. regular taxpayer seminars, appearances on TV shows, and newspaper announcements). Close co-operation with business community representatives continues to be maintained through the Chambers of Commerce and the SKAAK accounting body in Kosovo

Other taxpayer service developments have included:

- Creating a Taxpayer Advocate position. As well as reviewing taxpayer cases brought to her attention,the advocate has also conducted taxpayer satisfaction surveys. The surveys have shown high levels of satisfaction.

- Updating and promoting TAK's Taxpayer Charter. TAK has set out a timeframe for responding to taxpayer's written requests within 15 working days
- Establishment in 2012 of a purpose-built Taxpayer Service Center in central Pristina which catersfor most of Kosovo's taxpayers
- The creation of "tax advisors" in each of the Large Taxpayer Unit's (LTU) industry specialized taxpayeraudit teams, and one in each TAK regional office
- Establishment of a Call Center in November 2011.

Kosovo Customs (KC)

Importers have access to comprehensive information that includes the Customs Code. For example, Article 17 of the Code ensures that each person can seek information from Customs regarding the application of customs legislation applicable to a specific import or export. The Code is currently in the process of being up-dated, mainly in order to correct a number of inconsistencies that have crept in over the years.

The KC web-page was upgraded in 2010 by adding additional features and improving user-friendliness in all three official languages, enabled in part through developments in IT. Taxpayers now have easier access to information relating to customs duties and procedures.

Through its business outreach activities, the KC's PR office has increased its focus on the 400 biggest businesses which bring in 90% of KC's total revenues. KC cooperates with business organisations (e.g. chambers of commerce) through organizing workshops and conferences.

Score A

(iii) Existence and functioning of a tax appeal mechanism

TAK

The position of Tax Advocate was established in 2010 to provide room for citizens to raise issues about implementation of tax laws by TAK. A toll free number was provided for citizens to use.

The TAK implemented some efficiency improving measures in 2012 with regard to the appeals process. The number of TAK staff working in the appeals unit was increased to 13, including the manager who now reports to the Director of Legal & Appeals rather than directly to the TAK Director-General.

The LTAP was amended in April 2012 (4/L-102) in order to strengthen the tax appeals mechanism through:

- Replacing the Independent Review Body (IRB) by a Fiscal Division within the Department for Administrative Issues, which falls under the Basic Court of Pristina (under the Law on Courts). The replacement followed a review by an EU/TAIEX advisor during 2011, leading to the amendment noted above; and

- Providing for a ‘fiscal sector’ within the appeals sections of TAK and CD.

These measures came into effect on 1st December, 2012. The IRB was allowed to continue toreview cases until the end of 2013 in order to clear the backlog.

The IRB had represented the second stage of the appeals process if complainants were not satisfied with the outcome of the appeals divisions in TAK and CD. The Government considered that its performance was unsatisfactory as it was not clearing all the cases submitted to it each year. During 2012, 132 new tax dispute cases were referred to IRB that added to the 612 tax cases that it carried over from the end of 2011. IRB reviewed 223 cases during 2012, meaning there were still 521 on handat the end of 2012.

It is not clear whether IRB was judged to be lacking in competence or whether it simply did not have the capacity to review the large number of cases being submitted to it. The number of cases at the Appeals Division level seems large (483 appeals in 2012) for a country the size of Kosovo. The proportion of these decided against the taxpayer was 60% in 2012, with only 13% decided in favour of the taxpayer. About 50% of cases were passed on to IRB, a proportion which seems high, but perhaps reflecting the high proportion of cases decided against taxpayers at the Appeals Division level. IRB decided against the taxpayer in 40% of the cases referred to it, and decided in favour of the taxpayer in 16% of the cases. [15]

It is not clear what exactly the problem was, but the statistics indicate that it was not necessarily IRB. It is possible that taxpayers themselves were part of the problem through their use of the appeals system to delay payments. The 2009 PEFA assessment refers to an IMF report that indicated this possibility. The IMF report considered that IRB worked satisfactorily and that overall the whole disputes resolution process was well designed and appropriate for Kosovo.

According to TAK and KC, the revamped appeals system does not work satisfactorily, due to Ministry of Justice-appointed lawyers reviewing appeals under the Basic Court system not having the necessary expertise in revenue administration. This is despite training in tax administration being provided to judges and lawyers.

.Kosovo Customs (KC)

The appeal process is based on article 291 of the Customs Code. KC amended the Customs Code in 2012 to reduce the penalty for non-compliance with procedures to €500 from €5000. This contributed to a 35% fall in appeals submitted to KC that year and the appeals rate has since fallen to less than 1% in terms of the number of declarations. 1895 requests were registered for review of decisions in 2014 and 35 were carried from 2013. In comparing overall import and export statistics, in particular the total number of declarations delivered for clearance, the appeals number is minimal. The majority of cases tend to decide in the favour of KC. Table 9 summarises.

Table 9: Appeals rate, Kosovo Customs, 2014

[15] Appeals statistics also include the numbers and percentage composition of partially approved decisions in favour of tax payers, numbers of cases sent back for re-audit, appeals rejected because of late submission, and cases carried over from the previous year,

Number of processed cases	Number of appeals	% of appeals
266,096	1895	0.7%

.A new IT-based Case Management Document System obtained by KC has streamlined the management of the appeals system and increased its transparency. The system is linked to the Automated System for Customs Administration (ASCUDA World (AW), which KC acquired in September 2012 (AW replaced the TIMS IT-based customs administration programme).

Score C.

On-going and planned activities

KC is currently revising the Customs Code in order to correct mistakes in the current version (2008) and to harmonise the Code with the Penal Code. The original code was written in English and the Albanian version contains some translation errors. Revision is expected to be completed by July, 2015.

The Government is considering a merger of TAK and KC in the interests of operational efficiency. Investigative work, the appeals work in particular, was more or less harmonized in 2014.

The MTEF document for 2016-2018 (issued April 2015) indicates that the Administrative Instruction 15 (2010) for use of fiscal electronic devices (2010) will be amended in order to liberalise the use of them. Consumers will be encouraged to collect receipts, receiving a refund, the amount depending on the value of the receipts collected. The Government hopes that this measure will help to reduce tax evasion.

PI	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-13 (M2)	**B+**	**B**	**B+**	**Performance improved under dim. (ii)**
(i)	**A**	**A**	**A**	***Performance unchanged.*** Article 43 of the Law on Tax Administration provides an element of discretion In terms of possible write-off of tax debt, but the scope of the use of this discretion is strictly limited.
(ii)	**A**	**C**	**A**	***Performance improved.*** • Big improvement in user-friendliness of TAK & KC websites. • *TAK:* Large expansion in e-services. • *TAK:* Creation of a Taxpayer Advocate position. • Establishment of Taxpayer Service Centre in Pristina (2012). • Establishment of Taxpayer advisers in LTU and TAK regional offices. • *TAK:* Establishment of a Call Centre (November 2011). • Expansion of KC's business community outreach activities.
(iii)	**C**	**B**	**C**	***Performance reduced:*** The IRB was in place at the time of the 2009 assessment. It appeared to be functioning reasonably well,

PI	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
				the main issues being at the prior level of review. But subsequent dissatisfaction with IRB led to its abolition in late 2012 and its replacement by the Basic Court system. The performance of this in terms of appeals review appears to be unsatisfactory due to insufficient expertise in tax administration in the court system. [16]

3.4.1.2. PI-14: Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

TAK

The tax registration process has had two significant changes since the 2009 PEFA assessment. First, TAK has moved away from relying on the Ministry of Trade and Industry (MTI) business registration process as a source of information on potential taxpayers and now use its ownfiscal numbers (FN) for all taxpayers (commonly known as Taxpayer Identification Numbers in many countries). This change started in 2010 at the recommendation of the IMF,[17] and as provided for in LTAP (2010, which replaced the 2004 Law.[18] New businesses require FNs in order to register with MTI. Use of FNs has meant that individual taxpayers with multiple businesses now have only one FN (compared with the business registration process which continues to allocate multiple business registration numbers according to business activity). The FN procedures are outlined in LTAP, which also includes sanctions for taxpayers who operate without FNs.

Second, the process for issuing FNs to new businesses has been automated and simplified. This process is now largely managed through municipality-based "one stop shops" run through the Kosovo Business Registration Agency which simultaneously issues both business registration and FNs generally within 24 hours of request upon presentation of requisite identification. A previous requirement for TAK to visit business premisesbefore allocating FNs has been replaced by ability for new businesses to request an "educational" visit while TAK also maintains the ability to conduct compliance visits at any time following the allocation of an FN.

Linkages with registration systems other than those of MTI have not yet been developed. A social security number (SSN) system is not yet in place in Kosovo. TAK does not have a link to the Unemployment Agency. In many countries a person's SSN is the same as his/her's TIN, most people having an SSN.

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[16] As per the PEFA *Fieldguide (clarification, 13-c page 83)*, recourse to the general legal system is not regarded as a tax complaints mechanism, unless a special court has been established, which is not the case in Kosovo.

[17] As referred to in the 2009 PEFA assessment, an IMF mission had pointed out "a number of serious shortcomings with the taxpayer registration arrangements in Kosovo; particularly the reliance on the MTI business registration system. The system did not provide sufficiently for the integrity of the MTI data

[18] Section 1 of Article 11 of LTAP (2010) states that 'Any person subject to any tax administered by the TAK shall register with the TAK and obtain a fiscal number before engaging in any economic activity'.

Opening a bank account does not require an FN. However, employees of organisations who pay tax on a PAYE basis generally have their wages and salaries deposited into bank accounts, so the likelihood is that bank account holders are registered for tax. Companies bidding for GoK contracts do not need to demonstrate that they have FNs, but the likelihood is that they have business licenses through MTI and therefore also have fiscal numbers. Furthermore, businesses/individuals cannot issue invoices unless they have fiscal numbers.

Electronic cash registers were introduced in 2010. Places of points of sale were obliged to be equipped with these by the end of 2010. This both ensures collection of revenue (mainly VAT), but also strengthens accountability as a sales voucher has to be provided to customers.

SIGTAS was upgraded in 2010 through improving the registration module, issuing FNs and cleaning data registries.

Kosovo Customs (KC)

Four big step forwards for KC in 2014 were: (i) obtaining control over two border crossings in the north of Kosovo; (ii) re-organisation into 7 Directorates in the seven regions leading to efficiency gains; (iii) establishment of Blue Channel, a procedure which allows much faster clearance (30 minutes) for pre-qualified companies, though still subject to post-clearance controls; and (iv) introduction of a valuation of goods module, which importers can use themselves.

Kosovo Customs now uses FNs as its primary number for importers. "Business" importers need to have an FN before they can import, receiving the FN as part of the process of registering as businesses with MTI and then registering with KC as importers/exporters. This process has been simplified since the 2009 PEFA assessment through self-registration using ASYCUDA. This can be done at any customs office in Kosovo instead of having to go to Pristina, as before. The requirement for importers/exporters to obtain an export/import certificate has been abolished.

Though not electronically integrated with TAK's SIGTAS, ASYCUDA and SIGTAS can communicate with each other through an interface protocol. Thus TAK can cross-check that all importing/exporting businesses have fiscal numbers.

Score B

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

TAK: Effectiveness has improved since the 2009 PEFA assessment (Score C). TAK continues to have the ability to take its own enforcement actions (blocking bank accounts, seizing and selling assets of debtors and goodswithout origin documentation, closing businesses, preventing departure from Kosovo, etc.) without having to go to the Courts, which in any case are largely ineffective in dealing with tax non-compliance. T he range of penalties for non-compliance has been expanded and is now more targeted (e.g. higher levels of penalty for larger businesses) under the updated LTAP..

Starting in 2010, TAK has included non-registration, non-declaration and under-declaration risks within its Risk Response Plan (dim. iii) and has conducted compliance visit activities to begin addressing those risks. More effective follow up of late filers was introduced during

2013 through a process of automatic notices, followed by personal contact (initially by phone, using the newly established Call Centre noted in PI-13 (ii)). Such actions have the effect of putting potential non-compliers on notice that the probability of enforcement of penalties for non-compliance has increased.

Kosovo Customs

A major change since the 2009 PEFA assessment was the amendment in 2012 to the Customs Code whereby the minimum fines for customs offences were reduced to €500 from between €5,000-€10,000. Custom officials considered this change appropriate and fairer to businesses. Of the € 680 million fines/penalties levied in 2012, only 40% had been collected. Uncollected cases are sent to the local courts, where extensive delays are experienced in executing decisions on collection. Businesses can continue their importing operations until a court decision is made. However, under the strengthened registration control regime (dim. (i)) they cannot continue to avoid payment of custom liabilities through the creation of new companies legitimately registered by other persons equipped with new business numbers (from MTI), new VAT certificates (from TAK) and new export-import certificates. This is because the FN is now the prime control instrument and is taxpayer-specific.

The annual report of KC for 2014 suggests that the penalty system is becoming more effective. Total revenues increased by 3.8% in 2014 over 2013, whereas fines and confiscations increased by 27%, though these remain less than 1% of total KC revenue. Nevertheless, corruption and evasion remained an issue in 2014, according to the report, indicating that the penalty system lacks full effectiveness. The value of identified evasion was €11.4 million, of which €1.8 million worth of assets was sequestrated and €0.2 million worth of goods was confiscated.

Score B

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

TAK

Most taxes are paid through self-assessment, indicating the need for a high degree of voluntary compliance and for a robust tax audit process to be in place to help guard against non-compliance. PI-13 assesses the extent to which TAK encourages voluntary compliance.

The audit process was in the process of becoming more risk-based at the time of the 2009 assessment and has strengthened significantly since then. The audit process costs tax payers money, so the risk-based approach focuses on the areas where the collection/audit effort ratios are likely to be high. A 'Risk Audit Selection Model (RASM))' was developed during 2008 to select companies for audit based on risk levels assessed under the programme (using various financial performance indicators such as turnover rate, debt levels). An IMF mission noted the need for TAK HQ staff to play a stronger role in providing policy direction to regional TAK offices, playing a control and monitoring function and strengthening risk analysis techniques, and to play a smaller role in the technical aspects of auditing. Cases were still being selected at the regional level at the discretion of the local manager. Auditors were still being allocated more or less evenly between the regions irrespective of different levels of compliance risk between regions.

TAK's Compliance Strategy for 2012-2015 (published September 2011), prepared with the assistance of IMF, effectively implements the RASM. TAK's Strategic Plan (2010-2015) focused on compliance issues but did not provide a comprehensive compliance strategy. The Strategy was operationalized through the development and implementation of annual Risk Response Plans (RRPs) with focus on 10-13 priority risk areas. The process is managed by a Risk Management Unit (RMU) in TAK HQ which was established in late 2011. Areporting system was developed for TAK staff as a measurement tool for recording progress in implementing the RRPs ('Audit Quality Measurement Programme'). TAK HQ prepared a comprehensive Taxpayer Audit Manual, and trained regional branch offices in its use The RRPs apply to individuals who are in business as well as corporate businesses. The numberof audit cases selected using the model has progressively increased with about 2/3rds of audit cases now being selected that way. Starting in 2014, the list of entities to be audited is being generated automatically by the model.

Regional office taxpayer audit teams focus on VAT registered taxpayers, therebyfocusing on larger businesses outside of the largest 480 taxpayers which are covered by the Large TaxpayerUnit (LTU) in TAK HQ (these comprise about 8 percent of all taxpayers while paying about 70% of all tax revenues, excluding customs revenue). According to the Compliance Strategy, about two-thirds of 'natural persons' with FNs did not file returns in 2010. Most, if not all, of these fall outside the LTU, and tend to comprise mainly self-employed tradesmen and professionals.

According to the Compliance Strategy, fully establishing risk-based audits may take a few years, due to the learning process involved in identifying patterns and trends in taxpayer behaviour.

Average additional tax assessed per audit has increased over time, mainly due to the use of the RASM. Table 10 shows the amounts assessed and collected due to audit each year from 2012 to 2014.

Table 10: TAK: Amounts assessed and collected due to audit

	Number of companies audited		Value (€)	
	Target	Actual	Assessed	Collected
2012	250	213	2,432,378	368,405
2013	250	174	2,910,190	865,191
2014	200	177	2,424,853	1,113,906

In conjunction with these changes, the number of "audits" completed each year has deliberately been reduced and substituted by a significant increase in the number of compliance "visits". During 2012, 890 taxpayers were audited/visited and additional tax of €31.6 million was assessed. 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 voluntary compliers.

To supplement the RMU, an Intelligence Unit was created in TAK during 2012. TheIntelligence

Unit is part of the Tax Investigation Unit which was established under the LTAP (2010) 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 in general to RMU for future risk consideration.

While TAK has long used information available from Kosovo Customs and the Treasury in its compliance work, it now also 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.

Kosovo Customs

The introduction of the internet-based ASYCUDA World (AW) in 2012 has facilitated the audit work of KC. Transit documents can easily be scrutinized and unusual patterns detected. A Europe-wide System Electronic Exchange of Data (SEED) through AW also facilitates checking and audit work. In addition to the 'traffic lights' system already in place[19], a Blue Channel was introduced in early 2014, whereby pre-screened importers with a clean history (44 in total) can have their cargo checked and cleared in 30 minutes (also known as Post Clearance Inspection). Qualification for access to the Blue Channel depends not only on the credentials and past history of the importer itself, which may be good, but also on the perceived riskiness of the country from which the goods originated. China, Dubai and Turkey are perceived by KC to be high risk. According to the 2014 report, 13,000 checks were carried out in 2014, leading to 182 cases being selected for intervention and €1.3 million being collected, of which €0.6 million stemmed from earlier years. Most of the checks concern valuation issues, which can now be more easily resolved due to the introduction of the valuation module in ASYCUDA in 2014.

The establishment of AW and the introduction of state-of-the art IT-based checking devices (e.g. scanners, CCTV with assistance from the US Government) appear to be making a big difference to the effectiveness of KC's work. For example, effective 2014, clearance staff now all sit in a big room in KC HQ (known as Central Acceptance Office or Central Evaluation Unit) where they can see in real time what is going on in each of KC's border stations and what the status of the clearance process is. This process is now virtually paperless.

According to KC these improvements contributed towards an increase in revenue of 4% in 2014, even though the volume of imports fell by 4%.(also noted in KC's annual report for 2014).

As another example, the 180 Customer Warehouses in which importers have stored their goods pending clearance have been a vehicle for abuse in terms of attempting to delay paying duties. KC is scrutinizing these warehouses using the new technology and is making them reapply for use of the warehouses, with a view to having some of them closed down.

[19] Red channel, physical and document check. Yellow channel, document check.

PI-14	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
(M2)	**C**	**D+**	**B**	**Performance improved under all dimensions.**
(i)	**C**	**D**	**B**	***Performance improved, with registration becoming simpler and quicker.*** Much progress has been made in checking that all individuals/companies that should be registered for tax are in fact registered. Fiscal Numbers have replaced business registration numbers as the main taxpayer identifier. SIGTAS (TAK) and ASYCUDA World (KC) can communicate electronically with each other, enabling checking that importers have FNs. The lack of links with the unemployment agency and social security numbers implies the possibility that some potential tax payers may not be registered, particularly those who are unemployed or self-employed.
(ii)	**C**	**C**	**C**	***Performance unchanged:*** On the one hand, performance has improved due to: TAK: ability to take own enforcement actions, more effective follow-up on non-compliers, higher penalties for larger taxpayers; • KC: Importers now need FN, cannot avoid penalties through re-registration with MTI, level of fines sharply lowered to encourage payments, establishment of AW. On the other hand, the abolition of IRB and its replacement by the basic court system has made it more difficult for TAK and KC to enforce penalties. The processes are slower, partly due to judges and lawyers not being familiar with tax laws. Non-compliers have an incentive to use this system as they can delay payments.
(iii)	**C**	**C**	**B**	***Performance improved.*** • *TAK*: Compliance Strategy 2012-2015, creation of Risk Response Units in 2011, covering individuals in business as well as corporate businesses. Full establishment of risk-based audits may take a few years, due to the learning process involved in identifying patterns and trends in taxpayer behaviour. • *KC*: Establishment of AW (2012) and creation of Blue Channel (2014) and Post Clearance Control unit (2015) have strengthened audit effectiveness.

3.4.1.3. PI-15: Effectiveness in collection of tax payments

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

The Treasury monitors tax arrears on the basis of information is provided by TAK and KC, using their internal monitoring information systems.

The total stock of end-year tax arrears decreased during 2010 – 2012 but increased during

2013-14.

Table 11 summarizes the tax arrears situation. Beginning of year arrears averaged 242.5 million in 2013-2014, while collection of arrears averaged €55.6 million, representing a collection ratio of only 23%. Arrears include penalties and interest. Total arrears have oscillated between €228 million and €265 million since 2009, the arrears collection ratio hovering around approximately 23%. The arrears owed to KC are much lower (2.6% and 0.4% of collections in 2013 and 2014 respectively) than those owed to TAK (76.3% and 93% of collections respectively in 2013 and 2014) and collection rates are much higher (87.6% and 30% in 2013 and 2014 respectively) than those of TAK (21% and 18.8% in 2013 and 2014 respectively). This is partly because of the nature of customs operations at border posts and the strengthened collection methods described in PI-14.

The above figures and percentages are not 100% reliable in the case of KC, which is in transition to an upgraded system.

Table 11: Stock and collection of tax arrears (€ millions)

	Total collection (A)	Arrears (beginning of year) (B)	C = B/A	Arrears collection during year (D)	Collection ratio E=(D/B)
2013 Total	**1,104,843**	**228,618**	**20.7%**	**62,683**	**27.4%**
TAK	270,763	206,600	76.3%	43,400	21.0%
Customs	834,080	22,018	2.6%	19,283	87.6%
2014 Total	**1,141,157**	**256,552**	**22.5%**	**48,602**	**18.9%**
TAK	272,587	253,500	93.0%	47,700	18.8%
Customs	868,570	3,052	0.4%	902	29.6%
Average	**1,123,000**	**242,585**	**21.6%**	**55,643**	**22.9%**

Sources: MoF (Treasury), TAK & KC.

TAK. In November 2011, for the improvement of tax collection, TAK established a **Call Center** in November 2011 (noted under PI-13) as part of its taxpayer education programme. TAK has used the Centre for making calls to tax debtors owing between €300 and €3,000 and has had some success in strengthening arrears collection. Despite these efforts, TAK arrears/collections ratios have increased (to 93% in 2014 from 76% in 2013) while arrears collection rates, already low, fell further in 2013 and 2014 (21% tp 18.8%).

The figures imply a rapid aging of arrears. As of December 31, 2013, the amount of arrears over 2 years old was over € 150 million, representing 73% of arrears. 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) is about € 80 million. Under the new law on debt forgiveness (see PI-13), Government Decision 3/16 approves the forgiveness of tax debt outstanding up to the end of 2009.

More than half of the "old debt" cases concern debts of less than €200. As these cases of old debt are written off, the tax arrears position will become clearer allowing greater emphasis on "collectable" debt. So far, political issues have hindered TAK management from taking this action. An IMF tax mission in 2012 discussed this issue with the Office of the Auditor-General, which agreed to assist TAK in resolving this situation (also refer to PI-13, dim. iii).

In 2013, TAK upgraded its IT-based tax administration system, SIGTAS. The system is operational in Pristina and all the regional offices. The upgrading enables the automatic generation of phone call lists, with names and phone numbers of people who have missed their declaration filing and/or the payment due dates and the issue of automatic reminders to these taxpayers, whether by letter, e-mail and/ or SMS message (note the reference above to the Call Center established in November 2011).

TAK has improved its ability to take enforced collection action against publicly- owned enterprises. It recently created a small unit in its Enforced Collection Unit (in H Q) to specifically focus on issues surrounding the tax debts of socially-owned enterprises, publicly-owned enterprises and budget organizations.

TAK HQ has also assisted regional staff to improve the enforced collection mechanism in the field, through the completion of, and training on a Collection Handbook. The Handbook and an additional pamphlet for tax debtors has been distributed to the regional offices, complementing enforcement collection provisions.

Kosovo Customs

As noted under PI-14 and above, KC is less exposed to arrears and has better procedures in place for arrears collection, causing a large fall in the burden of arrears. According to the Customs Code, the applicable taxes to imports must be paid before goods are released, unless there is a positive economic impact of releasing prior to payment, as defined by the 2008 Customs Code. Most arrears consist of un-paid fines that are levied on importers. Since 2009, according to the 2008 Customs Code, imports are no longer blocked, if fines are not paid. Customs are transmitting to the court the cases of importers that are not paying their fines. As noted under PI-13 (iii) and PI-14 (ii) the effectiveness of the court system is questionable.

About 50% of due to KC represents excise duty due on gambling operations. Strictly speaking, these do not fall under KC's remit, but it was provided with the responsibility for collecting the excise duties as the officers wear uniforms. Since 2014, KC has been confiscating illegal slot machines, contributing to a sharply higher rate of debt collection.

Another recent development is KC is now allowed to make agreements with debtors about how much debt they should pay, based on a realistic assessment of ability to pay

Ongoing and planned activities

Currently, TAK is envisaging the following actions for the improvement of arrears' collection:

- Full use of SMRM: Since 2014, a new application for managing cases of mandatory collection (SMRM) has become fully operational and is helping to strengthen the effectiveness of the Mandatory Collection Unit. This tool enables the identification of activities undertaken by officials from the Mandatory Collection Unit, from the beginning till the end of the entire process of tax debt treatment. It also strengthens the ability of managerial staff to monitor and supervise the activities of the unit.
- Intensification of the use of the Risk Treatment Plan. Since 2013, TAK has been working on a Risk Treatment Plan, which includes tax arrears as a specific risk. Once finalized, this plan will be disseminated to all central and regional offices and specific

training will be organized (also refer to PI-14 iii on the strengthening of tax audit activities).

Score D

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

The process of transfer of taxes collected to the STA has not changed, since the 2009 PEFA assessment, but the timing has improved from 48 hours to 24 hours. Taxpayers make their payments into commercial banks accredited by the Treasury (with the exception of public institutions, which pay daily directly into the Central Bank of Kosovo (CBK). The banks then transfer the payments to the STA, which is held by the Treasury in CBK).

Since 2012, many accredited commercial banks have been offering their customers the possibility to pay their taxes electronically. This arrangement, following TAK's successful introduction of e-filing (PI-13), is available to all taxpayers.

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 the 2009 PEFA report.

TAK has a module for reconciling taxes assessed and actually paid. The system automatically identifies taxes paid or due, distinguishing between what is due and what have become arrears. Tax debts become arrears 60 days following the due date: VAT is due the 20th of each month and personal income tax is due the 15th day of each quarter. Each month and at the end of each fiscal year, total arrears are calculated and disaggregated by category.

Reconciliation is conducted by KC between its collection of customs and excise duties and VAT with assessed amounts. The process is somewhat easier than for TAK as imported goods have to clear Customs and arrears are thus much smaller than for TAK and easier to monitor. Nevertheless, KC is in the process of strengthening the system (refer also to PI-14).

Reconciliation of taxes and customs duties (including penalties) paid into commercial banks and receipts of these into STA held by Treasury in the Central Bank of Kosovo (CBK) conducted daily by the Treasury. .

Score A

Ongoing and planned activities

Currently, TAK is envisaging the following actions for the improvement of arrears' collection:

- Full use of SMRM: Since 2014, a new application for managing cases of mandatory collection (SMRM) has become fully operational and is helping to strengthen the effectiveness of the Mandatory Collection Unit. This tool enables the identification of activities undertaken by officials from the Mandatory Collection Unit, from the beginning till the end of the entire process of tax debt treatment. It also strengthens the ability of managerial staff to monitor and supervise the activities of the unit.
- Intensification of the use of the Risk Treatment Plan. Since 2013, TAK has been

working on a Risk Treatment Plan, which includes tax arrears as a specific risk. Once finalized, this plan will be disseminated to all central and regional offices and specific training will be organized (also refer to PI-14 iii on the strengthening of tax audit activities).

PI-15	Score 2007	Score 2009	Score 2015	Assessment
(M1)	**C+**	**D+**	**D+**	**Overall performance unchanged, but improvement under (ii)**
(i)	**C**	**D**	**D**	***Performance unchanged.*** The average debt collection ratio in the two most recent fiscal years 2013 and 2014 was 22.9%, while the total amount of tax arrears was a significant 21.6% of total annual collections (Table 11)....
(ii)	**A**	**A**	**A**	***Performance improved***. The score should have been B in 2009. All tax revenues are paid into accredited commercial banks, the transfers to the Treasury being made daily, instead of 48 hours, as was the case under certain circumstances in 2009.
(iii)	**B**	**A**	**A**	***Performance unchanged.*** The reconciliation of taxes paid into commercial banks and STA's receipt of them is performed daily. Complete reconciliation of tax assessments and collections, taking arrears into account, is conducted monthly by TAK and KC. TAK's IT system automatically identifies taxes paid or due, distinguishing between what is due and what has become arrears.

3.4.2. Budget execution and cash/debt management

3.4.2.1. PI-16: Predictability in the availability of funds for commitment of expenditure

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

The Treasury department within the Ministry of Finance is responsible for the payment of expenditures, budget execution monitoring and cash management. It monitors revenues and expenditures, makes cash forecasts, manages debt, and ensures the availability of funds for the execution of the approved budget.

MOF's Regulation (Administrative Directive) issued at the beginning of the new financial year on the allocation of funds - NR. 03/2014 - defines the process for allocation of funds to BOs according to Article 34 of LPFMA and the annual budget laws. All BOs are required to prepare and submit their cash plans, based on their cash flow forecasts, to the Treasury within 30 days of the adoption of the Law on Budget (usually near the end of the current fiscal year). The forecasts contain monthly planned expenditure commitments, associated payments, and own-source revenues (OSR) and are inputted into the Treasury's Cash Plan database package that was acquired in 2011 (instructions in the use of this are described on MoF website20).

These projections are then reviewed by the Division of Cash Management in the Treasury

[20] Cash plan software is published on the MoF website: http://mf.rks-gov.net/sq-al/departamentet/departamentiithesarit/softveriperplaninekeshitdhetehyrave.aspx

Department, which itself prepares monthly forecasts of revenues and other financial resources in conjunction with the macro department in MoF and the revenue agencies. The Treasury then informs all BOs on the planned allocation of funds to them during the year and registers these in KFMIS. The Treasury prepares monthly and quarterly updates of the cash flow forecasts on the basis of revised expenditure and OSR forecasts submitted by BOs and on revenue performance to date. In this way it manages the allocations of funds to BOs during the fiscal year. The OSR are allocated after the funds are made available in the STA, the concerned BOs being required to notify Treasury of any change in their cash flow plan if OSR receipts are different than forecast.

Score A

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

In accordance with the cash flow plans submitted by the BOs, the Treasury allows them to commit funds for expenditures for up to 12 months in advance, depending on the type of expenditure (e.g. longer time horizon for planned capital expenditure). Expenditures can be committed in more than one installment, depending on the corresponding agreements/contracts, within the annual budget allocation limits. Unlike planned expenditure commitments financed by allocations from Treasury, those financed by OSR can be carried over to the next year. Own-source revenues are those raised directly by state and/or local governments, or other agencies allowed to raise funds and comprise about 2% of total revenue; less than 25% of this has on average been carried forward. . OSR funds are recorded in KFMIS when they are actually collected. .

In practice, the Treasury uses transparent cash control mechanisms during periods of cash flow problems. It neither delays printing of cheques or payment orders to suppliers for centrally-administered purchases, nor delays transfer of funds to BOs accounts for which cheques have already been written by them.

Score A

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

The Treasury only introduces changes to budget allocations when they are initiated and requested by BOs, 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 by the LPFMA, which clearly defines mechanisms for the approval of such adjustments and their prioritization.

Usually, MoF conducts a review of the budget in June. In case of major changes needed, a second budget review can occur at the demand of BOs or the MOF. Such changes may be due to changes in the economic situation of the country, resulting in revenue and/or expenditure performance being different than projected. BOs submit their requests for adjustments to MOF. Agreement by MoF to these results in a proposed adjusted budget law being prepared by MOF, and sent to the Assembly for approval.

The GoK can approve minor adjustments or reallocations, smaller than 5% per economic category without the Assembly's approval via an adjusted budget. In 2012, GoK approved €41.2 million worth of 141 budget adjustments between economic categories in this way. In 2014, 163 budget adjustments were similarly approved for a total of €31.5 million, representing about 2.5% of the approved budget.

Score A

PI-16	Score 2007	Score 2009	Score 2015	Assessment
(M1)	**B+**	**A**	**A**	**Performance unchanged**
(i)	**B**	**A**	**A**	***Performance unchanged***. As in 2009, a cash flow forecast is prepared for each fiscal year, and is updated monthly, considering actual cash inflows and outflows.
(ii)	**A**	**A**	**A**	***Performance unchanged***. The Treasury uses transparent cash control mechanisms, so that BOs are able to plan and commit expenditure for up to 12 months in advance, in accordance with the budgeted appropriations.
(iii)	**B**	**A**	**A**	***Performance unchanged***. Significant in-year adjustments of budget allocations take place only once or twice a year through an adjusted budget presented to the National Assembly for approval and are realized in a transparent and predictable way. Frequent minor reallocations (not exceeding 5% of the allocated amounts) between expenditures categories or BOs are authorized by LPFMA.

[8]Cash plan software is published on the MoF website: http://mf.rks-gov.net/sq-al/departamentet/departamentiithesarit/softveriperplaninekeshitdhetehyrave.aspx

3.4.2.2. PI-17: Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting

This dimension was not applicable at the time of the 2009 PEFA assessment. Kosovo gained access to funding from borrowing at the beginning of 2010 following the enactment of the Law on Public Debt (03/L-175, 2010). Consequently, the Debt Management Unit (DMU) was established within the Treasury, responsible for debt management, recording and reporting, using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).

The total debt of the Republic of Kosovo represents 10.75% of GDP, of which 52.7% represents external debt. Major external lending institutions include the IMF, the WB and the German Bank for Development. Domestic borrowing is mainly from commercial banks and pension funds, through the issuance of treasury bonds.21

The DMU keeps satisfactory debt data records, including the following: stock and service

[21] Local governments are not allowed to contract debt, unless they satisfy minimum criteria, which include at least two consecutive unqualified external audit reports. Only two municipalities are fulfilling these criteria

of state debt, its composition (domestic and external by creditor), currency risk, interest rate risk, refinancing risk, and debt ratios such as Debt/GDP. The data are updated and reconciled with creditors monthly. Once a year, DMU conducts full debt data reconciliation with all international creditors.

With regard to domestic debt, CBK is GoK's fiscal agent that manages the central depository securities system (CSD). After each auction of Government Securities, CKB sends Treasury an XML file, through CR-DRMS. This data is also reconciled by DMU.

Treasury routinely prepares comprehensive management and statistical reports, covering debt service, stock and operations and including various debt sustainability indicators. Quarterly reports are submitted to the Minister of Finance and also to the IMF and are regularly published on the MoF website. MoF also reports monthly to the Minister of Finance, the reports being of internal use only and thus not published (over the duration of the Stand-By agreement with IMF, which ended 2012, GoK was required to provide monthly debt reports to IMF).

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 to be adequate.

Score A

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

As was the case at the time of the 2009 PEFA assessment, GoK maintains a Single Treasury Account (STA) used for the management of all Government transactions. All government bank accounts are known, since they are sub-accounts of the STA (including government controlled project accounts, including grants). There are not extra-budgetary funds, anymore. The STA and all its sub-accounts and the cash balances are consolidated on a daily basis by the Monitoring team, within the Treasury.

Score A

(iii) Systems for contracting loans and issuance of guarantees

Under the Law on Public Debt (LPD), the MoF issued secondary legislation in 2013 on State and Municipal Debt and State Guarantees: "Regulation GRK - No. 22/2013 on Procedures for Issuance and Management of State Debts, State Guarantees and Municipal Debts". It issued further secondary legislation in 2014 on GoK securities: "Regulation MoF-CBK No. 01/2014 For the Primary and Secondary Market of Government Securities of the Republic of Kosova.".

The above-mentioned legislation provides GoK with the authority to borrow money, pay debt service and make loan guarantees, this authority being vested with the Minister of Finance. Loans must be contracted for a clear purpose (Article 3 of LPD clearly outlines criteria and purposes for which the State debt can be incurred.) and there must be limitations to the incurring of debt in the interests of fiscal sustainability (Article 5). These limitations are clear and stipulate that the total stock of short-and long-term debt, including guarantees, should not exceed 40% of GDP immediately preceding the issuance of debt. The LPD also foresees the appropriate corrective measures in a case whenthis ratio is exceeded.

GoK tries to keep fiscal deficits in line with the 40% limit. To this end, the LPFMA was amended on March 29, 2013 through the establishment of a rules-based fiscal framework that establishes the maximum fiscal deficit at 2% of GDP, as agreed with the IMF (World Bank - Kosovo Country Profile, 2015).[22] According to 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.

All new debt incurred by GoK has to be included in the budget and approved by the Assembly. Any financing agreement has to be signed by the Minister of Finance and sent to the Assembly, where it becomes a State law.

In support of preserving fiscal sustainability, as now legally defined, MoF prepares an annual Debt Strategy (on MoF's website) using the debt data generated by DMU. The Strategy includes targets for domestic and external borrowing. It is submitted to the Assembly for information purposes only.

Ongoing and planned activities

At the time of the PEFA field work, an IMF mission was in Pristina to discuss a possible new financial support programme, one of the elements being a possible relaxing of the 2% of GDP fiscal deficit limit.

Score A

PI-17	Score 2007	Score 2009	Score 2015	Assessment
(M2)	**A**	**A**	**A**	**Performance unchanged under dim. (ii). Dims (i) & (iii) were not scored in 2009, as Kosovo had no debt.**
(i)	**N/A**	**N/A**	**A**	In line with the 2010 Law on Public Debt, domestic and foreign debt records are complete, and updated and reconciled monthly by DMU with the help of debt management software. Comprehensive management and statistical reports are prepared monthly and quarterly.
(ii)	**A**	**A**	**A**	***Performance unchanged.*** All government TSA sub-accounts are well monitored, including government controlled project accounts, and all cash balances are calculated and consolidated on a daily basis.
(iii)	**N/A**	**N/A**	**A**	GoK contracts loans and issues guarantees against transparent criteria and fiscal targets, and which are always approved by a single responsible government entity, the National Assembly. The amendment to LPFMA in July 2013 added teeth to the 2010 Law of Public Debt by specifying a maximum fiscal deficit/GDP ratio of 2%.

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

[22] Law No. L-194, 12th July 2013 on "Amending and Supplementing Law No. 4-048 on Public Finance Management and Accountability Amended and Supplemented by Law 03/L-221 and Law 04/4-116. The Law provides some flexibility on how to react to business cycle dynamics that might lead to the limit being temporarily exceeded.r bound.

3.4.3. Internal controls

3.4.3.1. PI-18: Effectiveness of payroll controls

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

Payroll control has become more effective since 2012 due to two events:

- The commencement of the establishing of a Human Resource Management System (HRMS) in Ministry of Public Administration (MPA) during 2014. Once fully established, it will not be possible for anyone to be employed in GoK without the approval of MPA. and the new employee being registered in HRMS. The MPA approves the new vacancy in the HRMS and then BOs start the process of recruitment, while being monitored by the HR Department in MPA. This would prevent BOs from hiring people who have not been processed through HRMS and would reduce the risk of payroll overruns relative to approved personnel budgets.
- The relocation of the payroll division from MPA to MoF in 2014. This has allowed Financial Administration Departments in BOs to send the monthly payroll electronically and directly to MoF, where the payroll division can process monthly payrolls for payments through KFMIS.
- Both these events have significantly increased the degree of integration and reconciliation between: (i) the 'establishment list', maintained in MPA and personnel records maintained by BOs; and (ii) these personnel records and the payroll.
- Full reconciliation will be achieved once HRMS has been fully established and electronically linked with both the personnel records of BOs and the payroll system.
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Supported by the World Bank, MPA selected a company in early 2013 to establish an IT-based HRMS in MPA. Under the system in place until recently, BOs have manually been submitting monthly payroll change requests to the payroll division in MPA, which was not in a position to determine whether the requests were based on valid personnel records. There was no robust mechanism for *ex-post* reconciling of the newly run payroll with last month's payroll; hence D ratings for this dimension in the 2007, 2009 and the 2013 PEFA assessments.

Implementation of HRMS started in 2014. The system is being implemented in modules, the recruitment module being the first to be functionalized fully. This means that no BO can announce a vacancy without it being approved centrally by the MPA and recorded in the system.

This development has improved the tracing of the vacancies and personnel records both at the level of the MPA and BOs. In time, all modules of HRMS will be established. Personnel records of BOs, not just those of new recruits, would match exactly the information contained in the HRMS, thus enabling reconciliation between the personnel records of BOs and the data in HRMS.

At the time of this PEFA assessment, the HRMS is not yet linked to the payroll system, now located in Treasury. Full electronic linkage is planned to be achieved during 2015, which remains to be seen in practice. Until this integration happens, the BOs are using the payroll system and the HR management system separately.

In relation to the payroll system, steps have been taken since the 2009 assessment to enable BOs to update and report their payroll lists to the payroll system. This is easier now, since the recent transfer of the payroll division in MPA to MoF. The Financial Administration Departments in BOs have full access to personnel files, financial reports and payment orders and thus can electronically report changes in personnel records directly to Treasury rather than having to go through MPA. This has greatly reduced discrepancies between payroll lists and the personnel lists held in BOs. The meeting that the assessment team held with both Payroll Division at Treasury and HR division in MPA revealed a large fall in the number of discrepancies, with only occasional discrepancies now being reported.

Score C

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

BOs generally respect general procedures for managing personnel registry and payroll changes. The Payroll Division, now located in the Treasury, collects personnel lists from all BOs by the 11th of each month. By the 18th, these data are input into the payroll database and between the 20th and the 23rd of the month the payments lists are calculated and prepared. By the 23rd of each month, Treasury is provided with the final payroll list to process salary payments. Changes that 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. 6 million total retroactive payments were EUR 1,4 million, or 0.34%.

The situation has essentially not changed since 2009 in terms of the procedure for updating the personnel records. Full linkage between the payroll database and HRMS hasn't been implemented yet, such linkage would lead to improved timeliness of changes. The scoring remains the same.

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 have improved since the 2009 PEFA assessment, due to the move of the payroll division from MPA to Treasury in 2014.

The changes made by BOs to personnel records are usually confirmed and authorized by a human resource officer within each BO's Department for Administration. All changes to personnel files are recorded in HRMS and a full audit trail is kept for every change. However, since the rollout of HRMS is still being implemented, some BOs continue to keep their data on excel sheets, in which case changes to personnel records do not leave an audit trail.

With the payroll system now located in the Treasury, amendments to personnel records made prior to the 11th of each month are sent to the Payroll Division at Treasury for incorporation in the payroll. This is done electronically by each BO.

After that, in principle the personnel office in individual BOs verifies the payroll bill provided by the Treasury 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 check to assure MoF that the money is being paid to the right person.

The OAG report on 2013 cites the implementation of the HRMIS and the training of civil servants in its usage as a positive development in terms of human resource management at central government level. (pp.30).

Furthermore, since the transfer of the Payroll Division to the Treasury, automatic communication between the payroll system, KFMIS and the Central Bank has been enabled thus greatly improving budgetary control in the processing of the payroll, which was identified as one of the key issues in the 2009 PEFA assessment.

It is now possible to generate a full audit trail between systems thus greatly reducing the possibility of errors. After each execution of payroll, a full report is generated by both KFMIS and the Central Bank enabling identification of potential mismatches. During the team's meeting with both officials from Treasury and Payroll division, no systemic issues of communication between systems were reported.

However, the OAG report of 2013 warns that there are still cases of salaries being paid directly through KFMIS without going through the Payroll, a practice that could indicate the need to strengthen controls in this area.

It is hoped that the full implementation of the HRMIS will lead to greater internal controls and would address the current weaknesses.

Score B

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

The OAG conducted the last payroll audit in 2007 and 2008, as highlighted in the 2009 and 2013 PEFA assessments. Since then the OAG, has not been performing regular periodic audits of the payroll system. During the team's meeting with OAG, the Auditor General noted that the payroll is not considered a high risk area, The 2013 OAG audit of consolidated financial statements, besides the remark already mentioned in dim. (iii), had no remarks related to the payroll and personnel management. Earlier OAG reports had pointed out risks in the payroll, thus indicating that control weaknesses had diminished.

Instead, the OAG conducts an audit of the payroll function as part of their regular BO audits. Until lately payroll was audited as part of MPA but it will now be audited as part of MoF.

The 2013 OAG audit of consolidated financial statements, besides the remark already mentioned under dimension (iii) has no remarks related to the payroll and personnel management.

Score C

PI-18 (M1)	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
	D+	D+	C+	**Performance improved under (i) & (iii) due to implementation of new HRMS and transfer of the Payroll Division to Treasury from MPA** (MPA). Further improvement is in process as HRMS continues to be rolled out and eventually integrated electronically with payroll system.
(i)	D	D	C	***Performance improved due*** to: • Installation of HRMS in MPA and progress in updating personnel records in BOs. A BO cannot recruit someone without making a request through HRMS. Once MPA approves and registers the new vacancy in HRMS, BOs start the recruitment process, while being monitored by the HR Department in MPA. • Relocation of payroll division to MoF from MPA, enabling direct electronic contact between BOs and payroll system and a large reduction in payroll processing errors; BOs can compare their personnel records with those of the payroll data base..
(ii)	D	B	B	***Performance unchanged.*** The procedure of recording changes has remained the same since the 2009 assessment.
(iii)	D	D	B	***Performance improved due*** to transfer of the Payroll Division from MPA to MoF. This has automated the process of transferring payroll-related data between BOs and the payroll system in Treasury. Mistakes are rare, but a proper audit trail now exists.
(iv)	D	C	C	***Performance unchanged.*** No direct payroll audit has been performed by OAG in the last three years. However, as part of the MPA audit the OAG has audited the payroll function as well. According to OAG payroll is not considered an area of high risk.

3.4.3.2. PI-19: Competition, value for money and controls in procurement

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

The public procurement legal and regulatory framework has improved considerably since the 2009 PEFA assessment. A new law entered into force on December 1, 2010. 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 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). In 2013 the Public Procurement Regulatory Commission (PPRC) issued a new Administrative Order, requiring BOs to have funds allocated before the signature of the contract. Furthermore, from May 2014 all contract announcements are checked by the PPRC thus lowering the use of discriminatory methods of procurement.

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 (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 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 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 > €1000.
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, as noted under dim. (iii); Article 39 on procurement plans; Article 42 on tendering opportunities and contract awards; Article 117 on complaints resolutions..
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 B

(ii) Use of competitive procurement methods

In 2013 there were 12,551 public procurement contracts awarded with total value of 444.2 million Euros. Open competition contracts constituted 88% of the total value of awarded contracts, whereas the use of negotiated procedures, especially those with no publication of contract notification, amounted to nearly 6% (Table XXX). 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 competitive[11] methods declined by about 6%. Although the value of contracts awarded with less competitive procurement methods has fallen slowly, the justification for using those methods remains an issue.

The PPRC does not have data on the number of contracts awarded with less competitive methods of procurement with reasonable justification.23 Under LPP, the competence and responsibility to initiate and approve a less competitive method of procurement was decentralized to each individual contracting authority, without any higher level approval required, as used to be the case prior to LPP. Contracting authorities are only required to inform PPRC on procurements and methods used. PPRC does not have the authority to determine if the justification for using less competitive methods of procurement is reasonable, and does not have any data to help it determine whether any such justification is valid. Contracting authorities are not required to submit such data. Such data are hard to find even at the contracting authority level. A procurement audit system has not been established and there are no plans to establish one.

[23] Negotiated after publication of contract notification, negotiated without publication of contract notification, price quoting and minimum value procedure.

Table 13: Contracts awarded by contracting authorities and procedures used during 2013

VALUE OF CONTRACTS SIGNED BASED ON PROCUREMENT PROCEDURES(€ millions)		
Procedure type:	**Value of contracts 2013**	**Value of contracts 2013 in %**
Open procedure	390.3	87.9%
Limited procedure	0.00	0.00%
Projection competition	734.8	0.2%
Negotiated after publication of contract notification	0.075	0.02%
Negotiated without a publicationof contract	24.9	5.61%
Price quotation	25.7	5.78%
Minimum value procedure	2.5	0.57%
Total:	**444.2**	**100%**

Source: PPRC 2013 Annual Report

Score D

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

I nformation on procurement plans

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.

The procurement publication system does not currently provide any information on future contracting opportunities. PPRC staff indicated that publishing future government procurement plans is not being considered as one of the things that might happen soon.

Tendering opportunities

According to PPL Article 42 all contracting authorities are required to publish contract and contract award notices. Such information is available from media publications and is regularly posted on PPRCs website, which contains a centralized electronic information system.

Contract Awards

Contract awards under any procurement method 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/

Three of the key procurement information elements are complete and made public on official government websites, thus justifying a B score..

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 theKosovo Assembly in 2008.

In 2013, the PRB received 537 complaints from economic operators, of which 465 were reviewed, 13 were refused due to their non-compliance with the legal time frame, 40 were withdrawn by economic operators beforetheir review started, and 19 were outside the scope of PRB's responsibility. .

Of the 465 complaints reviewed 181 were approved in favor of contracting authorities, 162 were returned for re-assessment to the contracting authorities, and in 104 cases the PRB annulled completely the procurement activity and retendering was advised by respective authorities.

Table 14 outlines the extent to which the PRB meets PEFA 2011 methodology criteria for an independent procurement complaints body.

Table 14: Assessment of fulfilment of criteria for an independent procurement complaints body

Criteria		Comments
1. The review bodv experienced familiar with the legal framework, and members drawn from the sector, civil societyand Government.	No	The PRB consists of the President and five Board members term of five years. Each member of the PRB is nominated by the and appointed by the Assembly based on a recommendation independent selection body established by the Assembly. serve as a review panel. 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 as noticed in the World Bank report13 (page sector and the law enforcement community raised concerns and appointments of Procurement Review Board members transparent". The PRB has 7 internal experts who contribute their expertise process and administration of civil servants. . The PRB has also available on needs basis. While in relation to the compositon of the panel board the have been met, the civil society and private sector are not review body.
2. The complaints review body is not involved in any capacity in procurement transactions or in the	Yes	None of the PRB members that serve on the review panels keep other Government position in the central or municipal level.
3. 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). However, the PRB considers that removing the fee would greatly increase the number of complaints which due to the shortage of staff it wouldn't be able to handle.
4. Complaints review body follows processes for submission and resolution of complaints that are defined clearly and	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

5. 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.
6. 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.
7. 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 D

PI (M2)	Score 2007 & 2009 PEFA	Score 2015 PEFA	Assessment
PI-19	**NA** *(Old method: 2007: D+ 2009: B)*	**C**	The assessment methodology changed in 2011. Scores assessed under the new methodology are not comparable with the previous methodology.
(i)	**NA**	**B**	**Legal & regulatory framework.** 5 out of 6 elements met. No legal step has been taken to make competitive procurement the default method of procurement.
(ii)	**NA**	**D**	**Justification for using non-competitive procurement methods.** The PPL requires justification for using non-competitive procurement methods, but it has not received any justification for using them. Over 90% of procurement is conducted using competitive methods.

PI (M2)	Score 2007 & 2009 PEFA	Score 2015 PEFA	Assessment
(iii)	**NA**	**B**	**Public access to complete, reliable and timely procurement** *3 out of 4 information elements met*. The public has access to tendering opportunities, contract awards, and complaints resolution data, but not GoK procurement plans.
(iv)	**NA**	**D**	**Fulfilment of criteria for an independent procurement complaints body** The PRB doesn't meet criterion (i), as it has no members from private sector and civil society Even though it meets the 6 other criteria it can't be scored higher than D.

[13] Country Fiduciary Assessment, World Bank, March 2012

3.4.3.3. PI-20 Effectiveness of internal controls for non-salary expenditure

Background

The public finance internal control function is defined in LPFMA (2003, as amended periodically since) and the Treasury Financial Rules and Procedures (2003, as updated periodically)), and is elaborated in the Public Internal Financial Control (PIFC) policy (2005). A Central Harmonization Unit for Financial Management and Control (CHU/FMC) was established in May 2006 within Treasury through a Treasury Regulation. The purpose of the CHU/FMC is to provide oversight and direction to the implementation of the PIFC policy. The EU's acceptance of Kosovo's desire to join it is conditional upon acceptable internal controls being in place at BO level in order to provide assurance to EU that it's pre-accession funding will be efficiently managed with low fiduciary risk to EU.

In Kosovo, PFM was at first mainly the responsibility of MoF, with BOs having limited PFM functions. Expenditure controls were delegated to BOs by Treasury (part of the PIFC policy) in 2010. BOs process the payments directly, which have ensured better internal control and a higher level of autonomy and accountability for BOs. These controls are executed through KFMIS, however, to which BOs are electronically linked. KFMIS is ultimately controlled by Treasury.

Other financial controls were, however, not delegated to BOs. The PIFC policy therefore provides for devolution of these functions to BOs. The process of devolution has been very slow, and still has some way to go, as exemplified through the recent issue by MoF of the PIFC Strategy, 2015-2019, 10 years after the issue of the PIFC policy. A major reason is that devolution of PFM reforms implies the need for considerable administrative reform in BOs (e.g. introduction of new responsibilities and duties), which experience in other countries has shown to be a slow process.24 Another reason is resistance to change, both on the part of MoF and BOs, also experienced in other countries.

The key objectives of the PIFC Strategy are (page 7):

1. *Controls over inputs and resources are integrated in the public finance management system and processes by 2017;*
2. *Managerial accountability on inputs and management of resources in place, verified by dedicated reports prepared by the managers of public funds by 2017 - 2018;*
3. *Risk management in place in each budget organisation, verifiable by risk management structures and reports by 2017;*
4. *Internal audit function adds value to the accountable management by providing risk focused assurance and advisory services, verifiable by economy, efficiency and effectiveness indicators by 2019.*

Given that public administration reform is a pre-requisite for internal financial control reforms, SIGMA was commissioned to prepare "Principles of Public Administration: Baseline Measurement, Kosovo". April 2015. The main conclusions (page 3) are:

- *The legal framework for public administration is in place to a large extent, but some legislative challenges remain.*
- *The institutional set-up is broadly in place, but the institutional structure is fragmented and does not define clear functions and accountability lines of administrative bodies. It has led to cumbersome administrative architecture which diminishes the efficiency of the administration and delivery of services.*
- *Co-ordination capacity remains a challenge for most institutions responsible for cross-cutting policies. Staff capacity, as well as the mandate of the Ministry of Public Administration for matters related to service delivery and accountability, leads to fragmented policy efforts and impedes efficient implementation. PAR co-ordinating institutions lack monitoring and supervision authority and capacity, leading to inconsistent implementation practices.*

(i) Effectiveness of commitment controls

Most of the financial controls are embedded in KFMIS ('FreeBalance"), established at about the same time as CHU: The budget execution controls are in hierarchical order:

- First: control at the level of *budget allocation* (authority to spend) to each BO.
- Second: control at the level of fund (cash) allocation to ensure that it is covered by the budgetallocation.
- Third: control at the *expenditure commitment* stage ensuring that commitments are within the budget allocations and that funds cannot be committed for expenditure if there is no budget allocation.
- Fourth: funds should be committed before the procurement process starts, In 2013 the PPRC introduced a new Administrative Instruction (AI) that strictly prohibits the signature of contracts without a proof of committed funds in the form of budget allocations (though this is already provided for in the Treasury Regulations and explained in Treasury Administrative Directives at the beginning of each year, as noted in the 2009 PEFA).

- *KFMIS itself cannot prevent BOs from making expenditure commitments manually*. It can only block a contract being entered into the system if there is no budget allocation for it. The BO must then request MoF for a budget adjustment (PI-16). Approval of this is not guaranteed, as it depends on the amount of uncommitted budget allocations ('free balance') of other BOs and on the revenue performance situation. Payment arrears will eventually arise if the request is not approved due to insufficient remaining uncommitted allocations.

  In support of the new AI, Treasury adopted a new Financial Rule for Public Expenses in 2013 (01/2013) dividing contractual liabilities and financial liabilities.

The annual reports of the OAG indicate that BOs do not fully comply with Financial Rules and Procedures, indicating that internal controls are not always followed, one result being payments arrears (PI-4). This situation has not changed since the 2009 PEFA. If anything, non-compliance with commitment controls has increased, as indicated by an increasing arrears/expenditure arrears ratio (PI-4).

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. The 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). A new version of KFMIS was introduced by Treasury in 2014, key features being enhanced efficiency and greater user-friendliness and thus easier for staff to understand.

By the end of 2014, 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, as of the end of 2013.

Table 15: Statistics of officers trained and certified in KFMIS modules by the end of 2013

MODULES	Number of officials trained and certified
Commitments	243
Procurement	254
Revenues	756
Assets	352
Reporting	143
Auditing	227
Received	273
Expenditures	305
Certifications	304
Allocations	49
MODULES	Number of officials trained and certified
Commitments	243
Procurement	254
Revenues	756

MODULES	Number of officials trained and certified
Assets	352
Reporting	143
Auditing	227
Received	273
Expenditures	305
Certifications	304
Allocations	49

In 2012, the CHU/FMC supported the senior managers of budget organizations in understanding their roles and responsibilities regarding the implementation of existing regulations. In 2014 CHU/FMC and CHU/Internal Audit were combined and 109 officers were trained in principles of internal audit.

An issue is the continual need for training due to staff turnover, which apparently is significant. Training costs money and apparently the continual need for training has put some strain on the budget for training.

In the interests of strengthening staff understanding of internal controls and compliance with these, CHU/FMC has been preparing 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.

The self-assessment checklist was put online at the beginning of 2015. . 83% of the 109 BOs has filled checklist.

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

As noted in the Background, Treasury Rules and Procedures govern the spending of public money. The rules governing registration of transactions are specifically provided in Financial Rule No. 2.

Budget organizations generally operate in accordance with Treasury Rules and Procedures in relation to financial management. OAG annual reports, the latest for which covers 2013, indicate some incidences of non-compliance with rules (e.g. signing of contracts prior to these being checked for compliance through KFMIS leading to delays in payments to suppliers (PI-4), large discrepancies in the asset registry[25], monthly salaries for a number of BO staff processed through KFMIS outside the payroll system). Despite efforts to strengthen compliance, incidences of non-compliance still occur.

[25] 30% discrepancy between value of assets contained in KFMIS and in an Excel file. As the accounting system is cash based the rules and controls over the registration of assets are not adequate.

Score C

PI (M1)	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-20	**C+**	**B**	**C++**	**Overall performance unchanged, but improvement under (ii) due to** training and certification of officers. The scores for dims. (i) and (iii) appear to have been too high
(i)	**B**	**B**	**C**	***Performance unchanged.*** The Treasury adopted new financial rules (01/2013) on public expenses thus tightening the controls. Also PPRC has issued new administrative instruction requiring proposed commitments being checked through KFMIS prior to signing contracts. However, data show incidences of unpaid bills due to rules and procedures not being complied with. This was also the situation at the time of the 2009 PEFA assessments, indicating that the scores for this dimension were too high.
(ii)	**B**	**B**	**A**	***Performance improved due to*** extensive training and certification of officers across line ministries. A new version of KFMIS introduced in 2014 has increased efficiency in transactions processing and staff understanding of KFMIS procedures. .
(iii)	**C**	**B**	**C**	***Performance unchanged.*** CHU/FMC is making progress in implementing the PIFC policy. For greater effectiveness, it was combined with CHU/Internal Audit in 2014. However, implementation is taking time resulting in continuing non-compliance by some BOs with rules and procedures, particularly in terms of controlling commitments, timeliness of payments and registration of assets (OAG Report 2013). The score in the 2009 assessment seems too high.

3.4.3.4. PI-21: Effectiveness of internal audit

(i) Coverage and quality of the internal audit function

The legal framework for the internal audit function derives from Section 8 of LPFMA (2003), which stipulates the establishment of an Internal Audit Unit for GoK under Ministry of Finance and Economy (MFE). 2009. This subsequently became the Department for Internal Audit, and then the Central Harmonisation Unit (CHU) for Internal Audit (CHUIA) in 2008.

A specific law on internal audit (Law 03/L-128) came into effect on 27 September 2009, with emphasis on audits based on International Standards for the Professional Practice of Internal Auditors (ISPPIA). A series of administrative guidelines and other legal acts were enacted for theimplementation of this law, as follows:

- Administrative Instruction (AI) No. 22/2009 on the establishment of criteria and procedure to obtain an interim license for public sector internal auditors;
- AI No. 23/2009 on the establishment and functioning of public sector internal audit units (IADs) in BOs;

- AI No. 11/2010 on the functioning of Audit Committees within private sectorentities;
- AI No. 05/2012 on the establishment of criteria and procedures 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. The CHUIA is responsible for the preparation of rules, policies, an Internal Audit Manual (2009), methodological tools, guidelines, and professional standards for the exercise of the internal audit function. It also provides a monitoring and quality assurance function through its review of audit reports submitted to it by IAUs.

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

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. Nevertheless, seven independent institutions, as per their request, are audited by the IA Department within the MoF.

According to the CHUIA Annual Report for 2014, the status of the IA function in 50 central budget organizations isas follows:

- 40 budget organizations have established IAUs[26]
- Total number of auditors is 149, of whom 65 were recruited since 2008
- Total number of trained and CIPFA certified auditors in accordance with International Audit Standards is 67. 64 internal auditors are in the process of certification;
- 49 budget organizations have established audit committees, half of them since 2008.

According to the Sigma Report 2014 and the PIFC Strategy approved by the Government of Kosovo in 2014, a challenge for the audit function remains greater focus on systemic issues. Even though through training and certification, auditors have started addressing systemic issues this is still in its early stages and requires improvement in the future.

In general, Internal Audit in Kosovo is functional and meets professional standards. Further expansion of the IA function into newly created institutions and more focus on systemic issues is required.

Score C

(ii) Frequency and distribution of reports

Each IAU submit the reports on each audit conducted to its senior management and to the BO's audit committee. The Law on Internal Audit (2009) does not require them to submit these reports directly to CHUIA. The IAUs are required, however, to prepare consolidated

[26] Office of President 1, Assembly 1, Prime Minister's Office 1, Ministries 18, Independent Agencies 10, and 6 audit units for specific budget programs in MoF, MoH and MIA

quarterly and annual reports of their audit findings and recommendations and to submit these to CHUIA. They submitted 38 quarterly reports to it in 2014. Reports are prepared according to a standard format prepared by CHUIA. Each report looks at the actual situation of a specific PFM function (e.g. procurement, asset monitoring), assesses whether procedures are being followed correctly and provides recommendations for improvements where warranted. The assessment team was provided with an example of a report.

These reports are used by the CHUIA to exercise its quality assurance function through monitoring the effectiveness of IAUs. The CHUIA does not have the resources to monitor all IAUs each year, but selects a number of IAUs to monitor on the basis of risk assessments, as informed by the quarterly audit reports submitted to it by IAUs. For each IAU it monitors, the CHUIA has direct access to the individual audit reports prepared by the IAU. During 2013 and 2014, ten such units in BOs were monitored, while during 2015, six such units were monitored.

Finally, CHU/IA drafts an annual report that consolidates the reports submitted to it by IAUs during the year and the monitoring work undertaken by it during that year. It delivers the report to the Minister of Financefor review. The report, with the comments of the Minister if any, is submitted to the Government, Parliament and OAG. The team was provided a copy of CHUIA's report for 2014.

Score A

(iii) Extent of management response to internal audit findings

In general, management's response to recommendations varies, but willingness to implement IAU recommendations has increased in recent years.

During 2014, 277 audits were carried out and 1456 recommendations were issued, of which 723 (49.7%) have been implemented. Recommendations in the process of being implemented amount to 438 (30%). The number of unaddressed/not-implemented recommendations was 295 (20.3%), with some provided only in the fourth quarter of 2014, their implementation thus expected to take place next year. 2014 was not a typical year. Due to the political standstill for six months, less importance was given to the implementation of IA recommendations.

Score B

An apparent anomaly in the development of the IA function is that it has proceeded faster than the implementation of the PIFC policy (PI-20). The main purpose of the establishment of an IA function is to check that internal control systems are working satisfactorily. This presumes that such systems have been established in BOs through the devolution of PFM systems from MoF, but this is still work-in-progress, as indicated in the PIFC Strategy for 2015-19. The usual sequence in other countries is for internal control systems to be first established in line ministries and then IA units installed to audit them (with auditors to be trained and certified beforehand).

PI-21 (M1)	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
	C	B+	C++	**Performance unchanged. Performance has improved under dims. (i) and (iii).but not by enough to increase the scores. ..**
(i)	C	B	C	***Performance unchanged.*** IA is operational in all BOs, except newly established ones. Auditors are making progress on focusing on systemic issues and complying with professional standards, but this is still in its early stages.
(ii)	C	A	A	***Performance unchanged.*** Each year, IAUs conduct audit of PFM functions in the BOs under which they fall and submit a report containing their findings and recommendations to their senior management. The IAUs prepare quarterly consolidated reports on these findings and recommendations and submit them to CHUIA. As part of its quality assurance function, CHUIA then monitors selected IADs (based on risk analysis) in detail and prepares an annual consolidated report for Minister of Finance, who then submits it to Parliament with comment.
(iii)	C	B	B	***Performance unchanged.*** The management of BOs is paying increasing attention to IA reports. In some cases, however, findings are not addressed in a timely manner, resulting in repeat findings in subsequent reports. Hence, the score remains at B. *Note: The scoring criterion for B is: "Prompt and comprehensive action is taken by many (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 are realized through a Single Treasury Account (STA). The STA comprises a "main account", and various other sub-accounts. The sub-accounts were created for each budget organizations that collect public revenues within the STA. The purpose of this arrangement was for easier revenue identification and reconciliation. Funds from all sub-accounts are transferred daily to the main Treasury account. The TSA sub-accounts are classified as follows:

- Sub-accounts for revenues' collection from budget organizations and
- Sub-account for trusted money and external funds.

Revenues are deposited directly to the STA or to commercial banks in Kosovo licensed by the Treasury. Payments from taxpayers and other revenue collections made into any of the licensed banks are transferred to the relevant STA sub-account identifying the relevant BOs. All invoices issued by tax or revenue collecting BOs have a code bar allowing the Treasury to identify the origin and the budget category of each payment.

Payments for expenditures for all BOs are paid directly out of the STA "main account".

The TSA, including all its sub-accounts, is reconciled on a daily basis by the Reconciliation Unit, within the Treasury. The Treasury Department submits all sub-accounts reports to the revenue collecting Budget Organizations (central and local level), electronically, on a daily basis. These reports 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 to reconcile Treasury records in KFMIS on a quarterly and a yearly basis.

Overall, the TSA reconciliation is satisfactory. Some minor unreconciled amounts are usually identified and they are mainly related to payments' returns, including the related bank commissions. There is a specific procedure established for the daily accounts' reconciliation and all the accounts are reconciled usually within the same day. Thus, the reconciliation process is performed in a very transparent and timely manner and always within a 4-week period from the end of each reconciliation period, 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

This dimension evaluates the clearing and reconciliation of suspense accounts and advances, including petty cash use for small cash payments. Advances include travel advances and operational imprests, but not budgeted transfers to autonomous agencies and subnational governments.

Currently, the Treasury does not hold any suspense accounts to manage public money. Instead, the Treasury has opened specific TSA sub-accounts for advances and petty cash management for BOs.

Advance payments are provided mainly for travel purposes, including those for petty cash, and are managed through a specific budget category of goods and services. The petty cash advances are based on BOs' requests for petty cash needs.

Payments from petty cash are recorded on a daily basis. Petty cash is used for payments smaller than 100€ for small repairs, spare parts (not covered by general maintenance contracts), postal fees, and advances for travel expenses. The Head of the Finance Office or Cashier of each BO must provide daily reports to the Finance Department for BOs' accounting and reporting purposes.

Travel advance payments are based on official and approved travel agendas and regularized as expenditures after the travel is completed, upon presentation of documentation of expenses. The reconciliation of advances is now automatic and obligatory, due to an agreement between each commercial bank and the Director of the Treasury. Replenishment of these advances is preceded by the documentation and reconciliation of the payments made out of previous advances. At the end of each month, all available or undocumented funds are refunded to the STA.

The 2009 PEFA scored this dimension with a B providing conflicting information about this dimension: "*Clearance of advances is performed twice a week*" and "*Reconciliation and* *clearance of suspense accounts and advances take place at least annually within two months of end of period*". This seems to have been erroneously copied from the 2007 assessment, however, when there were some suspense accounts related to donor projects. The score should have been A.

Score A

PI-22	Score 2007	Score 2009	Score 2015	Assessment
(M2)	**B**	**B+**	**A**	**Performance unchanged.** The score for dim. (ii) should have been A in the 2009 assessment**.**
(i)	**B**	**A**	**A**	***Performance unchanged*****.** Bank reconciliation for all central government bank accounts takes place daily due to the STA system.
(ii)	**B**	**B**	**A**	***Performance unchanged.*** The score should have been A in the 2009 assessment as suspense accounts were no longer being used and clearance of advances was weekly. This is still the situation.

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 in terms of service delivery, financing, budgeting, and reporting. Municipalities are primarily financed by GoK through specific operating grants. In addition, certain activities – such as major capital investment and pharmaceutics distribution –are conducted by responsible line ministries within specifically designed programs within their budgets.

Education departments within municipalities possess information on resources budgeted for and received by individual schools by type of school under their jurisdiction. This was made possible by an initiative developed in 2009 under a World Bank-financed project to decentralize budgets to individual schools. Full implementation started in 2009-10. The annual municipal budget circulars issued by Ministry of Finance contain a specific section on 'Budgeting at school level'. In practice, however, schools have not had the capacity to manage the execution of the procurement-related components of their budgets, the municipal departments instead managing the procurement on their behalf. Municipal departments execute their budgets through KFMIS in the same way that BOs do and therefore generate budget execution reports in the same way. The national government Department of Education also generates reports, as it is ultimately responsible for monitoring expenditures by municipal governments of the resources provided to them through the annual specific grants for education

Similar decentralization has not yet taken place for primary health care service delivery units. This had been planned to start in 2015, but has not yet done so. Health departments of municipalities do not as yet possess a budget plan explicitly disaggregated by service delivery unit. However actual expenditure per secondary delivery unit is recorded in accordance with the accounting registry in KFMIS, which allows the generation of data for individual health care units.

Component 6 of PI-10 on information available to the public on the publicization of resources available to primary service delivery units did not meet the criterion for 'Yes': it was available for education but not for health, Information and details on the resources made available through 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 receipt of goods that is signed by the spending units. Municipalities do not receive reliable reports of such physical resources received by health and education service delivery units, but the information is available from the centrally managed pharmaceutical programme and the heating oil company. The information is not compiled into formal reports, although it could be.

PEFA assessments of PFM systems were conducted for 5 Municipal Governments in 2011 – Pristina, Podujevo, Vushtri, Mamusha and Shterpce. The ratings for PI-23 were all B for much the same reasons indicated above.

PI	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-23 (M1)	**D**	**D**	**B**	**Performance improved in terms of education service delivery units to which budget management was decentralized during 2009-10.** These can therefore prepare their own budgets and in principle prepare in-year and annual budget execution reports through KFMIS in the same way that BOs do. In practice, however, municipal education departments are executing the non-salary components of these budgets on their behalf and prepare budget execution reports accordingly through KFMIS. The KFMIS-generated reports on primary schools are backed up by the reports prepared by the central government Department of Education, which provides most of the funding for primary education through a specific grant. Similar decentralization is being planned for primary health service delivery units.

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 STA and KFMIS allow access to and production of live budget data. Budget organizations are connected to KFMIS for the budgeting, accounting, and reporting functions, enabling the generation of accurate budget reports throughout the year, for the purposes of management and reporting on public finances. The system allows comparison of the original budget estimates, with the latest information on allocations, commitments, actual expenditures, budget balance and employment, in line with LPFMA requirements. The classification of data allows direct comparison to the original budget. The information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. The Treasury prepares quarterly and monthly in-year financial reports through KFMIS.

Score A

(ii) Timeliness of the issue of reports

The Treasury prepares consolidated (individual reports on BOs are aggregated) monthly and quarterly budget execution reports. The quarterly reports are issued within 4 weeks of end of period, while the monthly ones within 2 weeks of end of period. The monthly reports are intended for internal MOF use, while the quarterly reports are also sent to the Assembly, in accordance with the requirements specified in Article 45 of LPFMA (as amended in 2008). Then they are published by the Minister of Finance and are available on MOF's web site. Reports provide full coverage of the budget execution status.

Score A

(iii) Quality of information

The quality of the information contained in the reports is generally good. The information is based on already registered budget and budget execution data contained in KFMIS (including also Own Source Revenue (OSR) and its spending), and is in compliance with the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash basis of Accounting".

The findings contained in the annual reports of the Auditor General apply also to the quarterly and monthly financial reports. While these reports do not express material concerns regarding data accuracy, the 2013 report indicated some weaknesses in the Annual Financial Statements (AFS) that also impact on the in-year financial statements, as follows:

- Some incomplete assets' consolidation processes in the preparation of the AFS were observed: In some cases, BOs wrongly disclosed the assets' gross value instead of their net value.
- While there is a difference between the value of third party payments in the consolidated AFS of central government and individual AFS' of BOs, this difference is not material.
- Intergovernmental transactions between the central and municipal governments are not consolidated in the AFS, resulting in an overstatement of values concerning these transactions;
- The Privatization Agency of Kosova (PAK) did not present professional fees paid for the privatization of Socially Owned Enterprises (SOEs) amounting to €4 million.
- Incorrect economic classification codes are still used to some extent in budget documentation leading to incorrect recording of actual expenditures. These are at detailed disaggregated level within broad economic classification codes (e.g. misclassification of items under 'purchases of goods and services') and thus do not impact on economic classification at broad level.

Some of recommendations contained in the OAG report for 2013 have been implemented and most of these issues have been resolved.

Score B

On-going and planned activities

The quality of data has improved, relative to the 2009 report, though not by enough to increase the score. The Treasury is considering the following further improvements.

- It will proceed with an update of the chart of accounts in 2016. In this way the intergovernmental transactions will not appear in the AFS, but will be presented as a disclosure in the Notes to the AFS;
- The accounting, reporting and monitoring divisions within the Treasury have been strengthened recently through the addition of more staff: accounting (3), reporting (3) and monitoring (3).
- Further training on IPSAS.

PI-24	Score 2007	Score 2009	Score 2015	Assessment
(M1)	**B+**	**B+**	**B+**	**Performance unchanged**
(i)	**B**	**A**	**A**	***Performance unchanged.*** Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages
(ii)	**A**	**A**	**A**	***Performance unchanged.*** Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period
(iii)	**A**	**B**	**B**	***Performance unchanged.*** The quality of information has improved and there are no material concerns regarding data accuracy. However, some issues remain unresolved. Treasury says it is taking steps to resolve these..

3.5.4. PI-25: Quality and timeliness of annual financial statements

(i) Completeness of the annual financial statements

The consolidated annual financial statements (AFS) are prepared by the Treasury, in accordance with the LPFMA requirements, which sets the time for annual reports' submission to the SAI and the accounting and reporting standards to be used.

The AFS are prepared in compliance with International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting Under Cash Basis of Accounting". The team's assessment is based on its review of the reports of the Office of the Auditor General (OAG) for 2011, 2012 and 2013, The three main financial statements audited by OAG are: (i) Statements of receipts and payments in cash; (ii) the Consolidated statement of the comparison of the budget with the execution of the budget; and (iii) the consolidated statement of the assets in cash and balance of funds.

The report considers: (i) whether these statements present, in all material aspects, a true and fair view of finances and the financial situation for the audit period (i.e. the audit opinion); and (ii) whether measures have been taken by the Government for implementing the recommendations of the Auditor General for the previous year.

The audited AFS also include the OAG's opinion on the robustness of internal controls, internal audit, and public procurement, recommendations for the year and follow-up on the previous year's recommendations.

The OAG reports for 2011-13 confirm that the AFS were prepared in compliance with IPSAS-cash and the local laws and regulations, thus enabling an unqualified audit opinion, in accordance with the International Standards for Supreme Audit Institutions (ISSAI 400). The OAG report on 2013 contains an Unmodified Opinion, with an Emphasis of matter (unqualified exception), related to ineffective processes in individual BOs for identifying assets' values and incomplete asset consolidation processes, resulting in assets not being included in AFS (for example, the consolidated value of third party payments differed from the sum of the values of BO third party payments; in 2013, MoF issued clear guidelines for the treatment and presentation of third party payments).

The compilation of AFS on the basis of IPSAS-cash means that the AFS do not contain accrual-type items, notably liabilities and non-financial assets. Nevertheless, compliance with IPSAS-cash requires that these be disclosed in the form of notes annexed to the AFS. This seems to be the case, as noted under dim. (iii), although there are shortcomings.in recording and management on the non-financial assets side, as noted in the 'Emphasis of Matter' above. On the liabilities side, Table 8 in the OAG report for 2013 shows total end-year liabilities of the central government and individual BOs. Disclosure is important as understatement of non-financial assets would complicate reconciliation of records of capital expenditure with recorded changes in physical assets, while understatement of liabilities would result in the government's debt situation (both contractual and non-contractual) being understated as per the individual BO AFS). .

Score A

(ii) Timeliness of submission of the annual financial statements

The AFS are prepared and submitted to GoK and OAG according to Article 46 of LPFMA, which sets a deadline of 31 March of the following year. The annual consolidated AFS have always been prepared and submitted to GoK and the OAG within this time limit, as shown in Table 14.

Table 14: Dates of submission of annual financial statements to OAG

Fiscal Year	Submission to the OAG
2012	20 March 2013
2013	20 March 2014
2014	20 March 2015

Score A

(iii) Accounting standards used

MoF is responsible for the preparation of the AFS of the consolidated budget (LPFMA Articles 43 & 45). Article 18 of the 2008 amendment of LPFMA stipulates that the AFS should be prepared in accordance with IPSAS-cash. The OAG reports on 2011, 2012 and 2013 indicate that this was the case. Full compliance with IPSAS requires full disclosure of non-cash items, namely assets and liabilities. This is also the case. Annex 9 of the AFS disclose financial liabilities owed by BOs in the form of unpaid invoices and Annex 6 of the AFS presents non-financial properties (assets), including the purchase value, depreciation and net value. Starting with Note 25 of the 2014 Annual Financial Statements (unaudited), they include end-year stocks of formal debt owed to external and domestic creditors

Score A

PI-25	Score 2007	Score 2009	Score 2015	Assessment
(M1)	A	A	A	**Performance unchanged for dims. (i) and (ii) and improved under dim. (iii).**
(i)	A	A	A	***Performance unchanged.*** The consolidated AFS are prepared on a cash basis, and include full information on revenue, expenditure and cash balances. There are some weaknesses in consolidation and assets monitoring, but they do not represent material misstatements.
(ii)	A	A	A	***Performance unchanged*****.** The AFS are submitted to OAG within 3 months of end of each fiscal year.
(iii)	A	A	A	***Performance improved. .*** GoK was not borrowing at the time of the 2009 PEFA assessment so disclosure of formal public debt was not an issue. The score would have been C if Kosovo had been borrowing. Starting with Note 25 of the 2014 AFS (unaudited), end-year stocks of debt owed to external and domestic creditors have been disclosed. Thus, t AFS became fully compliant with IPSAS-cash in terms of disclosure requirements regarding non-financial assets and financial liabilities.

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)

The Office of the Auditor General (OAG) was established by UNMIK Regulation nr. 2002/18, which defined authorizations, responsibilities, and general standards for auditing the public sector. Under law 03/L-075 enacted in June 2008, the OAG received more power and now reports to Kosovo Assembly. Section 2 of the law provides complete discretion and independence to the Auditor General in exercising his/her functions and powers. Nevertheless, the Auditor General is not yet financially independent of the executive branch of government in contravention of one of the international audit standards established by the International Organisation of Supreme Audit Institutions (INTOSAI).

The OAG is now responsible for auditing of government performance funded through the consolidated budget (central and local governments), as well as public enterprises.

The AFS of the Kosovo Consolidated Budget (KCB, representing the consolidation of the central government (also referred to as Government of Kosovo (GoK) and municipal governments) are audited annually y OAG. These audits comprise almost 100% of the budget with the exclusion of the budget organizations excluded by law (i.e Kosovo Intelligence Agency). The coverage has increased from the 80% coverage reported in the 2009 PEFA assessment. The AFS are prepared for the central and municipal governments combined as the transactions of both levels of government are conducted though the STA. The most recent audit report covers fiscal year 2013.

Auditing is conducted in accordance with public sector international auditing standards (ISSAIs) issued by INTOSAI, as indicated on page 10 of the OAG report on the 2013 fiscal year. The OAG conducts: (i) financial audits (whether the financial information contained in financial statements is accurate and consistent with the financial reporting and regulatory framework; (ii) compliance audits (whether processes and transactions are compliant with relevant laws and regulations); and (iii) performance audits (value for money in the use of resources). Financial and compliant audits taken together are known as 'regularity' audits.

OAG audits the consolidated AFS, prepared by MoF, the individual AFS prepared by BOs and the compliance by BOs with laws and regulations. The bulk of audit activity still comprises regulatory audits.

Score A

(ii) Timeliness of submission of audit reports to legislature

The Auditor General's report on the AFS of the KCB was submitted by GoK to the Assembly on 17 September 2013. The report was submitted by OAG to GoK at the end of August in line with LPFMA, 5 months after their receipt from MoF. This was also the case in the 2 previous years.

Score B (an A rating requires submission of the audited financial statements to Parliament within 4 months of their receipt by the OAG).

(iii) Evidence of follow up on audit recommendations

The OAG annual reports (both on the consolidated AFS and on individual BOs) include a section on the extent that the recommendations that it issued in the previous report have been followed up on in terms of implementation. The OAG's report on the AFS of KCB for 2012 fiscal year made ten recommendations. Out of these, 2 were fully addressed, 2 were partially addressed, and 6 others were not addressed at all. While the OAG tracks the implementation of the recommendations, there is no mechanism that assures that the government implements them. The individual BOs prepare action plans to address audit recommendations and discuss these with OAG. Nevertheless, there is still no effective follow-up mechanism to ensure that the recommendations are implemented.

The onus is increasingly on the Budget and Finance Committee in Parliament to issue recommendations to the BOs in line with the OAG reports and to check that these are implemented, as discussed under PI-28.

Score B

Ongoing and planned activities

A new law is being prepared that would provide greater independence of OAG in terms of reduced reliance on the executive branch of government for financing and staffing.

PI (M1)	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-26	**D+**	**B**	**B+**	**Performance improved mainly due to increased audit coverage.**
(i)	**C**	**B**	**A**	***Performance improved,*** mainly due to an increase in audit coverage to almost 100% of expenditures of BOs from 80% at the time of the 2009 PEFA**.** Performance audits are also now being conducted in BOs.
(ii)	**C**	**B**	**B**	***Performance unchanged.*** The audit report on the KCB annual financial statements are submitted to the Assembly by the deadline of 31st August, as mandated by LPFMA, 5 months after receipt of the consolidated AFS from GoK (within 4 months required for A score)..
(iii)	**D**	**B**	**B**	***Performance unchanged.*** OAG audit recommendations are implemented to some extent, but there is no effective formal mechanism for ensuring implementation

3.6.2. PI-27: Legislative scrutiny of the annual budget law

(i) Scope of legislative scrutiny

The LPFMA provides a clear role for the legislature for reviewing the budget document submitted by the Government. The Rules of Procedure of the Assembly delegate the responsibility of such review to the Committee of Budget and Finance (CoBF). The review includes discussion of budgetary and financial issues, examining the impact of the budget draft laws in the first year and subsequent years, and reviewing the expenditures of independent organizations that report directly to Parliament.

Since the 2009 PEFA assessment, the CoBF has also been reviewing the MTEF that is presented to the Assembly in April each year at the beginning of the budget preparation process. The MTEF is not a formal part of the budget yet, but it provides the Assembly with an opportunity to review the GoK's strategic priorities that will be addressed in the preparation of annual budgets. The MTEF for 2016-18 (published in April 2015), in addition to presenting GoK's strategic priorities (elaborated on under PI-12) also contains a medium term macro-fiscal framework that provides a useful analytical backdrop that facilitates review of the draft annual budget that is submitted later in the year. Finally, it provides a medium term budget expenditure framework that provides projections of expenditures in terms of broad economic classifications (e.g. wages and salaries and capital expenditures) and the analysis that underpins these (also discussed under PI-12).

Score A.

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

The BoFC operates under the well-established Rules of Procedures of the Assembly, under which it is delegated the responsibility for reviewing the annual draft budget. 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.

The new Chairman of BoFC has started initiatives to work with the Committee of Oversight of Public Finance (CoPF) that was established in 2010, so that they can work more closely with each other. However there is no planned involvement of the functional committees such as Economic Development, Health or Education.

Score B

(iii) Adequacy of time available for the Assembly to provide a response to budget proposals).

According to the LPMFA, 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. The 2012 Budget was submitted on 31 October 2011, the budget for 2013 was submitted on 29 October 2012 and the budget for 2014 was submitted on 30th October 2013. The time for review is actually longer, as the MTEF is reviewed in April. At the time of the 2009 budget, the draft budgets were being submitted in November, thus providing less than 2 months for review.

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. The mid-year budget review process results in reallocations between BOs, but during the last three budget cycles many reallocations occurred outside of the mid-year budget review process.

In response to the necessity to reduce aggregate under-spending some special provisions on the rules on budgetamendments have been introduced into the Annual Budget Law. As a result, the Minister of Finance, with the approval of the Government, may, during the last three months of the fiscal year, transfer funds from BOs that tend to underspend to those that tend to need more funds. . Under this provision, the transfer can reach up to 5% of the total budget of the respective BO without requiring the prior approval of 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, a B score is justified.

PI (M1)	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-27	**B+**	**C**	**B+**	**Performance improved due to submission of MTEF to the Assembly in April each year and the draft annual budget law being presented to the Assembly prior to the end of October.**
(i)	**B**	**C**	**A**	***Performance improved.*** The MTEF is submitted to the Assembly in April. This was not the case at the time of the 2009 assessment. The MTEF contains GoK's strategic priorities, the medium term macro-fiscal framework, and the medium-term budget framework. It is a useful document that facilitates review of the draft budget later in the year. .
(ii)	**A**	**B**	**B**	***Performance unchanged.*** The BoFC and CoPFhave agreed to further cooperation in budget oversight. However, the effect of this agreement has to be seen in future.
(iii)	**B**	**B**	**A**	***Performance improved.*** Two months are available for discussing and approving the budget in the assembly. The time was less than 2 months at the time of the 2009 assessment.
(iv)	**B**	**B**	**B**	***Performance unchanged.*** LPFMA provides for clear rules for in-year amendments and they are well respected by the Government. However, they allow for 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)

During the last three years audit reports were reviewed by the Assembly of Kosovo within three months from their receipt. The reports were reviewed by the relevant committees, including the CoPF, and were then discussed at a plenary session of the Assembly of Kosovo.

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

- For 2011: received on 31 August 2012; discussed and approved on November 8, 2012.
- For 2012: 17 September 2013; discussed and approved on 15 November 2013.
- For 2013: received on 23 December 2014; discussed and approved on 14 May 2015.

The timeliness of the discussion of the OAG report on the 2013 AFS was delayed, thus the score B is justified.

Score B

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

Since the 2009 PEFA assessment, the Assembly has established the CoPF which began operating in 2010. The role and responsibilities of the committee is to attempt to strengthen GoK accountability for the expenditure of public money. The CoPF consists of 9 members representing political parties in the Assembly, and is chaired by the largest oppositionparty.

The CoPF initially examines and then discusses the external audit reports on the consolidated AFS during special plenary sessions of the Assembly. The Auditor General and the Finance Minister or his/her representative is usuallypresent. Members of C0PF and other members of the parliament actively participate in discussions.

For the most recent 2013 audited financial statements, CoPF 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 theAuditor General, Anti-Corruption Agency, and Association of Kosovo Municipalities. This is now a consistent practice which is held every year and includes also members of the media and civil society.

Score B

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

The establishment of CoPF in 2010 indicated marked 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 CoPF has begun issuing specific recommendations to BOs within prescribed time limits for implementation. The main recommendation is that the BOs should prepare and submit action plans to address the OAG findings. The implementation of these action plans is further discussed in committee sessions. These sessions are conducted only with the presence of the responsible Ministers and not any other lower level staff from the Ministry.

The work of CoPF is conducted in close cooperation with civil society and representatives of the media, thus further increasing the pressure on the Government to respond to the deadlines set by CoPF. The current deputy chairman of the committee (former chairman) has demonstrated examples of institutions that have been responsive or have not been responsive. For example, the Kosovo Judicial Council was very timely and precise in implementing its agreed action plan and reporting back to CoPF. On the other hand, Radio Television of Kosovo did not respond to the requirement to prepare and implement an action plan to address the findings of the OAG.

While the work of COPF with individual BOs has improved in the last couple of years, it has not placed any requirement on the Government to prepare action plans to address the recommendations of the OAG contained in its reports on the annual financial statements of the Government..

Score B

PI (M1)	Score 2009 PEFA	Score 2015 PEFA	Assessment
PI-28	**C+**	**B**	**Performance improved due to the** establishment of the Committee for Oversight of Public Finance (COPF) in 2010. .
(i)	**A**	**B**	***Performance fell due to*** delays in discussing and approving the audit report for 2013 (5 months after receipt).
(ii)	**C**	**B**	***Performance improved due*** to the establishment of the COPF by the Assembly of Kosovo that holds extensive hearing with officers from audited institutions. However, the coverage of institutions is limited.
(iii)	**C**	**B**	***Performance improved.*** The COPF started issuing recommendations to BOs in 2012 on addressing OAG findings and asking them to report back with action-plans to address them. The majority of BOs have complied with this requirement and have reported back to the committee

3.7. Donor Practices

3.7.1. D-1 Predictability of direct budget support

Direct budget support has been zero over the last few years, so this indicator is not applicable to this assessment. The GoK's recurrent budget is financed almost entirely by its own revenues and privatization receipts. The last disbursement of EU budget support was in 2010 (€ 30 million). The 2013 PEFA self-assessment shows €37.4 million disbursed as budget support in 2010, but the funds actually represent disbursements under the World Bank-funded Public Sector Modernization Project, and therefore do not constitute budget support.

The rating in the 2009 assessment was D.

PI	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
D-1 (M1)	**NR**	**D**	**NA**	**Not applicable**. Budget support has not been provided since 2010.
(i)		**D**		
(ii)		**D**		

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**

Management of donor aid programmes has undergone institutional change since the 2009 PEFA assessment. The Department for Development Support in the Ministry of European Integration (MEU) was established in 2010 to coordinate donor assistance to Kosovo. It took over this responsibility from the former European Integration Agency. It organized the development of an IT-based Aid Management Platform (AMP), into which donors are supposed to enter their planned and actual spending; AMP replaced 'RIMS', which was a centralized data base.

In practice, both donors and the line ministries that they are supporting through projects/programmes appear to only pay lip service to AMP. Planned spending, if it is entered, tends not to be integrated with GoK's budget preparation process, partly because donors claim that they cannot integrate their processes with those of GoK's as their fiscal calendars are not the same as GoK's. Planned spending may even be entered into AMP after the new fiscal year has started. Ministries, such as Ministry of Education, don't get around to reminding donors of their reporting responsibilities. Records of actual spending tend not to follow the GoK's schedule of budget performance reports, for the same reason, or because donors do not get around to reporting. No data validation mechanisms are in place in AMP. MEI still has concerns about the quality, reliability and timeliness of the data entered into AMP. There is no electronic link between AMP and the budget management systems in MoF.

In practice the importance of this issue has diminished considerably over the last few years, as most aid is now provided through technical assistance. The EU and USAID (e.g. its TA projects in MoF) have tended to represent the largest aid donors (about 60%).

The only exception is financing from the EU 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 Kosovo.

Score D, unchanged from the 2009 PEFA assessment.

D-2	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
(M1)	**NR**	**D**	**D**	**Performance unchanged.** Since the 2009 PEFA, some institutional changes in the management of donor aid programs have been made. These changes improved ex-post reporting on donor activity, but didn't help the planning and budgeting process.
(i)		**D**	**D**	***Performance unchanged.*** Donors continue to provide only limited information that GoK can use for the budget planning process.
(ii)		**D**	**D**	***Performance unchanged.*** All donors are required to report their projects' commitments, disbursement plans, and other project relevant information. These data are reported as official by MEI, but concerns remain as to their quality, reliability and timeliness. To date there are still no mechanisms in place to validate the data. An electronic link between AMP and the budget management systems in MoF is not yet in place.

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 nationalprocedures

Only donor funds channeled through the Treasury and processed through the KFMIS are considered to have used national procedures in terms of payments and expenditure reporting. Donor agencies continue to use their own procedures for expenditure management, procurement, accounting and audit. Budget support (which uses country systems by definition) is currently not being provided and EU-designated grants, which use country systems to an extent, comprise less than 10% of total aid.

Score D

PI	Score 2007 PEFA	Score 2009 PEFA	Score 2015 PEFA	Assessment
D-3	**NR**	**D**	**D**	**Performance unchanged.** Most aid funds continue to be managed in accordance with procedures established and required by donors

Section 4: Government Reform Process

Current status of PFM Reform

PFM reform has been taking place for many years and PFM systems have strengthened considerably as a result, as evidenced by 3 PEFA assessments and outlined in the annual MTEF documents. Development partners have played a strong role through technical assistance and continue to do so. The Ministry of Finance has played a strong role in leading the PFM reform process. Budget Organisations appear to be supportive and appear to have adapted well to the changes in processes, particularly for those relating to budget preparation, execution, accounting and reporting (high ratings in the relevant PEFA indicators). The Office of the Auditor General is clearly doing a good job, as evidenced by the quality and timeliness of its reports. The National Assembly appears very supportive, judging by the volume of PFM-related laws that it has debated over the last several years.

PFM issues remain in some areas, as noted in this PEFA report: tax and payments arrears, , non-compliance with Treasury Regulations in some areas, inadequate implementation of internal and external audit recommendations, slow implementation of the PIFC Strategy. Progress towards developing a fully-fledged MTEF seems to be slow, but this tends to be the case in many countries that are still focusing on getting their annual budgets and budget execution systems right.

Challenges

Strong public administration systems and high quality human resources are pre-requisites for strong PFM systems, as recognized by GoK and the EU. A major challenge is to strengthen these areas. Implementation of the Public Internal Financial Control (PIFC) Strategy, which involves continued devolution of PFM responsibilities to BOs, contains a large element of public administration reform (PAR). Implementation is still in its early stages and faces complex challenges mainly because many changes need to be made that are difficult to organize and manage and may meet resistance from those who are reluctant to change.

The European Commission (EC) has strengthened its focus on public administration reform (PAR) in the "Enlargement Strategy and Main Challenges 2014-2015" by outlining six key issues of reform. The OECD-based SIGMA recently prepared an assessment of public administration in Kosovo. GoK performs quite well in some respects, but the report identifies areas where strengthening would be desirable (more detail provided under PI-20 in Section 3).

PFM Reform Action Plan (PFMRAP)

*T*he PFMRAP, published in November 2009 on the basis of the 2009 PEFA assessment, seems to be the main GoK document that specifically focuses on PFM reform. This is a detailed document that outlines activities that should be undertaken in order to increase PEFA scores. The proposed activities are grouped under five 'platforms', the building of platform 1 enabling the construction of platform 2 and so on. The platform approach is well-known in PFM circles. It conceptually incorporates a sequencing approach to PFM reform. The platforms are:

(i) ***Platform 1***: A Credible and Sustainable PFM Policy Setting Process;

(ii) Platform 2: A Credible Budget Development Process, which delivers reliable and predictable resources;

(iii) Platform 3**:** Improved budget execution and controls, including internal controls and accountability;

(iv) Platform 4: Improved linkages between policy and priority setting, managing for program results, and budget planning and implementation.

(v) Platform 5**:** Integration of accountability, review, and policy setting processes, regarding both financial and program performance management.

Ultimately, though, the myriad of planned actions under each platform just outline what needs to be done in order to increase scores under each PEFA PI dimension, with little sense of priorities and logical sequencing. The PEFA assessment team noted that GoK wants to use the same approach in terms of the 2015 PEFA assessment.

This approach seems to be too mechanistic. The process of PFM reform involves prioritization and sequencing, taking into account institutional and human resource capacity constraints and political economy factors. PEFA assessments say little about these. Low scores in some areas do not necessarily mean that relatively large amounts of effort have to be made in order to improve scores. Some low scores are more important than other low scores. For example, actions to further strengthen internal controls should have relatively high priority as they provide the foundation for other reforms. PEFA assessments can certainly inform the preparation of PFM reform programmes and Action Plans, but these should not be based entirely on PEFA scores.

In the context of the EU enhanced approach to economic governance as one of the three pillars of the EU enlargement strategy, GoK was invited starting from January 2015 and on an annual basis to prepare a medium-term Economic Reform Programme (ERP). GoK prepared and submitted the first ERP to the EC in the end of January 2015; it consists of 2 parts: part 1 describes the macroeconomic and fiscal framework, and the reform underpinning the macro/fiscal strategy, including PFM. Part 2 lists a number of flagship measures planned to achieve the economic policy objectives set out in part 1. However, there is little reference to PFM reform

Annex 1: PI 2 Tables.

2012 Euro millions						
Budget Organisation	**Budget**	**Actual**	**Adj. budget**	**Deviation**	**Abs. dev.**	**%**
1.Assembly	16,082,651	16,474,020	15,016,257	1,457,763	1,457,763	0
2. Office of President	2,600,365	1,422,994	2,427,942	1,004,948	1,004,948	0
3. Prime Minister Office	9,785,107	8,860,111	9,136,285	276,174	276,174	0
4. Ministry of Finance	32,025,360	27,383,746	29,901,852	2,518,106	2,518,106	0
5. Ministry of Public Administration	20,968,935	16,806,664	19,578,546	2,771,882	2,771,882	0
6. Ministry of Agriculture and Rural Development	21,409,230	22,423,823	19,989,646	2,434,177	2,434,177	0
7. Ministry of Trade and Industry	6,889,467	4,188,781	6,432,647	2,243,866	2,243,866	0
8. Ministry of Infrastructure	279,221,941	280,049,594	260,707,548	19,342,047	19,342,047	0
9. Ministry of Health	88,588,425	87,276,486	82,714,385	4,562,101	4,562,101	0
10. Ministry of Culture, Youth and Sports	18,266,154	16,319,665	17,054,979	735,314	735,314	0
11.Ministry of Education, Science and Technology	40,984,755	45,999,308	38,267,175	7,732,132	7,732,132	0
12.Ministry of Labor and Social Welfare	212,181,578	204,478,112	198,112,436	6,365,676	6,365,676	0
13.Ministry of Enviroment and Spatial Planning	66,870,416	50,338,480	62,436,434	12,097,953	12,097,953	0
14.Ministry of Communities and Returns	7,179,045	6,282,829	6,703,023	420,195	420,195	0
15. Ministry of Local Governance	6,769,058	5,752,498	6,320,221	567,723	567,723	0
16.Ministry of Economic Development	39,190,345	41,956,043	36,591,747	5,364,295	5,364,295	0
17.Ministry of Internal Affairs	99,236,383	89,204,437	92,656,308	3,451,870	3,451,870	0
18. Ministry of Justice	19,169,427	16,230,248	17,898,358	1,668,110	1,668,110	0
19. Ministry of Foreing Affairs	16,243,583	14,589,691	15,166,518	576,827	576,827	0

20.Ministry of Security Force of Kosovo	35,801,832	33,008,268	33,427,917	419,649	419,649	0
21. All Other Votes (Residual)	91,983,493	67,378,762	85,884,336	18,505,574	18,505,574	0
Total expenditure, excl. reserve/contingency	1,131,447,550.00	1,056,424,560.01	1,056,424,560	-	94,516,381	
Reserve/contingency	11,950,000.00	11,950,000.00				
Total expenditure, incl. reserve/contingency	1,143,397,550.00	1,068,374,560.01				
Total expenditure deviation (PI-1)						6.6%
Composition (PI-2) variance						8.9%
Reserve/contingency share of budget						1.0%

2013 Euros millions						
Budget Organisation	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**%**
1.Assembly	16,810,692	17,301,343	15,132,209	2,169,133	2,169,133	14.3%
2. Office of President	1,876,504	1,474,314	1,689,142	- 214,828	214,828	12.7%
3. Prime Minister Office	11,341,006	9,051,500	10,208,650	- 1,157,150	1,157,150	11.3%
4. Ministry of Finance	32,649,476	29,819,740	29,389,552	430,189	430,189	1.5%
5. Ministry of Public Administration	32,290,835	18,386,831	29,066,719	- 10,679,888	10,679,888	36.7%
6. Ministry of Agriculture and Rural Development	23,359,230	22,471,301	21,026,901	1,444,400	1,444,400	6.9%
7. Ministry of Trade and Industry	7,098,318	5,346,217	6,389,578	- 1,043,361	1,043,361	16.3%
8. Ministry of Infrastructure	310,862,339	265,158,778	279,823,931	- 14,665,154	14,665,154	5.2%
9. Ministry of Health	106,795,857	99,059,788	96,132,702	2,927,086	2,927,086	3.0%
10. Ministry of Culture, Youth and Sports	19,153,208	14,369,183	17,240,834	- 2,871,651	2,871,651	16.7%
11.Ministry of Education, Science and Technology	45,705,848	43,387,755	41,142,295	2,245,460	2,245,460	5.5%
12.Ministry of Labor and Social Welfare	222,509,372	228,709,395	200,292,668	28,416,727	28,416,727	14.2%
13.Ministry of Enviroment and Spatial Planning	41,887,745	45,487,230	37,705,415	7,781,815	7,781,815	20.6%
14.Ministry of Communities and Returns	7,179,045	6,567,575	6,462,245	105,330	105,330	1.6%
15. Ministry of Local Governance	5,993,623	4,877,197	5,395,183	- 517,986	517,986	9.6%
16.Ministry of Economic				-		0.6%

Development	41,100,590	36,780,567	36,996,854	216,287	216,287	
17.Ministry of Internal Affairs	100,084,794	92,173,665	90,091,713	2,081,952	2,081,952	2.3%
18. Ministry of Justice	18,600,089	16,514,390	16,742,942	-228,552	228,552	1.4%
19. Ministry of Foreing Affairs	19,451,436	16,067,959	17,509,285	-1,441,326	1,441,326	8.2%
20.Ministry of Security Force of Kosovo	39,347,258	32,351,160	35,418,586	-3,067,426	3,067,426	8.7%
21. All Other Votes (Residual)	99,114,607	77,719,912	89,218,395	-11,498,483	11,498,483	12.9%
Total expenditure, excl. reserve/contingency	1,203,211,872	1,083,075,799	1,083,075,799	0	95204185	
Reserve/contingency	9,333,104	9,333,104.00				
Total expenditure, incl. reserve/contingency	1,212,544,976	1,092,408,903				
Total expenditure deviation (PI-1)						9.9%
Composition (PI-2) variance						8.8%
Reserve/contingency share of budget						0.8%

2014 Euros millions						
Budget Institutions	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**%**
1.Assembly	9,388,157	6,470,018	8920458	-2450440	2450440	27.5%
2. Office of President	1,900,000	1,563,080	1805346	-242266	242266	13.4%
3. Prime Minister Office	12,401,511	9,750,144	11783693	-2033550	2033550	17.3%
4. Ministry of Finance	29,396,386	28,630,031	27931919	698112	698112	2.5%
5. Ministry of Public Administration	24,324,569	21,694,542	23112769	-1418227	1418227	6.1%
6. Ministry of Agriculture and Rural Development	27,170,487	21,110,214	25816909	-4706696	4706696	18.2%
7. Ministry of Trade and Industry	5,990,989	4,876,368	5692530	-816162	816162	14.3%
8. Ministry of Infrastructure	200,860,500	158,927,672	190854044	-31926372	31926372	16.7%
9. Ministry of Health	114,707,481	110,979,369	108992991	1986378	1986378	1.8%
10. Ministry of Culture, Youth and Sports	20,115,174	16,392,464	19113078	-2720614	2720614	14.2%
11.Ministry of Education, Science and Technology	50,297,252	48,431,616	47791547	640069	640069	1.3%
12.Ministry of Labor and Social Welfare	230,262,930	283,683,173	218791706	64891468	64891468	29.7%
13.Ministry of Enviroment and Spatial Planning	47,785,026	44,447,188	45404475	-957286	957286	2.1%
14.Ministry of Communities and Returns	7,186,000	7,088,770	6828008	260762	260762	3.8%
15. Ministry of Local Governance	5,050,000	4,148,756	4798419	-649664	649664	13.5%
16.Ministry of Economic Development	30,079,640	26,015,206	28581134	-2565928	2565928	9.0%

2014 Euros millions						
Budget Institutions	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**%**
17.Ministry of Internal Affairs	107,062,880	99,570,003	101729228	-2159225	2159225	2.1%
18. Ministry of Justice	18,115,235	17,159,301	17212771	-53470	53470	0.3%
19. Ministry of Foreing Affairs	21,426,628	17,051,498	20359198	-3307699	3307699	16.2%
20.Ministry of Security Force of Kosovo	42,038,070	39,511,052	39943820	-432768	432768	1.1%
21. All Other Votes (Residual)	120,738,719	102,687,343	114723765	-12036422	12036422	10.5%
Total expenditure, excl. reserve/contingency	1,126,297,634	1,070,187,809	1,070,187,809	0	136,953,579	
Reserve/contingency	66,880,000	-				
Total expenditure, incl. reserve/contingency	1,193,177,634	1,070,187,808.81				
Total expenditure deviation (P-1)						10.3%
Composition (PI-2) variance						12.8%
Reserve/contingency share of budget						0.0%

Annex 2: Budget preparation calendar

Budget preparation calendar for 2016: Annex to First Budget Circular, issued May 15, 2015 by Minister of Finance

The budget calendar for the next seven months is presented below - for now it is the "best estimate" and may be subject to changes

April 29 - approval of the Medium Term Expenditure Framework 2016-2018 by the Government and submission of the MTEF to the Assembly of Kosovo.

May 15 - Issue first budget Circular 2016/01. This circular contains instructions on the budget process, budget ceilings and budget calendar.

19 June- budget organizations submit budget requests to the MF according to the relevant documentation, programs and economic categories. Budget requests should be fully justified using the BDMS system and PIP.

June 26 - Macroeconomic Department presents a new macro-fiscal framework.

July 2 - Budget Circular 2016/02 will be issued as needed and will only address specific new issues that resulted after the release of the first Budget Circular

July 14 - Should additional information be required for the second Budget Circular, this information will be submitted by budget organizations to the Ministry of Finance - Budget Department as of this date.

August 24 - September 28 - Budget hearings (after receiving the materials from budget organizations). Hearing participants will be officials of budget organizations, MoF staft:the Office of the Prime Minister, representatives of the Parliamentary Committee for Budget and Finance. Budget hearings' schedule will be attached to Budget Circular 2016/02. The possibility of reaching an agreement on the total amount of your organization's budget for 2016 will be discussed in these hearings as appropriate.

September 8, Macroeconomic Department presents the latest estimates of macro- economic indicators, especially indicators relating to the 2016-2018 budget process.

September 10 - September 17, consultations with the Government to determine final budget ceilings.

September 18 - issue Third Budget Circular with final budget

ceilings. September 23 - September 25 - Appeals from Budget

Organizations.

September 28 - October O 1 - Government meetings to review appeals from budget organizations.

October 13 - the first draft budget sent to MoF and to the Government.

October 14 - October 29 - final approval of Draft Budget in the

Government.

October 30 - Submission of Draft Budget 2016 to the Assembly of Kosovo for approval as of the date specified in the Law on Public Financial Management and Accountability.

Annex 3. Bibliography

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3. Document of Public Finances Internal Control Policies –May 2011.

4. IMF Country Report No. 13/113, Republic of Kosovo, Third review under the sand-by arrangement, request for waiver of non-observance of performance criterion, May 2013

5. Mid Term Expenditure Framework 2012-2014, Republic of Kosovo - April 2011.

6. Mid Term Expenditure Framework 2013-2015, Republic of Kosovo - April 2012 .

7. Kosovo Country Fiduciary Assessment, The World Bank, March 2012

8. 2010 Budget Law, No.03/L-177 approved on December 29, 2009.

9. 2011 Budget Law, No.04/L-001 approved on March 31, 2011.

10. 2012 Budget Law , No.04/L-079 approved on December 20, 2011.

11. Law no. 04/L-111 for the amendment of the law no. 03/L -87 for Public Enterprises.

12. Law on internal auditing no.03./L-128 approved by the Assembly, September 201

13. Law on internal auditing no. 03./L-128 approved by the Assembly 2012.

14. Law on Public Debts (2009/03-L-175), approved in the Assembly on 29.12.2009.

15. Law on Public Finance Management and Accountability, Law no. 03/L-048

16. Manual for Performance Measurement Framework Application, PEFA Secretariate (updated, November 2012)

17. Annual Financial Statements of the Government for 2010, 2011 and 2012..

18. Minutes and the transcript of the Assembly meeting held on September 2010, minutes and transcript of the meeting held on November

19. 01/2013 Budget Circular on 07.05.2012 for the Central Government and Municipalities, Ministry of Finance

20. 02/ 2013 Budget Circular on 16.08.2012, for the Central Government and Municipalities, Ministry of Finance

21. 02/2013 Budget Circular on 20.09.2012, for the Central Government and Municipalities, Ministry of Finance

22. Report of Public Procurement Activities on Kosovo for 2012, Regulatory committee of the Public Procurement of Kosovo (KRPP).

23. Auditing report for Financial Statements of Kosovo Consolidated Budget, Office of Auditor General for 2010, 2011 and 2012

24. Annual Financial Report

25. Annual report for function of the internal auditing system in the public sector in Kosovo for 2012.

26. Annual report for function of the internal auditing system in the public sector in Kosovo for 2012.

27. Reassure financial rule no 01 and 02. Ministry of Economy and Finance.

28. Kosovo Finance Management Informative System

29. Assessment of Public Finance Management – Public Expenditures and Financial Accountability (PEFA), May 2009

Annex 4. People Met

Name	Position	Institution
Semra Tyrbedari	Director	Economic and Public Policy Department/ MF
Besart Myderrizi	Advisor	USAID- P4D Project /MF
Nysret Koca	Deputy Director	Treasury/MF
Arijeta Neziri	Head	Debt Unit/ MF
Milaim Aliu	Acting Director	Budget Dept/MF
Merita Gjyshinca Badivuku	Head of Executions	Budget Dept/MF
Sanije Himaj	Head of PIP	Budget Dept/MF
Vedat Sogonjeva	Officer at Strategic Planning Unit	Office of the Prime Minister
Lorik Fejzullahu	Head of Departement	PPP Dept/MF
Tefik Ujkani	Manager	TAK
Valentina Hasani	Tax Official	
Agron Sadiku	Head of the GD Office / Advisor	Costums
Jashar Goga	Director	Costums
Besim Lushta	Director	Costums
Ibrahim Gjylderen	Assistant Auditor General	Office of the Auditor General
Demush Shasha	Secretary General	Ministry of European Integration
Shpresa Dushi	Head of Payroll Division	Treasury/MF
Rrahman Zahiti	Head of HR Division	Ministry of Public Administration
Fahri Maxhuni	Officer for Coordination and Oversight	Public Procurement Regulatory Committee
Abdyl Limani	Expert in Regulations Department	Public Procurement Regulatory Committee
Ismet Abdullahu	CFO	Public Procurement Regulatory Committee
Ardian Behra	Head of Secretariat	Public Procurement Review Body
Fehmi Zylfiu	CFO	Ministry of Education
Afrim Shala	IA Officer	CHU IA/IC Ministry of Finance
Kosum Aliu	Director	CHU IA/IC Ministry of Finance
Naser Osmani	Head of Committee on Budget and Finance	Assembly of Kosovo
Ali Sadriu	First Deputy of the Committee on Oversight of Public Finance	Assembly of Kosovo
Ramadan Sejdiu	Director of the POE Unit	Ministry of Economic Development
Qemajl Marmullakaj	Director of Strategic Planning Unit	Office of the Prime Minister

Annex 5 - Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for Kosovo, final report dated 31/01/2016.

1. Review of Concept Note and/or Terms of Reference

- Final concept note and/or terms of reference dated 18/03/2015 was submitted for review to the following reviewers:
  - 1) Mr. Lewis HAWKE, Head of PEFA Secretariat
  - 2) Mr. Agim KRASNIQI, Deputy Minister of Finance, Kosovo
  - 3) Mr. Frank LAKWIJK, resident representative, IMF, Kosovo
  - 4) Mr. Rodolfo LAZARICH GENER, DG NEAR, European Commission

2. Review of draft report(s)

- Draft report dated was submitted for review on 24/08/2015 to the following reviewers oversight team:
  - 1) Mr. Lewis HAWKE, Head of PEFA Secretariat
  - 2) Mr. Agim KRASNIQI, Deputy Minister of Finance, Kosovo
  - 3) Mr. Frank LAKWIJK, resident representative, IMF, Kosovo
  - 4) Mr. Rodolfo LAZARICH GENER, DG NEAR, European Commission

3. Review of final draft report

A revised final draft assessment was forwarded to reviewers on 13/01/2016 and included a table showing the response to all comments raised by all reviewers.

4. This form, describing the quality assurance arrangements is included in the revised draft report.

Republic of Kosovo
Central government repeat Public Expenditure and Financial Accountability Assessment (PEFA)
31 January 2016

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat
February 16, 2016