ANNUAL PROGRESS REPORT 2018 ON THE IMPLEMENTATION OF PUBLIC FINANCE MANAGEMENT REFORM STRATEGY 2016-2018

Pristina
April 2019
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Acronyms

IA - Internal Audit
TAK - Tax Administration of Kosovo
EU - European Union
BDMS - Budget Development and Management System
COSO - Committee of Sponsoring Organizations of the Tread way Commission
KC - Kosovo Customs
RMD - Risk Management Division
IMF - International Monetary Fund
SPSG – Strategic Planning Steering Group
IPSAS - International Public Sector Accounting Standards
BFC- Budget and Finance Committee
MTEF - Medium Term Expenditure Framework
EC - European Commission
PIC – Public Investments Committee
PIFC - Public Internal Financial Control
PIFC - Public Internal Financial Control
PPRC - Public Procurement Review Commission
LPP - Law on public Procurement
LPFMA - Law on Public Financial Management and Accountability
MoF - Ministry of Finance
PFM - Public Finance Management
SAA - Stabilisation and Association Agreement
BO - Budget Organisation
PEFA - Public Expenditure and Financial Accountability
PIFC - Public Internal Financial Control PIP
PIP - Public Investment Program
AFS – Annual Financial Statements
PPF – Project Preparation Facility
SBS - Sector Budget Support
SIGMA - Support for Improvement in Governance and Management
KFMIS - Kosovo Financial Management Information System
SNAO - Swedish National Audit Office
PFMRS - PFM Reform Strategy
IT - Information Technology
OAG - Office of Auditor-General
SPO – Strategic Planning Office
OPM - Office of Prime Minister

Note: This Draft Annual Report for 2018 was prepared by the Coordination Group for Implementation of the Public Finance Management Reform Strategy in the Republic of Kosovo and after the consultations with relevant stakeholders and MoF cabinet was presented and approved in the Public Administration Reform Ministerial Council as well as discussed in the PFM Dialog Meeting.
1. Executive summary

This third annual report summarizes and presents achievements of priorities and progress in the activities of Public Finance Management Reform Strategy (PFMRS) during 2018. The purpose of drafting the annual monitoring report is to review the progress achieved in implementation of strategy and identification of challenges. According to the mandate given with the Decision No. 33/2018, Coordination Group on PFC in December 2018 has completed the review of the 2019-2020 Action Plan, which has gone through public consultation and discussion at the PFM Dialogue Meeting. Corrective measures are set in SRMFP 2019-2020, as addition, while maintaining the existing Pillars and Priority structure. The new measures foreseen in the revised Plan have been costed.

The approach adopted in the preparation of this annual report was a combination of meetings and consultations within the GoK on PFM among main responsible entities for each priority, followed by consultations with stakeholders with the support of SIGMA. Initially was prepared the reporting table, which was filled in with contributions of main entities responsible for priorities. This served as basis in drafting the annual narrative Report 2018. The report is based on the action plan and indicator passport, reporting at the level of indicators.

Public Finance Management Reform Strategy (PFMRS) is built on 4 pillars, 12 priorities and 23 indicators, which include a total of 66 activities in all areas of Public Finance Management Reform. The third annual report on the implementation of PFM Reform Strategy records a satisfactory progress achieved in most of the pillars. Based on reports received from responsible structures, from sixty six (66) planned activities, it is reported that most of the planned activities for this year are implemented:

- Thirty nine (39) activities or 59% of them were implemented according to the action plan,
- Ten (10) activities or 15% of them were implemented partially, and
- Seventeen (17) activities or 26% of them were not implemented in time or delays were recorded in starting their implementation.

Chart 1. The overall progress in the implementation of PFMRS 2018

The following graph presents the progress in implementation of PFMRS priorities for 2018 based on the activities foreseen for 2018.
When examined in terms of the four main pillars of the strategy, it is reported that during 2018 highest number of implemented activities fall under the Pillar I: Fiscal discipline with 17 implemented activities; followed by Pillar 3: Operational Efficiency with total 12 implemented activities. The graph below presents the progress in implementation of activities by the main pillars:

The chart below presents achievement of targeted indicator objectives for 2018. Report assesses that 11 or 48% of targeted indicator objectives for 2018 have been achieved. 2 of 9% of target objectives were partially achieved, while 10 or 43% of other targeted objectives for 2018 were not achieved completely or are close to the objective.
Future challenges and activities

It should be mentioned that when assessing the indicators, some of the indicators are not relevant any more for the PFM reform due to the change of strategic orientation, while some other defined targets were not achieved in absence of financial support. Challenges identified in the Report have already been addressed through corrective measures when reviewing the Action Plan 2019-2020. The review has passed through public discussion and discussion in the meeting of PFM Dialog. Received comments were analysed and addressed through corrective measures in the Revised Plan for 2019-2020.

The challenge recorded in pillar 1 in the second priority “Reducing payment arrears by increasing the compliance with applicable commitment controls” was analysed and several measures were undertaken. The non-reviewing of financial regulation on reporting delays has already been addressed in the revised Action plan. It is worth mentioning that the Law on Public Internal Financial Control (PIFC) has been adopted and has entered into force since May 2018. Secondary legislation of this law is expected to be adopted in 2019, which is expected to establish a clear line of responsibility and accountability within BOs, which would provide for effective control over public resources and public implementation policies.

In pillar 3, Priority 9 “Strengthening external audit” indicators are considered challenging to be achieved. In fact, compared to baseline year and reporting in 2017, there is a significant improvement and a positive trend particularly in activities related to the Assembly of the Republic of Kosovo. Indicators were reformulated with the review of Action Plan in order to be as realistic as possible but also challenging. Activities are foreseen such as: - Communication with Assembly Committees for a better coordination in addressing Audit Reports (continuous communication) and - Support of Assembly Committees to increase the number audit Reports reviews in the Assembly and increase the degree of addressed recommendations, respectively decrease the number of recommendations that are not addressed.

As a continuous challenge in the Pillar 4 is Priority twelve “Sustainable capacity development in PFM”. Delay in Sector Budget Support has made it impossible to achieve indicators of this Priority. Despite the fact that there were continuous initiative undertaken to ensure funds (GIZ, EUO, WB, etc.), they did not result in ensuring funds for implementation of Feasibility Study. It should be mentioned that in the budget of 2019 are taken corrective measures, budgetary funds are allocated for implementing Feasibility Study, not including the Development of Curricula. The study is expected to be conducted during 2019.
2. The overall progress of the Strategy implementation

Below we represent the progress in strategy implementation by pillars, based on the indicator target for 2018.

Pillar I: FISCAL DISCIPLINE

For 2018 it may be reported for a satisfactory implementation in the pillar of Fiscal Discipline against the targets provided in the strategy. The Pillar of Fiscal Discipline includes three objectives that relate to the enhancement of macroeconomic forecasts, reduction of payment delays and extension of tax base by fighting fiscal evasion. This pillar contains six (6) indicators.

In the First Priority, the forecasting accuracy of macroeconomic and revenue indicators is maintained and improved. Average deviation of regular revenue forecasting compared to actual revenues for 2018 is -2.7%, which ensures a positive trend towards the target value for 2018 and the objective for 2020.

Regarding the second priority, effective control of commitments, the indicator of outstanding payment arrears by the end of fiscal year as percentage of total expenditures for 2018 is reported to be 3.9%.

There is also an improvement in the third Priority, in all three TAK indicators. Number of businesses registered for VAT and Debt collection rate have exceeded their targets set for 2018. While the indicator measures the Number of taxpayers who declare their income voluntarily, it is below the target set for 2018, but there is an increase compared to the base and compared to the value achieved in 2017.

Pillar II: Allocation Efficiency

Pillar Allocation Efficiency, measured against the targets set in PFMRS, presents a mixed pictures concerning the progress. This Pillar includes three priorities that are related to further enhancement of the role of MTEF as planning document, strengthening reliability in the annual budget and more efficient and effective management of public investments. This pillar contains six (6) indicators in total.
Actions have continued in the Fourth Priority to develop a medium-term expenditure framework (MTEF) by further enhancing the role of MTEF as a document that links National Strategies and budget planning. However, due to political changes, the changes in strategic orientations are reflected in budget figures and MTEF. A deviation is reported also for 2018 between the expenditures ceilings in MTEF and adopted Budget in the Assembly for 2018. This has resulted in the percentage of the average deviation between the MTEF ceiling and annual budget ceiling for BOs to be 8.92% compared to baseline year when it was 7.5%. This deviation, however, is lower compared to 2017 when it was 22%.

In the fifth Priority, the Indicator that relates to Annual budget credibility and execution control has generally maintained the trend of acceptable ceilings. There has been decreased number of transfers year after year, where during the fiscal year 2018 there were 78 transfers which exceeding the number in 2018. Whereas the second indicator has shown a deviation in the general budget execution compared to the adopted budget for 12.24 %, which is more than in 2016 and baseline year when it was 10.46%.

In the sixth Priority, the indicator relating to a more efficient and effective management of public investment planning and monitoring has shown a progress in the number of reallocations for central level BOs. In 2018, number of reallocations was only 21 compared to 65 that were in the baseline year and reached higher than the target value for 2018. This is a result of more accurate budget planning and of the cooperation with BOs. While the second indicator, percentage of implementation of capital investment budget compared to the planned budget within a fiscal year is below the target for 2018.

**Pillar III. Operational Efficiency**

Pillar “Operational Efficiency” includes three priorities related to Public procurement, strengthening internal audit and control and strengthening external audit. This pillar contains seven (7) indicators in total.
In the priority seven, Public Procurement, a progress was achieved in application of the principle ‘value for money’ by reducing the use of negotiated procedure without publication to 8.18%. This indicator has shown improvement compared to the value reported in 2017. While the second indicator measuring percentage of monitoring of contract notices, it remains below the target value for 2018. It is however worth to mention that this indicator has marked a significant progress when compared with the baseline of 5%.

In priority eight, further strengthening of internal audit is achieved by increasing the number of certified internal auditors to 90.85%. The percentage of implementation of recommendations by the management for the year 2018 was reported in the PFM Dialog meeting to be 51.24%.

Priority nine relating to the strengthening of external audit, despite undertaking activities, target achievement remains under the target values for 2018. This failure to achieve indicator targets for 2018 is related to specifics of the audit field and failure of BOs to address NAO recommendations.

**Pillar IV. PFM related matters**

Pillar 4, ‘PFM related matters’ includes three priorities that are linked with improvement of IT systems, advancement of reporting in line with IMF GFSM 2014 standard and systematic and sustainable increase of capacities of civil servants in PFM. This pillar contains four (4) indicators in total.

In priority ten relating to the improvement of IT systems, it is reported that 7 IT systems are integrated between the Ministry and Agencies within MoF.

In Priority eleven, a number of activities were undertaken in order to improve information technology system and processes related to budget process. It has also been reported for a progress in reporting according to GFSM 2014 standards.

In Priority twelve that addresses capacity development in PFM in a systematic, sustainable and integrated way, a delay in implementation was reported. The reason for delays in implementation of feasibility study is lack of financial resources. Completion of the study is precondition for implementation of activities under this priority.
3. General information on the progress of the strategy by priority areas, indicators and activities

In general terms, Public Finance Management Coordination Group (PFMCG) for 2018 may report that a satisfactory progress has been achieved in implementing indicators and activities of PFMRS for 2018. Below is the table with relevant values of indicators for all four PFMRS pillars:

<table>
<thead>
<tr>
<th>Pillar 1</th>
<th>FISCAL DISCIPLINE</th>
<th>Priority 1</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 1</td>
<td>1. Average deviation of tax revenue forecast versus actual.</td>
<td>(-7.7%)</td>
<td>5%</td>
<td>0 – 3 %</td>
<td>3.82%</td>
<td>-1.10%</td>
<td>-2.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority 2</td>
<td>2. Average deviation of one-off budget revenue forecast compared to the actuals</td>
<td>(-7.6%)</td>
<td>5%</td>
<td>4%</td>
<td>13.33%</td>
<td>-16.50%</td>
<td>NA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority 3</td>
<td>1. Outstanding payment arrears by the end of the fiscal year as % of total expenditures</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>3.50%</td>
<td>4.20%</td>
<td>3.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority 4</td>
<td>1. Number of registered businesses for VAT</td>
<td>16,583</td>
<td>21,75</td>
<td>35,000</td>
<td>24,653</td>
<td>20,708</td>
<td>25,806</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Number of taxpayers voluntarily declaring income</td>
<td>62,886</td>
<td>73,117</td>
<td>100,000</td>
<td>62,347</td>
<td>66767</td>
<td>68.835</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Percentage of debt collection</td>
<td>16%</td>
<td>18%</td>
<td>19%</td>
<td>25%</td>
<td>25%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Pillar 2</th>
<th>Allocation efficiency</th>
<th>Priority 4</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further advancement of the role of the MTEF as a linking document between the National Strategy and budget planning for the next three years.</td>
<td>1. Average deviation between MTEF ceilings and annual budget ceiling for BOs.</td>
<td>7.15%</td>
<td>6.50%</td>
<td>3.50%</td>
<td>3.52%</td>
<td>(7.66%)*</td>
<td>22.03%</td>
<td>8.92%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of officers trained for budget impact assessment - BIA.</td>
<td>80</td>
<td>90</td>
<td>120</td>
<td>40</td>
<td>40</td>
<td>90</td>
<td>120</td>
<td></td>
</tr>
</tbody>
</table>

* This is as two Budget Organisations were not part of the MTEF 2016-2018, while there are part of the of budget allocations for 2016 (RTK and Air Navigation Services Agency). Without these two BOs overage deviation is 3.52
### Priority 5

**Indicator(s) to measure objective fulfilment**

- **Strengthen the credibility of the annual budget by improving the budgetary planning and its credibility, including planning at program level, in order to ensure that the budget is drafted in accordance with the macro-fiscal framework and the Government strategic objectives.**

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</thead>
<tbody>
<tr>
<td>Percentage of average deviation of the overall budget execution compared to the approved budget by BOs at the central level.</td>
<td>10.46%</td>
<td>9.00%</td>
<td>5%</td>
<td>3.86%</td>
<td>11.42%</td>
<td>12.24%</td>
</tr>
<tr>
<td>Number of transfers during a fiscal year</td>
<td>199</td>
<td>170</td>
<td>100</td>
<td>188</td>
<td>149</td>
<td>78</td>
</tr>
</tbody>
</table>

### Priority 6

**Indicator(s) to measure objective fulfilment**

- **A more efficient and effective management of public investment planning and monitoring by the BOs in the PIP system that would have an impact on proper capital projects planning to be related to the National Development Strategy and the Government priorities.**

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Number of reallocations by central BOs</td>
<td>65</td>
<td>55</td>
<td>25</td>
<td>56</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td>2. Percentage of implementation of capital investment budget compared to the planned budget in the annual budget</td>
<td>98%</td>
<td>170</td>
<td>100%</td>
<td>86%</td>
<td>59%</td>
<td>72.5%</td>
</tr>
</tbody>
</table>

### Pillar 3: Operational Efficiency

#### Priority 7

**Indicator(s) to measure objective fulfilment**

- **Ensure an efficient, transparent, and fair use of public funds and apply the core “value for money” principle in public procurement.**

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</thead>
<tbody>
<tr>
<td>1. Share of negotiated procedure without publication used.</td>
<td>12.98%</td>
<td>10%</td>
<td>7%</td>
<td>11.76%</td>
<td>9.17%</td>
<td>8.18%</td>
</tr>
<tr>
<td>2. Percentage of monitoring of contract notices.</td>
<td>5%</td>
<td>100%</td>
<td>100%</td>
<td>80%</td>
<td>70%</td>
<td>57%</td>
</tr>
</tbody>
</table>

#### Priority 8

**Indicator(s) to measure objective fulfilment**

- **Strengthen the internal audit function as a value-added service to accountable management**

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</tr>
</thead>
<tbody>
<tr>
<td>1. Percentage of certified internal auditors</td>
<td>50%</td>
<td>80%</td>
<td>90%</td>
<td>65.33%</td>
<td>85.00%</td>
<td>90.85%</td>
</tr>
<tr>
<td>2. Percentage of implementation of recommendations by the management.</td>
<td>51%</td>
<td>65%</td>
<td>65%</td>
<td>54.70%</td>
<td>48.59%</td>
<td>51.24%</td>
</tr>
</tbody>
</table>

#### Priority 9

**Indicator(s) to measure objective fulfilment**

- **Develop a well-functioning Supreme Audit Institution, which conducts audits in accordance with internationally**

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</tr>
</thead>
<tbody>
<tr>
<td>1. Percentage of addressed recommendations by the Parliamentary Committee on Public Finance Oversight.</td>
<td>10%</td>
<td>30%</td>
<td>50%</td>
<td>14.14%</td>
<td>12.5%</td>
<td>22%</td>
</tr>
</tbody>
</table>
recognized audit standards for public sector.

<table>
<thead>
<tr>
<th>Pillar 4: PFM related matters</th>
<th>Priority 10</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of IT systems operating in the Ministry of Finance to enhance the quality of financial information.</td>
<td>1. Number of integrated systems</td>
<td>0</td>
<td>5</td>
<td>7</td>
<td>0</td>
<td>EO for integration of systems if being selected.</td>
<td>7 systems</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Priority 11</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure compliance of Kosovo budget information with the IMF/ standard 2014 GFS.</td>
<td>1. Budgeting and reporting to be done based on the account table complying with GFS 2014</td>
<td>Public ation already started</td>
<td>Budget planning according to GFS 2014</td>
<td>GFS 2014 standard in use</td>
<td>Preparations in progress</td>
<td>It is expected to review of Financial Rule on Chart of Accounts harmonized with GFMS and IPSAS.</td>
<td>Budget planning according to GFS 2014</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Priority 12</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>To obtain a systematic, sustainable and integrated way of increasing capacities of civil servants in Public Financial Management using local, public administration and foreign expertise.</td>
<td>1. Sustainable capacity building in PFM</td>
<td>Preparations in progress</td>
<td>Capacity building as before.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Number of officials trained in the PFM area</td>
<td>Preparations in progress</td>
<td>Capacity building as before.</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
3.1. The overall progress in implementation of reforms under Pillar 1: Fiscal Discipline

In the first pillar of PFRMS, Fiscal Discipline, there are three Priorities. In this section, we present the progress towards achieving the objective and related activities for each priority in this pillar for 2018.

3.1.1. Priority 1: Accuracy of macroeconomic indicator and revenue forecasting

The first priority of PFMRS refers to enhancement of macroeconomic indicator forecasting accuracy, including revenue forecasting, as basis for defining fiscal possibility for financing Government public policies. Responsible institution for achieving this priority is Ministry of Finance - Department of Economic Policies and International Financial Cooperation. Achievement of this priority will improve quality of necessary information for political decision makers and will create a sound basis for effective cooperation with international financial partners, contributing in the maintenance of macroeconomic stability as one of the long term goals of public finance management.

Reliable and realistic tax revenues forecasting is one of the priority areas of reform. In the first indicator, average deviation of tax revenue forecast compared to actual tax revenues according to Annual Financial Report of Budget of Kosovo for 2018 is -2.7%, which indicates the achievement of the target for 2018 and a continued trend for achieving the target in 2020. The indicator is calculated according to the formula defined in the Indicator Passport.

Whereas concerning the second indicator relating to the average deviation in the collection of one off revenues compared to forecast, in 2018 was planned to collect revenues in the amount of 8 million €. In the financial report of 2018, it is not reported that there were one off revenues as separate budget item, as one off revenues that were planned for the year were reported within the relevant tax category. As such, accurate numerical measuring of this indicator is not possible. It is worth mentioning the fact that from 2015 and onward, planning of one-off revenues in the budget has marked continuous decrease by showing improvement in revenue planning within relevant categories. As result, in the Budget of 2019 all budget revenues are planned within respective revenue categories.

<table>
<thead>
<tr>
<th>Objective 1</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline 2018</th>
<th>Target value 2018</th>
<th>Purpose 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>A careful and realistic forecast of the regular and one-off budget revenues.</td>
<td>1. Average deviation of tax revenue forecast versus actual.</td>
<td>(-7.7%)</td>
<td>5%</td>
<td>0 – 3%</td>
<td>3.82%</td>
<td>-1.10%</td>
<td>-2.7%</td>
</tr>
<tr>
<td></td>
<td>2. Average deviation of one-off budget revenue forecast compared to the actuals</td>
<td>(-7.6%)</td>
<td>5%</td>
<td>4%</td>
<td>13.33%</td>
<td>-16.50%</td>
<td>NA</td>
</tr>
</tbody>
</table>
Comment on the status of activities 1.1- 1.5

Five activities were planned for fulfilment of this objective. Compared to baselines for 2018, a progress is recorded in implementation of 2 activities, 1.1 and 1.5, while it was reported about delays in the implementation of activities: 1.2, 1.3, and 1.4. The chart below reflects the progress achieved in implementation of activities for 2018.

Chart 9 Priority 1: Accuracy of macroeconomic indicator and revenue forecasting

- (1.1.) Ensuring sufficient trained staff capacities in the macroeconomic unit. - training of the staff continued during 2018 staff training particularly in modelling macroeconomic indicators, analysis on debt sustainability and revenue projections. Training were held by USAID, World Bank and Luxembourg government project ‘Lux Development’
- (1.2) Publication of methodology for drafting economic forecasting.- regarding this activity, no activity was undertaken to implement this activity. Publication of forecasting methodology on the website of the MoF is planned during 2019.
- (1.3) Publication of macro-fiscal framework and economic indicators prior to approval of MTEF and Law on Budget - In 2018, macro-fiscal framework was published as part of Medium Term Expenditure Framework and the Law on Budget for 2019. During the past three years although the macro-fiscal framework is prepared, it was not published as part of the Budget Law in the official gazette of the Republic of Kosovo.
- (1.4) Establishing the independence of macroeconomic unit.- no activity was undertaken during the reporting period in relation to this activity.
- (1.5) Issuing a rule that would limit the inclusion of one off revenues. - No activity was undertaken during the reporting period in relation to this activity. Considering that major part of one-off revenues have come for 2018 was planned to be collected from Law on Debt Forgiveness and taking into account that this law was in force until 31 August 2017, this activity is considered achieved. As result, no one-off revenues were planned in the budget of 2019.

3.1.2. Priority 2: Effective controls of commitments

The purpose of this priority are effective commitment controls, which is aimed to be achieved by better management payment delays through financial commitments controls. Main responsible institutions for fulfilment of this priority are Treasury and Central Harmonisation Unit.
During 2018 it has been reported to have been marked a partial progress in implementation of activities towards achievement of priority no. 2, respectively the objective for reducing late payments by increasing compliance with applicable control of commitments. In this period, it was reported that the Law on Public Internal Control (PIFC) was adopted and has entered into force, and the draft regulation on financial management and control was developed. Implementation of legislation and other secondary legislative acts is expected to establish a clear line of responsibility and accountability within BOs, which would provide for effective control over public resources and implementation of public policies.

This priority is also based on some activities covering the strengthening of the function of internal audit measured with Certification of Internal Auditors, further development of CHU staff and actions related to the book of processes. In this regard, a training of responsible officers in risk management was reported during 2018, with the participation of 120 participants from different BOs. Also, in line with the action plan and in cooperation with USAID was developed the Book on description of processes.

It is reported for delays in the review of financial rule on reporting of payment delays. As result were not applied the planned sanctions in the action plan for 2018. As consequence of failure to undertake a concrete action, the unpaid arrears by the end of the fiscal year as % of total costs have increased compared to the baseline year from 3.4% to 3.9%.

### Objective 2

<table>
<thead>
<tr>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding payment arrears by the end of the fiscal year as % of total expenditures</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>3.50%</td>
<td>4.20%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

**Comment on the status of Activities 2.1-2.10**

Ten activities were foreseen for fulfilment of this objective. Compared to baselines for 2018 a progress is recorded in implementation of almost half of the activities, such as: 2.2; 2.4; 2.7; 2.9 and 2.10. Activity 2.5 was partially implemented. While it was reported about delays in implementation of following activities: 2.1, 2.3, 2.6, 2.8. The chart below reflects the progress achieved in implementation of activities for 2018.

**Chart 10 Priority 2: Effective controls of commitments**

- **(2.1) Amendments to the LMPFA/Regulation.** During 2018, draft regulation on financial management and control is prepared by the working group and submitted to the legal office.
for further procedure, but it has not been adopted yet. Trainings on managerial accountability were also organized and self-assessment questionnaires were completed by all responsible officials of BOs.

- (2.2) Training and capacity building of financial officer(s). - 120 BOs’ responsible officers for risk management were trained.

- (2.3) Introduction of modified cash-based accounting and reporting. - There is no progress in implementation of this activity, and the AI that would set the legal basis for introducing the modified cash-based accounting has not been drafted yet.

- (2.4) Identification and development of controls. - The process description book is approved by the MoF and sent to all budget organisations and all responsible officials have been trained. The process description book is published in the MoF website.

- (2.5) Extension of KFMIS functions. - During 2018 the tender was announced and company for building KFMIS was selected during 2018. During 2018 Electronic archives was partially integrated into KFMIS for some modules (Purchase order and Expenditure).

- (2.6) Revision of financial regulation on reporting late payments. - In 2018 Treasury has analysed and followed the trends based on the current regulation, while there were delays in the revision of regulation as envisages with the plan of activities.

- (2.7) Reporting internal debts by Debt Unit. - based on the Treasury area of responsibility this activity was implemented by the BOs Monitoring Unit and is related to advancements that will be made in 2019 in activity 2.6.

- (2.8) Sanctioning budget organisations in cases of late payments. - there was no sanctioning as the regulation will be issued in 2019.

- (2.9) Monitoring BOs through KFMIS and electronic archive. - During 2018, Monitoring Unit has constantly monitored and sent comments to BOs for implementation of deadlines in approving expenditures in KFMIS and implementation of the chart of accounts.

- (2.10) Capacity development in Monitoring Unit (MU). - In October 2018, Treasury has held a seminar/meeting with all BO CFOs on the monitoring of the implementation of financial regulations.

3.1.3. Priority 3: Sustainable revenue collection

Current public financial management system in Kosovo supports general fiscal discipline. In order to maintain sustainability of fiscal discipline it is necessary to shift revenue collection from the border inside the country, which will have an impact on financing of public investments necessary for sustainable economic growth and for addressing multiple challenges.

Concerning the objective - Expanding the revenue base by fighting fiscal evasion and smuggling of goods - the target of the first indicator, which relates to the total number of registers taxpayers, was achieved in 2018. Active taxpayers registered in the VAT reached at 25,806 taxpayers, which compared to the baseline was exceeded for 18% or 4,631 taxpayers more.

Concerning the second indicator, which relates to the total number of taxpayers who declare their income voluntarily, and which includes businesses and natural persons, at the end of the fiscal year the number was 68,835 filers while the target was 73,117. Taking into account the baseline value, we see that this indicator did not reach the target. Despite this value, it is worth mentioning that number of filers is continuously increasing and has a positive trend. This increase is achieved thanks to intensification of activities in the field and closer monitoring of non-filers.
Concerning improvement and advancement related to filing taxpayers, an activity for cleansing the taxpayer register was started in 2018 which is expected to have an impact in increasing the number of filers in the coming years.

Concerning the third indicator on the debt collection rate, the amount of collected debt in 2018 was 77,341,543 EUR, while the remaining non collectable debt as of 31.12.2018 was 309,047,002 EUR. If we compare the percentage that was targeted for 2018, which was 18%, then we see that collected amount presents about 25% of total amount of collectible debt and this indicates that we have exceeded the target for 7%. Annual Operation Plan is developed related to implementation of this indicator, containing activities and deadlines for treating tax debt. This plan includes debts for which TAK is legally responsible to collect, so they are collectible debts.

It has also been reported for a satisfactory progress in activities that fall under the responsibility of Kosovo Customs, and which relate to the capacity development of customs officials in origin and evaluation of goods. Further modernization of Customs Administration is in process, focusing on some important areas. Modernization includes risk management and strengthening of measures against smuggling, in close cooperation with the Kosovo Police.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>To expand the revenue base by fighting fiscal evasion and smuggling of goods.</td>
<td>Number of registered businesses for VAT</td>
<td>16,583</td>
<td>21,75</td>
<td>35,000</td>
<td>24,653</td>
<td>20,708</td>
<td>25,806</td>
</tr>
<tr>
<td></td>
<td>Number of taxpayers voluntarily declaring income.</td>
<td>62,886</td>
<td>73,117</td>
<td>100,000</td>
<td>62,347</td>
<td>66,767</td>
<td>68,835</td>
</tr>
<tr>
<td>Debt collection rate</td>
<td></td>
<td>16%</td>
<td>18%</td>
<td>19%</td>
<td>25%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

**Comment on the status of Activities 3.1.-3.12**

Twelve activities were foreseen for fulfilment of this objective. Compared to baselines for 2018 a progress is recorded in implementation of 10 activities, such as 3.1, 3.4-3.12. Activities 3.2 and 3.3 were partially implemented. The chart below shows the progress achieved in implementation of activities in 2018.
(3.1) Establishment of Kosovo Tax and Customs Agency (KTCA).- upon recommendation of IMF and international partners it was decided not to proceed with the establishment of new Agency (KTCA), but only some common functions of TAK-KC will be merged, which would lead to increased efficiency of revenue collection. Due to the change of strategic orientation, this activity is not included in the revision of Action Plan of PFMRS 2019-2020.

(3.2) Concerning development of electronic invoice (e-invoice) system.- with the preparation of user requirements for the new ICT system, it is considered that it is a component of the new CIT system and as such will be operationalized with the new CIT system.

(3.3) Development of new information technology system.- during the reporting period evaluation commission has analysed the tender dossier and now is waiting for the process of successful bid selection and contracting the Economic Operator. Currently the evaluation commission is in the final phase of assessing offered solutions. As consequence, there is a delay in implementation of this activity due to the process of complaints submitted by economic operators.

(3.4) The IMF expertise on the topic of improvement of compliance risk management has been conducted in 2018. This expertise has analysed possibilities to enhance efficiency in Compliance Risk Management and the expert shared best international practices that could be adapted in Kosovo. Support in capacity building in this area will continue for one more year.

(3.5) – (3.12) Concerning activities from 3.5 to 3.12, during 2018 Kosovo Customs has collected in total 1,135,015,816.01 €, thus exceeding the total of revenues collected in 2017. Customs staff in 2018 has increased administrative capacities in operations, attending trainings on implementation of new techniques for detecting smuggling of goods. During the reporting period, there were also trainings in the field of Origin and Evaluation. Kosovo Customs uses risk analysis to create new profiles and to update the existing ones, in order to target goods that are suspected to be undervalued and subsequently during 2018 new profiles were created in order to address this phenomenon. There were numerous activities during this year by anti-smuggling units focusing on patrolling in high risk locations. In addition, Customs had joint activities with other law enforcement institutions, including joint operations.
3.2. The overall progress in implementation of reforms under Pillar 2: Allocation effectiveness

In the second pillar of PFMRS, Allocation Effectiveness, 3 priorities are foreseen. Below we present the progress towards achieving the objective and related activities for each priority in this Pillar.

3.2.1. Priority 4: Development of Medium Term Expenditure Framework (MTEF)

Medium term planning of public resources through MTEF is one of the priority areas of reform. Assessment for 2018 indicate a better linkage of national strategies with annual budget processes through enhancement of MTEF role as a planning and midterm budget allocation instrument. Actions for developing a medium-term expenditure framework (MTEF) have continued by further enhancing its role as a linking document between National Strategies and budget planning.

Concerning the Objective “Further advancement of the role of the MTEF as a liaison document between the National Strategy and budget planning for the next three years”, first indicator Percentage of average deviation between MTEF 2018-2020 ceilings and the Budget adopted in the Assembly for 2018 is 8.92%. This indicator is below the ceiling set for 2018. However, compared to 2017 the indicator has shown positive trend.

This difference between the budget planned in MTEF 2018-2020 and the budget adopted for 2018 comes as result of this changes, which were planned in MTEF and were not in the budget or were in small amounts (for clarification we are presenting only some changes with high amounts) like:
- Contingency of 55 mil €, which was foreseen for addressing fiscal risks, which was planned with MTEF 2018-2020, this funds were not in the approved budget for 2018.

- The Investment Clause in MTEF 2018-2020 was foreseen in the amount of 75.9 mil. €, whereas the amount in the approved budget was 62 mil €.

- Incidental expenses had been planned in MTEF 2018-2020 in the amount of 14.8 mil. €, whereas the amount approved in the budget is 4.8 mil. €,

- Contingencies in the budget of Ministry of Finance that were planned in MTEF 2018-2020 were in the amount of 19.3 mil. €, whereas in the approved budget were 3 mil. € contingencies, etc.

Concerning the second indicator, which relates to the number of trained/instructed officials on budget impact assessment (BIA), there has been a progress since trainings were provided for about 120 officials. Compared to 2017 there are 30 officials more that were trained and with that the target aimed for 2018 was exceeded.
Five activities were foreseen for fulfilment of this objective. When compared to baselines for 2018, a progress was recorded in the implementation of four activities 4.1; 4.2; 4.4 and 4.5, while a delay was recorded in activity 4.3. The chart below shows the progress achieved in implementation of activities in 2018.

- (4.1) Steering Group on Strategic Planning (SGSP) and the Strategic Planning Committee were operationalized and documentation review was done in time.
- (4.2) Budget Department has offered necessary professional instructions for over 120 BO officials of the central level, according to requests and needs presented by BOs.
- (4.3) Standardized table for presenting deviations in MTEF ceilings and final budget allocation. This activity has not been implemented.
- (4.4) Risk assessment by BOs on budget planning. In cooperation with KIPA were trained 120 CFOs and FOs. In cooperation with USAID were trained about 150 officials of local and central level.
- (4.5) Implementation of sector approach in preparation of MTEF - MTEF 2019-2021 is prepared according to sector-based approach.

1Reference baseline is 2015
2Baseline value refers to 2015
3.2.2. Priority 5: Credibility and execution control of the annual budget

Strengthening of annual budget credibility through improvement of budget planning and compliance with macro-fiscal framework as well as strategic objectives of the Government is a continuous priority of PFMRS. The Coordination Group, according to the received data considers that there is a sustainable trend of strengthening annual budget planning and consistency of the linking annual budget with public strategic policies and macro-fiscal framework.

For 2018 average deviation (%) of the overall budget execution compared to the budget approved in the beginning of the year by central level BOs is 12.24%. This indicator is below the target aimed for 2018; this deviation mainly comes as result of non-execution of capital projects under the Investment Clause mechanism and social transfers.

Concerning second indicator, number of transfers, there has been a progress every year. During the fiscal year, 2018 there were 78 transfers. When compared to 2017 when there were 149 transfers, we see that there is a huge progress. This result exceeds the expected target for 2020.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator(s) to measure objective fulfilment</th>
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<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen the credibility of the annual budget by improving the budgetary planning and its credibility, including planning at program level, in order to ensure that the budget is drafted in accordance with the macro-fiscal framework and the Government strategic objectives.</td>
<td>1. Percentage of average deviation of the overall budget execution compared to the approved budget by BOs at the central level.</td>
<td>10.46%</td>
<td>9.0%</td>
<td>5%</td>
<td>3.86%</td>
<td>11.42%</td>
<td>12.24%</td>
</tr>
<tr>
<td></td>
<td>2. Number of transfers during a fiscal year</td>
<td>199&lt;sup&gt;4&lt;/sup&gt;</td>
<td>170</td>
<td>100</td>
<td>188</td>
<td>149</td>
<td>78</td>
</tr>
</tbody>
</table>

Comment on the status of Activities 5.1-5.3

Three activities were foreseen for fulfilment of this objective. Compared to baselines for 2018, a partial progress is recorded in activity 5.1, while there was a delay in implementation of two activities 5.2 and 5.3. Due to the change of strategic orientation, with the adoption of revised PFMRS Action Plan 2019-2020, activity 5.2 is removed while activity 5.3 is revised. Both these activities are not considered relevant to achieve the objective. The chart below shows the progress achieved in implementation of activities in 2018.

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<sup>3</sup>Baseline value refers to 2015
<sup>4</sup>Baseline value refers to 2015

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(5.1) Preparation of an administrative instruction on transfers-reallocations.-this activity is partially implemented. Working group has drafted the AI on transfers-reallocations but the implementation has not started.

(5.2) Program based budgeting.- Implementation of pilot project on program based budgeting for the Ministry of Finance and Training of Budget Department officials on program based budgeting was not implemented.

(5.3) Drafting a strategic plan on program-based budgeting.-not implemented

3.2.3.- Priority 6: Quality of capital budget information

Systematic linking of capital projects with the National Development Strategy and sector policies, and the quality of technical analysis of projects is objective of PFMRS Priority 6. More specifically, during 2018 was established a WG in MoF to draft the Administrative Instruction as a basis to define the methodology for evaluation and selection of projects. Similar to this was also established another working group for drafting Administrative Instruction that clearly defines what should be considered a capital project. Both these Administrative Instructions were drafted during 2018, but none of them was adopted in the Government or began to be implemented during 2018 and as result, there is a delay in their implementation compared to the baseline for 2018.

Concerning the first Indicator, there is an improving trend (decrease) in the number of re-allocations for central level BOs. Number of reallocations in 2018 was only 21 compared to 65 in the baseline year. This Indicator has exceeded the target value as result of more accurate budget planning and cooperation with BOs.

Second Indicator that relates to percentage of implementation of capital investment budget compared to the planned budget within a fiscal year, still remains a challenge. This indicator is at 72.5%, significantly less than the target. In the revision of PFMRS Action Plan 2019-2020, this indicator was reformulated.
Comment on the status of achievements in activities 6.1.-6.4

Four activities were foreseen for fulfilment of this objective. Compared to baselines for 2018, a progress is recorded in two activities 6.2 and 6.4, while there was partial progress in implementation of two activities 6.1 and 6.3. The chart below shows the progress achieved in implementation of activities in 2018.

*Chart 14 Priority 6. Quality of capital budget information*

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
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<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>A more efficient and effective management of public investment planning and monitoring by the BOs in the PIP system that would have an impact on proper capital projects planning to be related to the National Development Strategy and the Government priorities.</td>
<td>1. Number of reallocations for BOs at central level.</td>
<td>65&lt;sup&gt;5&lt;/sup&gt;</td>
<td>55</td>
<td>25</td>
<td>56</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>2. Percentage of implementation of capital investment budget compared to the planned budget in the annual budget</td>
<td>98%&lt;sup&gt;6&lt;/sup&gt;</td>
<td>99 %</td>
<td>100 %</td>
<td>86 %</td>
<td>59 %&lt;sup&gt;7&lt;/sup&gt;</td>
<td>72.5</td>
</tr>
</tbody>
</table>

- (6.1) Adoption of Regulation.-it was not adopted initially; therefore there is a delay in implementation of this activity. Draft AI is developed and it is expected to be adopted soon and to start with its implementation.
- (6.2) At least 120 BO officers of central and local level trained on PIP system. - this activity is implemented, they were trained as requested.
- (6.3) Issue an Administrative Instruction on the definition of capital expenditures.- draft AI has been developed and it is expected to be adopted soon and start its implementation
- (6.4) Maintenance and development of PIP system.- this activity is implemented in the Information Technology system in MoF.

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5 Baseline value refers to 2015  
6 Baseline value refers to 2015  
7 Non-execution of spending is a consequence of PAK funds presented in AB and investment clause
3.3. The overall progress in implementation of reforms under Pillar 3: Operational Efficiency

Operational efficiency was addressed through three Priorities in PFMRS. In this pillar, reforms focus on capital budget, procurement, internal control and external audit. Achievements for priorities of Pillar 3 are presented below.

3.3.1. Priority 7: Public procurement

In this objective of PFMRS reform are undertaken actions in building technical, systemic and human capacities. All these have resulted in the maintenance of increasing trend of guarantees to ensure efficient and transparent use of public funds.

Concerning the first indicator, the rate of value of contracts signed during 2018 with negotiated procedure without publication of contract notice is 8.18%. Target value for 2018 is achieved and records a progress compared to 2017. This indicator has a positive impact towards achievement of target for 2020.

In indicator 2, the PPRC has monitored 57% of contract notices in 2018, which is below the foreseen target for 2018 (100%). It should be mentioned that this indicator has marked a satisfactory progress compared to the baseline value of 2016 (5%). The reason why target was not achieved is related to the focus on monitoring of other tender documentation and other type of notices according to PPL.

Comment on the status of Activities 7.1-7.5

Five activities were foreseen for fulfilment of this objective. Compared to baselines for 2018, a progress is recorded in three activities 7.1, 7.2 and 7.4, while there was partial progress in implementation of activity 7.3, and delay was recorded in implementation of activity 7.5. The chart below shows the progress achieved in implementation of activities in 2018.

Chart 15 Priority 7. Public procurement

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8Baseline value refers to 2014. The value for 2015 is 16.1%
(7.1) Establishment of e-procurement system to carry out procurement activities.- as of January 1, 2018, e-procurement platform has become mandatory for all types of procurements with value over 1000 EUR, or for 98% of all procurement activities implemented by Contracting Authorities (CAs) at the national level.

(7.2) Development and implementation of centralized procurement activities.- progress is recorded also in implementation of centralized procurement. CPA has managed to perform its activities in line with its dynamic plan and these resulted in significant saving for Kosovo Budget, ranging between 7 and 12%, depending on goods or services that were procured. CPA conducts all procurement activities in e-procurement platform (fully electronic) since June 2018. In accordance with AI 06/2018, all procurement activities have been tendered. Contracts have been signed for 70% of procurements, whereas 15% are in the tendering phase and 15% are in the evaluation or appeals phase. Concerning the application of procurement procedures for specific goods and services of contracting authorities - it is implemented completely.

(7.3) Monitoring public procurement activities - PPRC, during 2018:
- Has performed all monitoring as requested or randomly (62 monitoring activities)
- It has monitored about 57% of publications of contract notices made through e-procurement system (before they were published), for all contract values without any exception.
- However, there was no monitoring of contract management, because the module of e-management of the contract has not been operationalized in the electronic platform.

(7.4) Raising broader public awareness on public procurement rules.- PPRC in cooperation with KIPA and USAID TEAM, during the reporting period has held training on four public procurement topics. These trainings were attended by: Judges, Internal Auditors, Business Representatives, Directors of Municipal Departments, Officials who are in bid opening and evaluation committee, Directors of schools from some Municipalities; in total, 1070 participants were trained.

(7.5) Training of procurement officials. -in absence of budget there were no advanced trainings in public procurement for procurement officers during 2018.

3.3.2.- Priority 8: Strengthening internal audit

Strengthening internal audit is important because it helps the management to achieve objectives of the organisation.

The adoption of the Law on PIFC was followed with the preparation of Draft Regulation on establishment and implementation of internal audit function in the public sector entity and draft administrative instruction on establishment and functioning of the audit committee in the public sector entity. CHU has continued with the organization of theoretical and practical training, within the licensed program for certification of internal auditors. As result, during this period were certified 139 or 90.85% of 153 internal auditors working in the public sector.

Activities undertaken by the Ministry of Finance in Priority 8 have had an impact in increased percentage and number of certified internal auditors, while for the indicator related to percentage of recommendations implemented by the management was reported in the PFM Dialog meeting to be 51.24%.
Comment on the status of Activities 8.1-8.5

Five activities were foreseen for fulfillment of this objective. Compared to baselines for 2018, a progress is recorded in four activities 8.2 - 8.5, while there was partial progress in activity 8.1. The chart below shows the progress achieved in implementation of activities in 2018.

**Chart 16 Priority 8. Strengthening internal audit**

- (8.1) Law on PIFC was published in May 2018 at the Official Gazette. In 2018 were prepared drafts of sub-legal acts on PIFC and were organized trainings for internal auditory, but not on sub-legal acts due to the delay in the adoption of the Law on PIFC.
- (8.2) In cooperation with USAID was prepared the Public Procurement Audit Manual;
- (8.3) Out of 153 internal auditors working in the public sector, 139 or 90.85% are certified.
- (8.4) In 2018 was held a workshop with Audit Authority (AA) for EU funds and audit team from Kosovo on the audit of EU funds. After this training and continuous cooperation with AA of Montenegro according to the agreement 2014-2020, CHU completed the Audit of EU funds under IPA II, more concretely, Cross border Projects with Montenegro for 2018. When performing the audit the team has received advice from colleagues of Montenegro. This is a continuous process. Also in cooperation with Authority of Montenegro was prepared the strategic and annual plan to continue auditing IPA II funds for the cross-border project with Montenegro for 2019.
- (8.5) Annual Report on the functioning of PIFC in 2017 is prepared, whereas for 2018 it will be prepared in June 2019 according to the new requirements of the Law on PIFC.
3.3.3.- Priority 9: Strengthening external audit

Priority number nine of third pillar relates to external audit and main result is development of a well-functioning supreme audit institution, which performs audits in line with public sector audit standards. Strengthening and development of external audit based on international professional standards and institutional independence is one of priorities of the reform.

Concerning the first indicator, percentage of audit reports reviewed by the Committee on Financial Oversight, data on Budget Organisations, is 22%. This indicator partially reach the target set for 2018. Compared to the baseline year 2016 and reporting in 2017, there is a significant improvement and a positive trend.

Concerning the second indicator, percentage of addressed recommendations issued by the National Audit Office, they were implemented at the level of 34%, which is an increase of 8% compared to the previous reporting. This indicator is below the target set for 2018.

Concerning third indicator, percentage of unaddressed recommendations issued by the National Audit Office, for 2018 it is 40%.

<table>
<thead>
<tr>
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<th>Baseline</th>
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<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017&lt;sup&gt;9&lt;/sup&gt;</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop a well-functioning Supreme Audit Institution, which conducts audits in accordance with internationally recognized audit standards for public sector.</td>
<td>1. Percentage of addressed recommendations by the Parliamentary Committee on Public Finance Oversight.</td>
<td>10%&lt;sup&gt;10&lt;/sup&gt;</td>
<td>30%</td>
<td>50 %</td>
<td>14.14%</td>
<td>12.5%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>2. Percentage of addressed recommendations issued by the Auditors General Office</td>
<td>32%</td>
<td>45%</td>
<td>60%</td>
<td>26 %</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Percentage of not addressed recommendations issued by the National Audit Office</td>
<td>37%</td>
<td>25%</td>
<td>20%</td>
<td>38 %</td>
<td>40%</td>
<td></td>
</tr>
</tbody>
</table>

Comment on the status of Activities 9.1-9.5

Five activities were foreseen for fulfilment of this objective. Compared to baselines for 2018 a progress is recorded in implementation of five activities 9.1 - 9.5. The chart below shows the progress achieved in implementation of activities in 2018.

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<sup>9</sup> The percentage represent recommendations of 2015, implemented in 2016

<sup>10</sup> Baseline is referred to 2015
(9.1) Secure institutional independence.- this activity is implemented and is considered completed in 2017.

(9.2) Treating the gap between OAG audit practice and the ISSAIs. - regarding this activity a significant progress is achieved in relation to foreseen targets. Strategic Plan of the National Audit Office 2018-2021, and Operational Plan 2018-2019 for implementation of the strategy were drafted and adopted. Whereas regarding the second objective of developing procedures for performing audit through a computerized audit tool (CAAT), NAO uses the data analysis software ‘Interactive Data Extraction and Analysis’ (IDEA). This software is used for sampling purposes and analytical reviews. Furthermore, NAO with the support of USAID TEAM is completing the mapping process for an audit software.

(9.3) Updating Regularity Audit Guidance.- before the audit season 2018/19 begins in September 2018 were reviewed Work Papers and audit procedures. Also, regularity audit manual was added an annex on auditing publicly owned enterprises and work papers are adapted with the support of the EU financed project. Whereas regarding capacity building and professional development, in 2018 were organized local and international trainings mainly in the field of audit. In total 120 auditors have benefited from these trainings.

(9.4) Further development of the Performance Audit practice of the OAG.- concerning this activity, in 2018 there were training programs for performance auditors by Swedish National Audit Office (SNAO), who also provided mentoring of specific audits.

(9.5) Outreach to the Assembly.- NAO has organized three specific round tables with members of Budget and Finance Committee and Committee on Oversight of Public Finances where specifically were addresses findings and recommendations resulting from audit activities and which aimed to improve the public finance management in Kosovo. Furthermore, in 2018 COPF has held in total 26 meetings where they reviewed 33 audit reports issued by the NAO. In all cases when they reviewed audit reports, audit teams prepared short summaries for deputies, members of COPF and have offered necessary advising and explanations as required. Representatives of NAO participated in these meetings as invited. In some instances, COPF recommended some audit reports for review in the plenary session in order to increase the impact for better management of public money by specific institutions. Whereas concerning the second objective of this activity, in early October 2019, NAO has organized the annual conference on the topic ‘The role and impact of Supreme Audit Institutions in restoring public confidence in the public sector’.

Government of the Republic of Kosovo
Ministry of Finance
3.4. The overall progress in implementation of reforms under pillar 4: PFM related matter

PFM related matters are addresses through three PFMRS Priorities. In this Pillar reforms focus in Improvement of IT systems, Budget Transparency and Sustainable Capacity Building in PFM.

3.4.1. Priority 10: Improvement of IT systems

Priority number ten (10) deals with improvements of information technology systems in order to improve public financial management. Three (3) activities are planned in total for achieving this priority. During 2018 it was reported that integration of main systems of MoF and agencies under the MoF umbrella was completed. Seven IT systems were integration with this.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Enhancement of IT systems that operate in the Ministry of Finance to improve quality of financial information.</td>
<td>No. of integrated systems</td>
<td>0</td>
<td>5</td>
<td>7</td>
<td>Preparations in progress</td>
<td>EO is being selected</td>
<td>7</td>
</tr>
</tbody>
</table>

Comment on the status of Activities 10.1-10.3

Three activities were foreseen for fulfilment of this objective. Compared to baselines for 2018, a progress is recorded in one activities 10.1, while there was partial progress in two activities 10.2 and 10.3. The chart below shows the progress achieved in implementation of activities in 2018.

Chart 18 Priority 10. Improvement of IT systems

- (10.1) Integration of IT systems in MoF and its subordinate agencies.- integration of IT systems was completed 100%. Integration of five out of the total seven systems was planned for 2018. Currently the integration of seven systems was completed, which is the target of the strategy for 2020. Integrated systems are; Treasury system; PIP system; BDMS system; TAK system (SIGTAS); Customs system (Asycuda); Property tax system (Protax 2) and Payroll system.
- (10.2) Modernization of KFMIS, enhancement of Information Technology capacities in the Treasury.- In 2018, the tender was announced and company for developing KFMIS was selected linking with the RTGS.
- (10.3) Establishment of an electronic archive for the Budget Organizations. Pilot project has started in some BOs for establishing electronic archive. During 2018, electronic archive was partially integrated into KFMIS for some modules (Purchase order and Expenditure).

3.4.2. Priority 11: Budget transparency

Priority eleven (11) relates to ensuring transparency in spending of public funds, whose priority is to ensure compliance of Kosovo Budget information with IMF, respectively standard GFSM 2014.

Despite planning, the review of chart of accounts was not finalized within 2018. As consequence, the new chart of accounts structure harmonized with IPSAS and GFS was not approved.

At the same time, Treasury has continued regular publication of monthly data-time series on budget revenues and expenditures for the period (2006-2018). Publication and access to fiscal data on monthly basis in electronic format in excel is enabled on the website of MoF, thus providing complete transparency on the use of public money.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure compliance of Kosovo budget information with the IMF standard, GFS 2014.</td>
<td>1. Budgeting and reporting to be done based on the account table complying with GFS 2014</td>
<td>Publication already starte d\textsuperscript{11}</td>
<td>Budget planning according to GFS 2014</td>
<td>GFS 2014 standard in use</td>
<td>A linking document between economic codes, GFS 2014 and ESA 2010.</td>
<td>It is expected to review the Financial Rule on Chart of Accounts harmonized with GFSM and IPSAS.</td>
<td>Budget planning according to GFS 2014</td>
</tr>
</tbody>
</table>

Comment on the status of Activities 11.1-11.6

Six activities were foreseen for fulfilment of this objective. Compared to baselines for 2018, a progress is recorded in three activities 11.1, 11.5 and 11.6, while delays are reported in implementation of three other activities 11.2, 11.3 and 11.4. The chart below shows the progress achieved in implementation of activities in 2018.

Chart 19 Priority 11. Budget transparency

\textsuperscript{11} This year, for the second time, they are reported in the GFS (revenues and expenditures) and published on the MoF website, and GFS data for the General Government
(11.1) Modification of the KFMIS to enable automated preparation of budget reports in compliance with the GFSM 2014.- a special tool is created for transforming data from current codes to chart of accounts (KFMIS) in the format required according to GFSM 2014.
(11.2) Revision of Government chart of accounts.- not revised in 2018.
(11.3) Adoption of a new chart of accounts structure harmonized with IPSAS and GFS and incorporation into KFMIS.- no progress during 2018.
(11.4) Translation of the Manual on government financial statistics and training of officers for new accounting structure.- implementation of this activity is delayed because it is linked with revision of Government Chart of Accounts.
(11.5) Publication of time series of revenues and expenditure of general government.- monthly time series have been published on regular basis.
(11.6) Information booklet for citizens Budget of the Republic of Kosovo for 2018 has been published.-information booklet for citizens Budget of the Republic of Kosovo for 2018 is published on the website of the Ministry of Finance (the link https://mf.rks.gov.net/page.aspx?id=1,33, in all three languages). Furthermore, during 2018 in cooperation with GIZ was launched the Transparency Portal (https://ptmf.rks.gov.net/).

3.4.3. Priority 12: Sustainable capacity building in PFM

In order to achieve priority related to the sustainable development of capacities in PFM, several initiatives were undertaken, which have not resulted with ensuring funds for implementation of Feasibility study, which would suggest best solution for this Priority. Furthermore, the delay of Sector Budget Support has had an impact in the delay of implementation. In the budget of 2019 are allocated budgetary funds for conducting the Feasibility Study.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicator(s) to measure objective fulfilment</th>
<th>Baseline</th>
<th>Target value 2018</th>
<th>Target 2020</th>
<th>Report 2016</th>
<th>Report 2017</th>
<th>Report 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>To obtain a systematic, sustainable and integrated way of increasing capacities of civil servants in Public Financial Management using local, public administration and foreign expertise.</td>
<td>1. Number of PFM training programs</td>
<td>X programs in the field of PFM</td>
<td>Capacity building as before.</td>
<td>Waiting for the implementation of Feasibility Study</td>
<td>Funds are ensured in 2019</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2. Number of officials trained in the PFM area</td>
<td>Xx officials trained in PFM</td>
<td>Capacity building as before.</td>
<td>Waiting for the implementation of Feasibility Study</td>
<td>Terms of reference after the study.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comment on the status of Activities 12.1-12.3

Three activities were foreseen for fulfilment of this objective. Compared to baselines for 2018 a delay is recorded in implementation of three activities 12.1, 12.2 and 12.3. The chart below shows the progress achieved in implementation of activities in 2018.

Chart 20 Priority 12. Sustainable capacity building in PFM
- 12.1 Conducting a feasibility study, including training needs assessment. Terms of Reference for Feasibility Study, though drafted, have not been finalized with the study because it was not possible to ensure the funds. Funds are allocated in the budget of 2019; this activity is expected to start soon. This activity was analysed and reformulated with the revision of the Action Plan 2019-2020.
- 12.2 Preparation of the Curriculum in Public Financial Management. - expected to be developed after completion of Feasibility Study.
- 12.3 Delivery of Training in the field of PFM. - if two preliminary activities will be conducted, then will follow the drafting of Curriculum for 2020.

4. Priority activities for next year based on identified challenges and recommendations to overcome the challenges

This section presents the next steps and associated risks together with actions that are expected to be undertaken in order to implement the strategy. Ministry of Finance in cooperation with other involved institutions has undertaken activities emerging from the implementation of PFM Reform Strategy (PFMRS) and meeting other requirements stemming from this process. In this direction were the steps for Revision of Action Plan on PFMRS for 2019-2020.

In 2018, CG of PFM supported with expertise from SIGMA, has conducted the analysis of two Annual Reports and two Six-month reports drafted in the scope of PFMRS. The evaluations and recommendations of development partners were also analysed. The criteria of analysis were based on the relevance of activities, but also of existing priorities of Action Plan 2016-2018. Implementation of activities was also taken into consideration, removing those that are already recorded as completed.

Initial orientation was not to change priorities and indicators of the strategy, in order to maintain continuity but also the challenging nature of the strategy. Initially analysis and later discussions and suggestions stemming from PFM Dialog Meeting held on 27 November 2018, have made some indicators in some Priorities to be reviewed. Indicators assessed as irrelevant were replaced, when possible, with Variable Indicators that have emerged from Financial Agreement for PFM support (indicators 1, 2, 6 and 11).

Furthermore, the PFM CG has reviewed the Indicator Passport for the years 2019-2020, Risk assessment framework (PFMRS) 2019-2020 and Risk Management Framework of PFMRS, according to activities 2019-2020.

Steps undertaken in the revision of Action Plan are integral part of the PFM Reform Strategy (PFMRS) 2016-2020, and together with other supporting documents such as Indicator Passport 2019-2020, Risk Assessment Framework - PFMRS 2019-2020 and Risk Management Framework in PFMRS according to activities 2019-2020, ensure the validity and relevance of the Strategy and its implementation.