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

Prishtina
2017

CONTENTS

ABBREVIATIONS	3
1. EXECUTIVE SUMMARY	4
1.1 PILLAR I: FISCAL DISCIPLINE	4
1.2 PILLAR II: ALLOCATION EFFICIENCY	5
1.3 PILLAR III. OPERATIONAL EFFICIENCY	5
1.4 PILLAR IV. CROSS CUTTING PFM ISSUES	5
2. THE OVERALL PROGRESS OF THE STRATEGY IMPLEMENTATION	6
3. OVERALL INFORMATION ON THE STRATEGY'S PROGRESS BY PRIORITY AREAS, INDICATORS AND ACTIVITIES.....	14
3.1. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 1: FISCAL DISCIPLINE	14
3.1.1. Priority 1: Accuracy of macroeconomic indicator and revenue forecasting	14
3.1.2. Priority 2: Effective commitment controls	15
3.1.3. Priority 3: Sustainable revenue collection	16
3.2. The overall progress on implementation of reforms from Pillar 2: Allocation Efficiency	17
3.2.1. Priority 4: Development of the Medium Term Expenditure Framework (MTEF)	17
3.2.2. Priority 5: Credibility and execution control of the annual budget	18
3.2.3. Priority 6: Quality of information on capital budget	19
3.3. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 3: OPERATIONAL EFFICIENCY	20
3.3.1. Priority 7: Public Procurement	20
3.3.2. Priority 8: Strengthening internal audit	21
3.3.3. Priority 9: Strengthening external audit	22
3.4. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 4: ISSUES RELATED TO PFM	23
3.4.1. Priority 10: Improving IT systems	24
3.4.2. Priority 11: Budget transparency	24
3.4.3. Priority 12: Sustainable capacity building in PFM.....	25
4. PRIORITY ACTIONS FOR NEXT YEAR	27
4.1. Priority 1: Accuracy of macroeconomic indicators and revenue forecasting.	27
4.2. Priority 2: Effective commitment controls	27
4.3. Priority 3: Sustainable revenue collection	28
4.4. Priority 4: Development of the Medium Term Expenditure Framework (MTEF)	28
4.5. Priority 5: Credibility and execution control of the annual budget	28
4.6. Priority 6: Quality of capital budget information	29
4.7. Priority 7: Public procurement	29
4.8. Priority 8: Strengthening internal audit	29
4.9. Priority 9: Strengthening external audit	30
4.10. Priority 10: Improving IT systems	30
4.11. Priority 11: Budget transparency	30
4.12. Priority 12: Sustainable capacity building in PFM.....	31

ABBREVIATIONS

IA –Internal Auditing
TAK – Tax Administration of Kosovo
EU – European Union
BDMS - Budget Development and Management System
COSO - Committee of Sponsoring Organizations of the Treadway Commission
CK – Customs of Kosovo
RMD – Risk Management Department
IMF – International Monetary Fund
SPSG – Strategic Planning Steering Group
IPSAS - International Public Sector Accounting Standards
KBF – Committee for Budget and Finance
MTEF - Medium Term Expenditure Framework
EC – European Commission
PIC – Public Investments Committee
PFIC – Public Finance Internal Control
PPRC – Public Procurement Regulatory Committee
LPP – Law on Public Procurement
LPFMA - Law on Public Financial Management and Accountability
MF – Ministry of Finance
PFM - Public Finance Management
SAA – Stabilization and Association Agreement
BO – Budget Organization
PEFA - Public Expenditure and Financial Accountability
PIFC - Public Internal Financial Control
PIP – Public Investment Program
AFS – Annual Financial Statements
SBS - Sector Budget Support
SIGMA - Support for Improvement in Governance and Management
KFMIS - Kosovo Financial Management Information System
PFMRS – PFM Reform Strategy
IT – Information Technology
OAG – Office of Auditor General
SPO – Strategic Planning Office
OPM- Office of Prime Minister

Note: This document was drafted by the Coordination Group for Implementation of the Public Finance Reform Strategy in the Republic of Kosovo and serves for reporting purposes to the Ministry of Finance and Ministerial Council of Public Administration Reform (MCPAR). Since it was not presented (nor approved) still in these forums, this document is a draft and shall not be used without a written authorization by the Ministry of Finance.

1. EXECUTIVE SUMMARY

This report summarizes and presents objectives met and progress in the activities on the Public Finance Management Reform Strategy (PFMRSA) during 2016 and activities for 2017.

According to the mandate vested under the Decision no. 43/2016 of the Minister, Coordination Group is obliged to elaborate regular annual progress assessment reports and the same shall be delivered as an annual monitoring report on the implementation of the Public Finance Management Reform Strategy (PFMRS). PFMRS implementation, builds based on the PFMRS action plan and Indicators Passport.

Based on reported data, by the responsible institutions, under the Strategy and its Action Plan, and taking into reference the performance indicators, the Group may report that there is an overall horizontal progress in all implementation areas of the Strategy.

The approach undertaken with regards to the elaboration of this Annual Report was a combination of working meetings and workshops. Initially, it was drafted a reporting table (based on OECD/SIGMA guidelines) and the Indicators Passport guidelines. The meetings and workshops organised discussed and incorporated inputs from responsible structures.

Public Finance Management Reform Strategy (PFMRS) was built over 4 Pillars and 12 Priorities covering all areas of Public Finance Management Reform.

1.1 PILLAR I: FISCAL DISCIPLINE

Progress can be reported on improving Fiscal Discipline. The accuracy of forecasting macroeconomic and revenue indicators has improved. The average deviation of revenue forecasts compared to revenues realized as well as revenues that occurs in the budget only once (one-off) has decreased value. This can be illustrated with the fact that difference of forecasted from realised data for 2016 by direct taxes deviate 3.1% more in realisation, whereas by indirect taxes result even lower deviation of 1.7% as increased incomes. There is also very low deviation between forecasting and realisation for 2016 according to collection agencies, while revenue collections on border register increase of 1.1% more than planned. At domestic revenues results a deviation of only 1.7% less than forecasted.

With regards to effective commitment control, the situation is almost the same. The outstanding payment arrears by the end of the fiscal year are almost the same as the baseline year 2015 (increase by 0.1%) as the strategy entered into force in mid-2016 (six months for implementation of activities).

During the reporting period, sustainable revenue collection has been achieved. Main contributions in this positive trend of economic development are as a result of measures taken in the reform of doing business, increased trust of investors as well as continuous improvement of foreign economic environment, resulting in the increased number of VAT registered businesses, the number of taxpayers who voluntary declare incomes and the debt collection rate.

1.2 PILLAR II: ALLOCATION EFFICIENCY

Progress is also marked in the area of Allocation Efficiency in the Midterm Expenditure Framework (MTEF) through advancement of the role of MTEF as a linking document between National strategies and budget planning for next three years, and by continuing capacity building of trained official in budget impact analysis BIA.

Credibility and control of the execution of the annual budget has increased. This results in a reduction in the deviation of overall budget execution compared to the approved budget as well as the decrease in the number of transfers during the fiscal year.

Also, it is reported progress in the quality of information on capital budget.

The progress achieved in the decline of the number of reallocations for central level BOs has contributed to this. The percentage of capital investment budget implementation is satisfactory, although not at the baseline year level (12% less), given the six months of the entry into force of PFMRS.

1.3 PILLAR III. OPERATIONAL EFFICIENCY

Also in the area of Operational Efficiency has been marked a significant improvement in all performance indicators. In public procurement, progress has been marked in implementing the "value for money" principle by reducing the use of the Negotiated Procedure without publication as well as by increasing the percentage of the value of contracts monitored through notifications published by the PPRC.

It is worth mentioning that the internal audit was further strengthened by increasing the number of certified internal auditors, which undoubtedly has also influenced the increase in the implementation of the internal auditor's recommendations by management.

Moreover, the report finds that there is some progress in strengthening the external audit. Special emphasis should be given to the increase of recommendations reviewed by the Committee on Public Financial Oversight of the Assembly of Kosovo, recommendations issued by the National Audit Office. Regarding the addressing or non-addressing by the Government of the recommendations of the National Audit Office, we can say that we expect progress in the implementation of NAO recommendations based on the recommendation of the Assembly for the Government to prepare an action plan for implementing recommendations from the Annual Audit Report for 2015 and to report on a quarterly basis on the progress achieved to the Committee on Public Financial Oversight of the Assembly. The final assessment of these indicators can be completed after the publication of the Annual Audit Report for 2016, which is to be published at the end of August 2017.

1.4 PILLAR IV. CROSS CUTTING PFM ISSUES

The fourth Pillar, which deals with horizontal issues in the PFM, has been noted to have made progress in taking appropriate steps towards the integration of existing systems into PFM. It should be noted that for this pillar, based on the nature of the activities, actions are foreseen for the following years. At the request of the IT Steering Committee, an inventory of IT systems and resources was made and a document for outputs for system integration is developed.

In the framework of increasing the budget transparency, some steps have been taken towards achieving this objective. A table linking current accounting plan codes and the Government

Financial Statistics Manual published by the IMF and ESA 2010 have been developed. Effects are expected in the following year.

With regard to finding a systematic, sustainable and integrated capacity-building option in the area of PFM, it should be noted that the feasibility study is foreseen for next year. It should be highlighted that capacity building has continued as before.

2. THE OVERALL PROGRESS OF THE STRATEGY IMPLEMENTATION

For the reporting period 2016, there has been marked progress in the implementation of activities in all pillars of the strategy. Given the fact that PFMRS was approved in mid-2016, the impact on achieving benchmarks of indicators for 2017 was objectively limited (six months). Due to the adoption of the strategy and action plan in mid-2016, the indicators have the Core Value and Objectives for 2020. During the drafting of the Indicators Passport, the values of the indicators for 2018 are defined. On the other hand, the benchmarks for PFMRS indicators are foreseen mainly for 2017 and 2018. Therefore, in some areas, there is room for improvement or increased engagement with the aim of achieving benchmarks, indicator values for 2018 and target for 2020.

In the first pillar, **Fiscal Discipline** based on reports of the responsible structures, despite the 6-month timeframe, 3 indicators out of 6 indicators have marked progress, while in 2 indicators the situation is similar to baseline year data. TAK reports that debt collection rate in 2016 is 40%. Significant progress has been made in improving the average deviation in Revenue compared to the collected revenues is only 3.82% from baseline level of 7.70%.

In the indicator Average Deviation of the revenue forecast that occurs in the budget only once compared to the existing, it should be clarified that despite an increased percentage of the deviation compared to the base value, it is assessed as progress. This is because the plan has been foreseen to collect EUR 18 million, while implemented for 2016 was EUR 20.4 million. This has caused deviation due to a larger collection than planned.

The outstanding payment arrears are relatively administered better and by the end of the fiscal year, as percentage of total expenditures was 3.5%, close value compared to baseline 3.4%.

Number of VAT-registered businesses has increased in 24, 653 compared to 2015 that was 16, 58. Other indicators related to the number of taxpayers who declare income voluntarily has reached 62,347, which is close to the baseline year that stood at 62,886.

As for the last indicator in this pillar the Debt collection rate, TAK reports that reached 40%.

In the second pillar **Allocation Efficiency**, it is estimated that there is some progress in terms of three indicators and a similar situation with regard to the other three indicators. Greater progress has been made in strengthening the credibility of the annual budget by improving budget planning and credibility by ensuring that budget drafting complies with the macro-fiscal framework as well as the Government's strategic objectives.

The indicator of the average deviation between the MTEF ceiling and the annual budget ceiling for BO if is calculated simply is 7.66% close to the baseline year 7.15%. In reality it should be noted that it has improved significantly in 2016, decreasing to 3.52%, compared to 2015 when it was 7.15%. This is based on the fact that two BOs were not planned with the MTEF (2016-2018) while they are part of the Law on Budget Appropriation for 2016 (RTK and the Air Navigation Services Agency). Unless these two BOs are counted, the percentage of deviation is 3.52%.

The number of officials trained for budget impact assessment-BIA during 2016 was the same as the baseline year, 80 officials.

Significant progress has been made in reducing the percentage of average deviation of budget execution compared with the budget approved at the beginning of the year by the central level BOs. During the reporting period this indicator has decreased to 3.86%, compared to the baseline 10.46%.

Moreover, the number of transfers during a fiscal year has decreased to 188 transfers, out of 199 transfers at the baseline year.

The last two indicators, the Re-allocation for central level BOs and the Implementation of capital investment budget compared to the planned budget within a fiscal year marked similar values as of the baseline.

In the third pillar of the Strategy, **Functional Efficiency**, progress has been made in all performance indicators. Thus, the indicators in the field of public procurement have marked the progress as follows:

- Percentage of using the Negotiated Procedure without publication 7%, approximately halving compared to the baseline 12.98%.
- Percentage of monitoring of contract notices 80%, an increase of 75% compared to baseline 5%.

In the field of Internal Audit we have progressed in the percentage of certified internal auditors of 65.33%, an increase of 15.33% compared to the baseline (50%). While, the percentage of implementation of recommendations by management progressed to 54.70% compared to 51% in the baseline year.

There has also been some progress in strengthening the external audit. The percentage of audit reports reviewed by the Committee for Public Finances Oversight is 14.14%, which is an increase of 4.14% compared to the baseline value (10%).

In the fourth pillar of the strategy, **Cross-cutting PFM issues**, it can be said that progress has been made and it is expected that in the following year there will be added activity.


Regarding the number of integrated systems, the situation remains the same. In the absence of budget during 2016, there were no purchases of IT servers and other IT equipment to increase KFMIS functionality and modernization capacities in terms of speed, financial data security. Analyzes were made by IT experts and the Free Balance Company to include the archive within KFMIS modules.

While the Budgeting and Reporting indicator according to the account table that is consistent with GFS 2014, the situation has not changed. In 2016, all the necessary changes in the accounting plan are assessed, a linking document between the economic codes, GFS 2014 and ESA 2010 is prepared, as well as records database and the format of the report from 2006 to 2016 is prepared.

The third and fourth indicators are intended to provide a systematic, sustainable and integrated way to build civil servants capacity in the field of public finance management by using local expertise from public administration. Both indicators are closely related to the Feasibility Assessment, which is scheduled to take place in 2017.

Progress in achieving implementation of indicators of PFMRS in 2016

Status of implementation of Priorities described by colours:

 Progress above the baseline

 Same as baseline

 Below baseline

Pillar 1: Fiscal Discipline

Priority 1: Accuracy of macroeconomic indicator and revenue forecasting

Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
A careful and realistic prediction of the regular and one-off budget revenues	• Average deviation of tax revenue forecast versus actuals	7.70%	3.82%
	• Average deviation of one-off budget revenues forecast versus actuals	7.60%	13.33%*

* Planned collection was 18 mil. Euros. While the realisation for 2016 reached 20.4 Mil Euros. Presented figures are based on Annual financial report approved on 22th March 2017.

Priority 2: Effective commitment controls

Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Reducing payment arrears by increasing the compliance with applicable commitment controls	• Outstanding payment arrears by the end of the fiscal year as 1% of total expenditures	3.40%	3.50%

Priority 3: Sustainable revenue collection			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
To expand the revenue base by fighting fiscal evasion and smuggling of goods	• Number of registered businesses for VAT	16,583	24,653
	• Number of tax payers voluntarily declaring income	62,886	62,347
	• Percentage of debt collected	16%	40%
Pillar 2: Allocation effectiveness			
Priority 4: Development of the Medium Term Expenditure Framework (MTEF)			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Further advancement of the role of the MTEF as a liaison document between the National Strategy and budget planning for the next three years.	• Average deviation between MTEF ceilings and annual budget ceiling for BOs	7.15%	3.52 % (7.66 %*)
	• Number of officers trained for budget impact assessment -BIA	80	80
* 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 The Air Navigation Services Agency). Without these two BO the overage deviation is 3.52.			
Priority 5: Annual budget credibility and execution control			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016

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	<ul style="list-style-type: none"> Percentage of average deviation of the overall budget execution compared to the approved budget by BOs at the central level 	10.46%	3.86%
	<ul style="list-style-type: none"> Number of transfers during a fiscal year 	199	188
Priority 6: Quality of capital budget information			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
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	<ul style="list-style-type: none"> Number of reallocations by central BOs 	65	56
	<ul style="list-style-type: none"> Percentage of implementation of capital investment budget compared to the planned budget in the annual budget 	98%	86%
Pillar 3: Operational efficiency			
Priority 7: Public Procurement			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Ensure an efficient, transparent, and fair use of public funds and the apply the core “value for money” principle in public procurement	<ul style="list-style-type: none"> Percentage of negotiated procedure without announcement. 	12,98%	11,76%
	<ul style="list-style-type: none"> Percentage of monitoring of contract notices. 	5%	80%

Priority 8: Strengthening internal audit			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Strengthen the internal audit function as a value added service to accountable management	<ul style="list-style-type: none"> Percentage of certified internal auditors (IA). 	50 % of certified IA	65.33%
	<ul style="list-style-type: none"> Implementation of recommendations by management. 	51 % implementation of the recommendations by management	54.70%
Priority 9: Strengthening external audit			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Develop a Well Performing Supreme Audit Institution carrying out audits in accordance with internationally recognized public sector auditing standards.	<ul style="list-style-type: none"> Percentage of reviewed audit reports by Committee for Oversight of Public Finance (COPF). 	10%	14.14%
	<ul style="list-style-type: none"> Percentage of addressed recommendations issued by the Auditors General Office 	32%	To be finalised after Report 2016
	<ul style="list-style-type: none"> Percentage of not addressed recommendations issued by the Auditors General Office 	37%	To be finalised after Report 2016
Pillar 4: PFM related matters			
Priority 10: Enhancement of IT systems			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016

Enhancement of IT systems operational at the Ministry of Finance to improve quality of financial information.	<ul style="list-style-type: none"> No. of integrated systems 	0	0
Priority 11: Transparency of budget			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
Ensure compliance of Kosovo budget information with the IMF/ standard 2014 GFS	<ul style="list-style-type: none"> Budgeting and reporting to be done based on the account table complying with GFS 2014. 	NA	Preparations started
Priority 12: Sustainable capacity building in PFM			
Objective	Indicator(s) to measure achievement of the objective	Baseline	Report 2016
To insure a systematic, sustainable and integrated way of increasing knowledge of civil servants in Public Finance Management using local and external expertise of the public administration	<ul style="list-style-type: none"> Number of PFM training programs 	Number of programs	Feasibility study expected
	<ul style="list-style-type: none"> Number of officials trained in the PFM area 	Number of officials trained	Feasibility study expected

3. OVERALL INFORMATION ON THE STRATEGY'S PROGRESS BY PRIORITY AREAS, INDICATORS AND ACTIVITIES

In general terms, the Coordination Group for Public Finance Management Reform Strategy (Coordination Group) established pursuant to Decision (No. 43/2016, date 14.11.2016) of the Minister of Finance for 2016 may report a satisfactory implementation of the Public Finance Management Reform Strategy (PFMRS).

All objectives set in the Intervention priority areas have undertaken concrete activities according to the Action Plan 2016.

PFMRS is built on 4 pillars and 12 priorities that cover all areas of Public Finance Management reform.

In the following, the Coordination Group presents findings from the PFRMS Implementation monitoring for 2016, based on indicator measurement methodology specified in Indicators Passport.

3.1. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 1: FISCAL DISCIPLINE

First Pillar of PFRMS, Fiscal Discipline, contains total of three Priorities. Below we present the progress towards achieving the objective and related activities for each priority in this Pillar.

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

Credible and real forecasting of budget revenues (regular and one-off) represents the reform milestone. For 2016, one can report a positive trend towards achieving this objective, reliable and credible forecasting of revenue as a determination framework for financial opportunities in funding of the public policies and associated risks.

The Ministry of Finance (MoF) has undertaken activities and measures to ensure that the deviation between revenue forecasts and revenues implemented is as small as possible. Progress in implementing this indicator is noticeable. During 2016, this deviation reaches 3.82%, which is significantly lower than the 7.7% deviation of 2015.

Also, in the second indicator, which relates to the average revenue deviation forecast that occurs in the budget only once compared to the existing one, there is a deviation of 13.33%. It is estimated to be a progress since the plan has been foreseen to collect EUR 18 million as one-off revenues, while implementation for 2016 is EUR 20.4 million, or EUR 2.4 million more.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
A careful and realistic forecast of the regular and one-off budget revenues.	Average deviation of tax revenue forecast versus actual.	7.7%	5%	3 %	3.82 %
	Average deviation of one-off budget revenues forecast versus actual.	7.6%	5%	4%	13.33%

Comment on the status of Activities 1.1- 1.4

5 activities were planned for fulfilment of this objective. The evaluation against achievements in 2016 indicates progress in all activities. Moreover:

- (1.1) During 2016 were employed two additional officials in the Macroeconomics Unit. However, new staff needs appropriate trainings.
- (1.2) With regards to this activity, a methodology draft was compiled.
- (1.3) Also, during 2016 macro fiscal framework and economic indicators were published as part of the Medium Term Expenditure Framework.
- (1.4) A restructuring of the Department was undertaken pursuant to the Government decision of 08.12.2016. Macroeconomic Policy Division is detached from Policy Division.

3.1.2. Priority 2: Effective commitment controls

The ability to repay on time (1-30 days) received payments as Priority 2 of Pillar 1 of the reform. The purpose of this priority, effective commitment controls, will be achieved by better management payment delays through financial commitments controls.

In this regard, the partial activities have resulted with improved internal controls and budget commitments.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
Reducing payment delays by increasing compliance with applicable commitments controls.	Outstanding payment arrears by the end of the fiscal year as % of total expenditures.	3.4%	2%	1%	3.5%

Comment on the status of Activities 2.1-2.9

To achieve this goal, the strategy has pooled 9 activities. Given the short time for reporting, we have marked a partial progress in implementation of 3 activities. Specifically:

- (2.1) Activities are related to the legal amendments to the PIFC. Appropriate steps were undertaken during 2016. The Government has approved the draft Law, with necessary amendments. The draft law passed the first reading in the Parliament.

- (2.2) Activity was partially implemented, 91 officials were trained in the FMC area (central 22; Agencies and Municipalities: 48). They were conducted by CHU for FMC. Subjects: Self-assessment questionnaire Risk Management and Process Description.
- (2.3) No activities until 2018.
- (2.4) 5 pilot projects were completed, MoF, MED, MEST, Municipality of Prishtina and Municipality of Fushe Kosova (supported by SIGMA) in process description.
- (2.5) The process of preparing "crystal" reports for reporting according to specific requirements has begun as a process (Daily Report, Harmonized Report with GFS and Other Reports on Requirements).
- (2.6) Revision of the rule is provided to be carried in 2017.
- (2.7) No developments.
- (2.8) KFMIS Financial Transactions monitoring continued.
- (2.9) Monitoring BO through KFMIS and electronic archive is done continuously.
- (2.10) No activities in Capacity Building of Monitoring Unit (MU).

3.1.3. Priority 3: Sustainable revenue collection

Sustainable revenue collection is one of the main priorities in terms of general integrity for public finance management.

In 2016, the continuous activities marked an enhancement of tax agencies performance and have improved sustainability of revenue collection by expansion of tax base, anti-tax evasion and smuggling measures. The number of VAT-registered businesses has exceeded the target for 2018. Also, the percentage of debt collection increased by 40%

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
To expand the revenue base by fighting fiscal evasion and smuggling of goods.	Number of registered businesses for VAT	16,583	21,750	35,000	24,653
	Number of tax payers voluntarily declaring income.	62,886	73,117	100,000	62,347
	Debt collection rate.	16%	18%	19%	40%

Comment on the status of Activities 3.1.-3.12

For 2016, although in short time of reporting, the planned activities were carried out by both tax collection agencies (TAK and Customs). Specifically:

- (3.1) the draft law on Kosovo Tax and Customs Agency-KTCA is drafted and submitted for further Government approval. Before finalizing of this draft law we have received numerous comments and we have held two consultation meetings with stakeholders. Finalization of this draft law at this stage is fully discussed and is harmonized with the EC legal office.

- (3.2) Services that can be provided are identified, which will be finalized after the legal and technical infrastructure (Public Key Infrastructure).
- (3.3) Requests for Information Technology system Modernisation are addressed to the EU office in Prishtina. The last request has been associated with rationality and readiness of TAK/MoF for use of own funds for project implementation.
- (3.4) Officials are attending training on specific issues. Also the number of staff was increased with 2 new officials (IMF recommendations).
- (3.5 -3.6) Human capacity development in KC continued. There were organised 11 training activities in the field of techniques for detecting smuggling of goods (93 official) and two training activities in the areas of evaluation, classification and origin of goods (160 officers).
- (3.7) During the second half of 2016, the selectivity system "ASYCUDA" has activated 57 risk criteria, and has updated 1191 subjects in different selectivity lists.
- (3.8) Conducted a total of 150 patrols in high risk areas.
- (3.9) Static surveillance cameras are activated and were used at all time in active cases that have been under development as well as in routine cases.
- 3.10 During the reporting period, a total of 250 patrols and joint actions were conducted with the Border Police.
- 3.11 The Intelligence Sector has prepared and distributed a total of 334 information reports.
- 3.12 The application of assessment methods during the reporting phase was as follows:
 - First method is used 90.62%
 - Second method 0.07%;
 - Third method 0.07%;
 - Fourth method 0.02%;
 - Fifth method 0.01%;
 - Sixth method 9.2%.

3.2. The overall progress on implementation of reforms from Pillar 2: Allocation Efficiency

In the second pillar of PFMRS, Allocation Efficiency, 3 priorities were presented. In this section we present the progress towards achieving the objective and related activities for each priority in this pillar.

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

Linking between national strategies and medium-term and annual budget planning is the most challenging achievement in terms of policy-making but also of technical capacities. Over the years we have seen a trend of positive development in the process and content of the Medium Term Expenditure Framework. 2016 assessments indicate a greater liaison of national strategies with budget processes through enhancement of MTEF role as a planning instrument and midterm budget allocation. Sector approach, professional counselling and communication by the MoF has contributed to strengthening the MTEF integrity as a base document for drafting the annual budget and forecasts for the next two years.

The percentage of the average deviation between the MTEF ceiling and annual budget ceiling for BOs in 2016 was 7.66%. We emphasize that % of this deviation is because two BOs were not planned with MTEF (2016-2018) but are part of the law on budget allocations for 2016 (RTK and the Agency for Air Navigation Services). In case the two aforementioned BOs are not included, then the indicator would be 3.52% which is a significant progress.

In 2016 the number of officials coached with regards to Budget Impact Assessment (BIA), training and personalized counselling, was about 80.

Objective	Indicator(s) to measure objective fulfilment	Baseline *	Target 2018	Target 2020	Reporting 2016
Further advancement of the role of the MTEF as a linking document between the National Strategy and budget planning for the next three years.	Average deviation between MTEF ceilings and annual budget ceiling for BOs.	7.15%	6.5 %	3.5%	3.52 % (7.66 %)
	Number of officers trained for budget impact assessment -BIA.	80	90	120	80

* Reference baseline is 2015

Comment on the status of Activities 4.1.-4.6

Activities and achievements planned in this priority area are met at satisfactory level. Moreover:

- (4.1) Steering Group for Strategic Planning (SGSP) and the Strategic Planning Commission in 2016 reviewed the Annual Draft of the Budget.
- (4.2) MoF has provided appropriate and necessary professional counselling for BOs officials at central level.
- (4.3) Standardized table for presenting deviations in MTEF ceilings and final budget allocation is still at the conceptual stage.
- (4.4) Standard formats and methods for risk assessment are defined based on the COSO model.
- (4.5) MTEF 2017-2019 is prepared by sector approach (12 sectors).

3.2.2. Priority 5: Credibility and execution control of the annual budget

Strengthening of annual budget credibility through improvement of budget planning, including planning at the level of programs and compliance with macro-fiscal framework as well as strategic objectives of the Government has also marked progress in to performance indicators.

Throughout 2016, the Coordination Group, according to data reported may conclude that there is a strengthening in the annual budget planning and consistency of the linking annual budget with public strategic policies and macro-fiscal framework.

Average deviation (%) of the overall budget execution compared to the budget approved earlier this year by the central BOs is 3.86%. This indicator is beyond planning of the medium term

achievement for 2020(5%). Significant progress has also been made in the number of transfers during 2016 compared 199 in 2015.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
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.	Percentage of average deviation of the overall budget execution compared to the approved budgeted by BOs at the central level.	10.46%	9.0%	5%	3.86%
	Number of transfers during a fiscal year	199	170	100	188

Comment on the status of Activities 5.1-5.5

- (5.1) Drafting of Administrative Instruction on Transfers – re-allocations, is an activity foreseen for 2017.
- (5.2) Program based budgeting is an intermediate target (2018) .
- (5.3) Drafting of a strategic plan for Program-based budgeting is an intermediate target (2018).

3.2.3. Priority 6: Quality of information on capital budget

Systematic linking of capital projects with the National Development Strategy and sector policies, and the quality of technical analysis of projects, is one of the objectives of PFMRS. Efficiency and effectiveness of planning management and monitoring of public investment by BOs in the PIP system has continued to mark progress.

In 2016 there was significant improvement (decrease) in the number of re-allocations for central BOs. MoF has delivered necessary training sessions and this has contributed to the decrease of re-allocations for capital projects from 65 as it was in 2015 to 56 during 2016. However, work remains to be done on the legal regulation for planning of capital projects.

Percentage of implementation of capital investment budget compared to the planned budget within a fiscal year is 86%. This indicator, although not in the baseline year level, is a satisfactory outcome and we await improvements in the following years.

Objective	Indicator(s) to measure objective fulfilment	Baseline*	Target 2018	Target 2020	Reporting 2016
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 .	Number of reallocations by central BOs.	65	55	25	56
	Percentage of implementation of capital investment budget compared to the planned budget in the annual budget	98%	99 %	100 %	86 %

* Reference baseline is 2015

Comment on the status of Activities 6.1.-6.4

To achieve this goal are planned four activities that are mainly planned to be implemented from 2017 onwards. The foreseen activities are as follows:

- (6.1) Regulation/Instruction by the Government to strengthen the Department of Budget through a clear framework for policy-makers and users of PIP regarding the assessment projects selection methodology to be developed and approved in 2017.
- (6.2) Organizing training for the PIP system, during which during the reporting period were trained 98 Officials, more than planned (55).
- (6.3) the guidance on defining the capital project is foreseen for the next year.
- (6.4) the new staff is employed in 2016 (1 Administrator), out of the three scheduled for 2017.

3.3. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 3: OPERATIONAL EFFICIENCY

Operational efficiency was addressed through four Priorities in PFMRS. In this pillar, reforms focus on the public procurement, internal control and external audit. Achievements deriving from priorities of Pillar 3 are presented below.

3.3.1. Priority 7: Public Procurement

Public procurement is one of the main links in ensuring efficient, transparent and correct use of public funds based on the principle “value for money”. According to end-2016 data, progress is also marked in this priority.

Based on the PPRC Report submitted to the Parliament that is expected to be approved, the first indicator the Percentage of use of the negotiated procedure under Article 35 is 11.76%, lower than last year when it was 12.98%. It is worth mentioning that during 2016 a contract (under article 35) was signed (about 20 mil Euro, and implementation extends over the next 5 years). If

only the value for 2016 (EUR 4 million) was calculated, the percentage of using the Negotiated Procedure without publication would be around 9%. It is worth to emphasise that according to article 35 of the LPP, the contracting authorities are responsible for decision making for use of this procedure, while the PPRC is only notified within 2 days after the decision has been taken. In this objective of the PFMRS reform, the activities taken have resulted in the increase of guarantees for ensuring effective and transparent use of public funds. PPRC during 2016 has monitored 80% of contract notices and it is comparatively much better than it was in 2015 (5%).

Objective	Indicator(s) to measure objective fulfilment	Baseline *	Target 2018	Target 2020	Reporting 2016
Ensure an efficient, transparent, and fair use of public funds and apply the core “value for money” principle in public procurement.	Share of negotiated procedure without publication.	12,98 %*	10%	7%	11.76 %
	Share of monitoring of contract notices.	5%	100 %	100%	80%

* Reference baseline is 2014. For 2015, the value is 16.1%

Comment on the status of Activities 7.1-7.5

- (7.1) As of 1 September 2016 all the contracting authorities at the central level have started using e-procurement system. In September 2016, 17 trainers were trained for e-procurement.
- (7.2) The Central Procurement Agency conducted 49 procurement activities, out of which 12 Centralized Procurement at central level and 37 Special Procurement. There was no Centralized Procurement at the Local Level due to the inability to use the e-procurement platform at the local level. Contracts signed in the amount of EUR 44.7 million, compared to the estimated value of EUR 51 million. This made the state budget to mark a saving of EUR 6.3 million. Expressed in percentage savings rate is 14.07%. Complete procurement procedures for specific goods and services of contracting authorities have been implemented.
- (7.3) PPRC during 2016 has monitored forty-nine (49) procurement activities, according to the case-request of the CA, Economic Operators or interested parties. Out of these 7 contracting authorities have also been monitored for contract management. Also we monitored about 80% of notices for publication in the PPRC's website. This is below the target (100 %) foreseen for 2016.
- (7.4) Achievement for this activity has not been fully met due to lack of financial means.
- (7.5) Achievement defined under this activity is met. 2016 is concluded with basic professional on certification in procurement for 391 public procurement officials.

3.3.2. Priority 8: Strengthening internal audit

Improving the governance quality through management based on risk assessment and through strengthening of internal controls is an important dimension of PFMRS.

In this respect, the planned PFMRS actions have raised the strengthening of the internal audit function into the service of an accountable management and governance. The percentage of certified internal auditors is in the trend of achieving the target set. 65.3% auditors, or about 15% more than in 2015 were certified.

Another indicator that affects strengthening the function of internal audit is the increase of the percentage of implementation of recommendations by management to 54.7% from 51% in the baseline year (2015).

Objective	Indicator(s) to measure objective fulfilment	Baseline*	Target 2018	Target 2020	Report ing 2016
Strengthen the internal audit function as a value added service to accountable management	1. Percentage of certified internal auditors	50% of IA are certified	80% of IA, certified	90% of IA, certified	65.33%
	2. Percentage of implementation of recommendations by management.	51% implementation of the recommendations by Management	Implementati on of over 55% of recommendat ions by Management	Implementati on of over 65% of recommendat ions by Management	54.7%

Comment on the status of Activities 8.1-8.5

- (8.1) The result planned for 2016, from this activity was not met. The law is approved at Government and passed the first reading at the Assembly but has not been fully adopted.
- (8.2) No achievements for 2016 were planned. First activity planned for 2018.
- (8.3) The local scheme for IAs certification was established.
- (8.4) An activity planned for 2017.
- (8.5) IAUs were monitored, in terms of implementing the recommendation of the internal audit. The results are part of the annual report of the PIFC 2016 system function.

3.3.3. Priority 9: Strengthening external audit

During 2016 there is a positive trend in the ninth priority, Strengthening and development of external audit based on international professional standards and institutional independence. Throughout 2016, the appropriate actions are taken to enhance guarantees for institutional independence and professional standards in the external audit area. With the entry into force of the new law, the foundations of functional independence of now National Audi Office are set.

Percentage of recommendations addressed by the Parliamentary Committee issued by the National Audit Office has increased from 4.14% in 2015 from 10% as it was in 2015. However, we have no data for indicator 2 and 3, from preliminary data we expect to have progress in increase of addressed recommendations and decline in non addressed recommendations issued by the National Audit Office. The final assessment of these indicators will be completed after the

publication of the Annual Audit Report for 2016, which is to be published at the end of August 2017.

Objective	Indicator(s) to measure objective fulfilment	Baseline*	Target 2018	Target 2020	Reporting 2016
Develop a Well Performing Supreme Audit Institution carrying out audits in accordance with internationally recognized public sector auditing standards.	Percentage of addressed recommendations by the Parliamentary Committee on Public Finance Oversight.	10%	30%	50 %	14.14%
	Percentage of addressed recommendations issued by the National Audit Office	32%	45%	60%	Awaiting NAO 2016 report
	Percentage of not addressed recommendations issued by the National Audit Office	37%	25%	20%	As above

* Reference baseline is 2015

Comment on the status of Activities 9.1-9.4

- (9.1) The Law was adopted by the Assembly and the new Auditor General was appointed.
- (9.2) The new law is in harmony with SNISA. Cooperation with the Swedish National Audit Office has continued.
- (9.3) Regularity Audit Manual was updated.
- (9.4) Performance Audit Manual was updated. In order to deepen the knowledge of performance audits, training were delivered to over 40 auditors.
- (9.5) Number of reports reviewed at the CPFO of the Assembly is increasing. The NAO Annual Conference attended by regional NAOs, NGOs, Parliamentary Committees and other stakeholders was held. On 7 and 8 July 2016, the VIIIth Annual Conference of the NAO was held on the topic "The Role of the Auditor General and the National Audit Office on Improving Governance and Increasing Accountability in Kosovo". The conference was attended by around 170 participants, all NAO employees, representatives from the Assembly, Government, Civil Society, and donor organisations. In addition, the NAO has invited to the Conference also partners from the Supreme Audit Institutions of the countries of the region.

3.4. THE OVERALL PROGRESS ON IMPLEMENTATION OF REFORMS FROM PILLAR 4: ISSUES RELATED TO PFM

It should be said that in the third pillar is specific the horizontal involvement of the activities. We can say that there is progress in all three priorities of the fourth pillar. In the field of IT, the planned actions are being taken to improve IT systems. In terms of increasing transparency, during 2016 there were actions in terms of harmonising planning and reporting structure according to GFS. During 2016, capacity building activities were also carried out in the area of PFM.

3.4.1. Priority 10: Improving IT systems

Information technology is one of the important dimensions of PFMRS 2016-2020. The objective of this priority is to improve financial information quality through integration, modernisation and capacity building of IT infrastructure within MoF.

The activities taken in 2016 are the right steps towards achieving this priority. Inventory of systems and IT resources was made and the document of outputs for system integration was drafted at the request of the Steering Committee for IT. The integration of five (5) systems is planned to take place in 2018.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
Enhancement of IT systems operational at the Ministry of Finance to improve quality of financial information.	Number of integrated systems	0	5	7	Preparations in progress

Comment on the status of Activities 10.1-10.3

- (10.1) Terms of Reference for systems integration were developed. Performing of procurement procedures and documentation of needs and work processes did not take place.
- (10.2) Work has been done to improve the quality of data recording and data processing by KFMIS. There were no purchases of equipment by the Treasury affecting modernization and processing of data from the KFMIS. KFMIS integration - module for automatic interface with the new CBK system for payment and revenue - ATS (RTGSACH) has not been completed yet.
- (10.3) The WG for cooperation with Free Balance was established to create the opportunity to attach documents during the Purchase Order, Receipt and Cost report.

3.4.2. Priority 11: Budget transparency

A reform priority is also the standardization of planning and reporting of the financial information. During 2016 there were actions in terms of harmonization of the planning and reporting structure according to GFS. However, this process will begin with the change of the Regulation on accounting plan, and the planning and reporting process of public finance will be performed under the accounting plan.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
Ensure compliance of Kosovo budget information with the IMF/ standard 2014 GFS.	Budgeting and reporting to be done based on the account table complying with GFS 2014	Publication has started *	Budget planning according to GFS 2014	GFS 2014 standard, in use	A linking document between economic codes, GFS 2014 and ESA 2010.

* For the second time this year, (revenues and expenses) were reported in GFS and published in the official MoF website, and data for general government according to GFS.

Comment on the status of Activities 11.1-11.3

- (11.1) In the context of modification of KFMIS to enable automated preparation of budget reports in accordance with GFS, KFMIS has been advanced with a reporting module.
- (11.2) For the activity Review of the Government Accounting Plan, during 2016, together with IMF Technical Assistance Experts and USAID - PFD Project, a correlation table has been developed between the current accounting plan codes and the Government Financial Statistics Manual published by the IMF and ESA 2010. The regulation is expected to be revised in 2017.
- (11.3) Preparation of a document that is based on the chart accounts and that harmonizes the classifications according to IPSAS, GFS, is prepared the document for linking accounting plan codes, codes under GFSM 2014 and ESA 2010.
- (11.4) Staff training for reporting to GFS was conducted through experts from this field in the form of technical assistance from the IMF.
- (11.5) initiated the establishment of the report structure and data entry starting from 2006. Not achieved Publication of time series.

3.4.3. Priority 12: Sustainable capacity building in PFM

In this priority, both indicators, the Number of training programs in PFM and the Number of trained officers in the PFM area have not yet been identified. It should be noted that the feasibility study is foreseen for 2017, and it will result in the most convenient PFM area capacity-building option, in a systematic, sustainable and integrated way. Also, the feasibility study will provide data on the baseline as well as the targets to be met by years. Capacity building has continued as before.

Objective	Indicator(s) to measure objective fulfilment	Baseline	Target 2018	Target 2020	Reporting 2016
To obtain a systematic, sustainable and integrated way of increasing	Sustainable capacity building in PFM	NA			Capacity building as

knowledge of civil servants in Public Finance Management using local and external expertise of the public administration.					before
	Number of officials trained in the PFM area	NA			Capacity building as before

Comment on the status of Activities 12.1-12.4

- (12.1) The development of a feasibility study on the PFM Training Centre, including training needs assessment, is expected to take place in 2017.
- (12.2) Preparation of the Curriculum in Public Financial Management, after feasibility study.
- (12.3) Delivery of training in the PFM after the approval of the Curriculum.

4. PRIORITY ACTIONS FOR NEXT YEAR

This section presents the next steps and the associated risks with actions to be undertaken.

4.1. Priority 1: Accuracy of macroeconomic indicators and revenue forecasting.

Priority activities in Strengthening the Accuracy of Forecasting Macroeconomic and Revenues Indicators shall be:

- Periodic revision of the model by identifying new economic and structural developments in order to reflect these changes in the forecast of macroeconomic and consequently of tax revenues indicators.
- - Increase the quality of the analysis in order to increase the accuracy of the forecast of tax revenues.
- - Increase of cooperation with International Financial Institutions about early warning of changes in the global economy that have an impact on the forecast of tax revenues.

Risks identified in the non-implementation of these activities are related to:

Changes in the global economy with impacts in forecasting of revenues, lack of allocation of the time needed for training and analysis to increase the quality of the model.

4.2. Priority 2: Effective commitment controls

Priority activities in advancing the further role of PIFC shall be:

- Implementation of the PIFC Law after approval in the Assembly.
- Development of secondary legislation for the implementation of PIFC law, the drafting of regulations to implement PIFC, drafting of Guidelines for BOs monitoring and the Guideline for public expenditure management processes for approval.
- Thematic training with external experts: (Minister, Agency and Municipality) Risk, control, IA and risk culture for 91 OBs by Luxembourg government experts.
- Thematic Training: Risk Management, Control Activities (new module) based on the new PIFC Law and Strategic Planning as IA precondition, the COSO Framework (new module) by CHU/MFC in 2017 for 91 BOs.
- Report on Internal Control System for 2016.
- Pilot projects, describing the processes in the municipalities of Podujeva, Lipjan and Vushtrri (Supported by the CHU)

Risks identified in the non-implementation of these activities are related to:

- Delays in managerial decision-making (delay in approving the PIFC law).
- Lack of political support and election year at the municipal level.
- Lack of budget for training development.
- Non approval of requests from management for participation in training.
- Participation in inadequate training and obtaining incomplete information from BOs.

4.3. Priority 3: Sustainable revenue collection

Priority activities to ensure the stable collection of revenues shall be:

- Application of the system where electronic invoices are recorded from VAT transactions between businesses.
- Digitization of core business processes, such as tax audit, the refund process etc.
- Continue taxpayer information on tax due.
- Advancing the Risk Management Tool and Improving the Taxpayers` register equipped with a fiscal number.
- Development of a management system in cases of enforced collection.
- Continue to apply joint controls with the Border Police.
- Continuous capacity building in KC.

Risks identified in the non-implementation of these activities are related to:

Risks identified in the non-implementation of the activities mentioned above are of the nature of lack of financial means and failure to make decisions by high management.

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

Priority activities in further advancing of the role of the MTEF shall be:

- Completion/Beginning with the application of standardized table for presenting the deviation between the ceilings presented in MTEF and the budget approved by the Government; and
- Continuation of training sessions and capacity building in the field of risk assessment in budgeting according to the standard curriculum.

Risks identified in the non-implementation of these actions are related to:

Risks identified in the non-implementation of these actions are related to lack of funds and delays in managerial decision making.

4.5. Priority 5: Credibility and execution control of the annual budget

Priority activities in terms of increasing the annual budget credibility and execution control shall be:

- Preparation of the administrative instruction on transfers - re-allocations

Risks identified in the non-implementation of these actions are related to:

Delays in managerial decision-making

4.6. Priority 6: Quality of capital budget information

Priority activities in priority on improvement of quality of capital budget information shall be:

- Issuance of a instruction that clearly defines what should be treated as capital project
- The adoption of a Regulation/Instruction by the Government to strengthen the Budget Department which provides a clear framework for policy-makers and users of PIP on the methodology of evaluation and selection of projects.

Risks identified in the non-implementation of these activities are related to:

Delays in managerial decision-making

4.7. Priority 7: Public procurement

Activities aimed at advancing and improving the public procurement system in Kosovo shall be:

- Implementation of the e-procurement platform by all budget organizations in Kosovo;
- Development of centralized procurement activities;
- Monitoring of public procurement activities;
- Training of procurement officers including training for other stakeholders such as economic operators, judges, prosecutors, auditors, etc. with a view to wider public awareness with regards to public procurement rules.

The risks identified in the non-implementation of these activities are related to:

Identified risks can lead to non-implementation of these activities may be associated with non-functioning of the e-procurement system if it cannot be provided tools for system maintenance, delays in staffing, lack of training funds and lack of inter-institutional cooperation.

4.8. Priority 8: Strengthening internal audit

Priority activities in advancing further the role of CHU for FMC and IA will be:

- Training of internal auditors in the National Training and Certification Program and in the Continuous Professional Education Program
- Functioning of the internal control and risk management system.
- Monitoring and evaluation of the activities of the internal audit units and the BOs for FMC
- Continuous Professional Development compulsory under International Standards of Internal and National Audit.

The risks identified in the non-implementation of these activities are related to;

- Controls established not in line with the needs and requirements.
- Lack of political will to establish a system of internal control in accordance with the laws, regulations and support guidelines.

- Lack of budget for training delivery;
- Non approval of requests from management for participation in training;
- Participation to inadequate training.
- Lack of rooms (training).
- Receiving of incomplete information from IAU.

4.9. Priority 9: Strengthening external audit

Priority activities in further advancing the external audit shall be:

- Review of specific laws to comply with the NAO constitutional mandate.
- Development of Guidelines for Compliance Audit.
- Updating the Regularity Audit Manual with parts related to the audit of borrowings and public enterprises.
- Upgrading of the Guideline on Quality Control for Performance Audits;
- Incorporation of IT Guidelines in the Performance Audit Manual.
- Continue cooperation with the Swedish National Audit Office in further developing performance audit practices.
- The involvement of relevant parliamentary committees in review and discussion of performance reports.

The risks identified in the non-implementation of these activities are related to;

Identified risks are human capacity constraints, timely adoption of laws and regulations, and collaboration between units/institutions.

4.10. Priority 10: Improving IT systems

Priority activities in improving IT systems shall be:

- Purchase and configuration of IT equipment.
- Supply of IT equipment that will directly affect the functionality and security of the Government's financial data since in 2017 the requirements in this area have been partially budgeted.
- During 2017, it is intended to procure equipment purchase and capacity building. Inclusion of archive within KFMIS modules is planned to be piloted in 2017.

The risks identified in the non-implementation of these activities are related to:

Financial constraints, human capacity constraints and the cooperation between units/institutions

4.11. Priority 11: Budget transparency

Priority activities in enhancing budget transparency shall be:

- In 2017, it is planned to set up a working group for reviewing the Government Accounting Plan Regulation, which will also aim at the possibility of generating reports from KFMIS according to GFS 2014 standard.
- Following the change in the accounting plan, it is foreseen to develop the interconnection tables between the current Accounting Plan codes and the Government Financial Statistics Manual published by the IMF and ESA 2010.
- Another important activity is Budget Planning according to the classification of GFSM 2014 (SFQ), which is also the requirement of Article 21 of LPFMA.
- In 2017 will be published on a monthly basis of time series.
- With the publication of the Budget Law for 2018, it is also planned to publish the Budgetary Friendly Document (Narrative).

The risks identified in the non-implementation of these activities are related to:

Timely adoption of laws and regulations, and limitations on human capacities

4.12. Priority 12: Sustainable capacity building in PFM

Priority activities in capacity building in PFM shall be:

- Development of Feasibility Study during 2017, which will pave the way for making the decision for the most appropriate option for sustainable capacity building in the area of PFM.
- Based on the feasibility study and the decision taken, the Curriculum will be developed.
- Training Module development, and
- Training of Trainers.

The risks identified in the non-implementation of these activities are related to;

The main risk identified is the provision of funds for the Feasibility Study and timely decision for the recommended option from the Study.