
Handbook for Municipal Assembly Members

September 2016

Table of Content

Introduction: Purpose and Structure of the Handbook	7
Chapter I - Legal framework on Local Self Government in Kosovo	8
Chapter II - Local Democracy	10
1. Municipal Assembly	10
1.1 Committees of the Municipal Assembly	10
1.2 Groups of Municipal Assembly members	14
Role of Municipal Assembly member	16
1.3 Municipal Assembly and Village Councils	17
The role of the Municipal Assembly member	18
1.4 Public communication	18
1.5 Direct democracy	19
Chapter III - Municipal finances	23
1. Roles of institutions in municipal finances management	23
1.1 Municipal Institutions	23
1.2 Central institutions	25
2. Municipalities funding resources	26
2.1 Own source revenues	26
2.2 Operating Grants	29
2.2.1 Grant for Primary Health Care	29
2.2.2 Grant for pre-university education	29
2.2.3 General grant	29
2.3 Other funding sources	30
3. Process of municipal budget planning	31
3.1 Inclusion of Municipal Assembly in municipal budget planning	33
3.2 Municipal documents to be addressed during budget planning	35
4. Targeted, participatory and transparent budgeting	35
4.1 Targeted budgeting	35
4.2 Participatory budgeting	36
4.3 Transparent budgeting	37
5. Procurement	37
5.1 Regulatory institutions	37
5.2 Procurement process	38
5.3 Procedures for filing complaints	39
5.4 Types of procurement procedures	40
5.5 Cash flow plan	41

6. Monitoring and overseeing municipal budget	42
6.1 Role of the Municipal Assembly in overseeing the budget	42
7. Audit	46
7.1 Internal audit.....	46
7.2 External audit	47
7.2.1 Office of the Auditor General	47
7.2.2 Definition of the external audit	47
7.3 Description of group work.....	50
Chapter IV - Committee for Public Services.....	52
1. Committee for Public Services	52
1.1 Reasons for establishing this committee	52
1.2 Functioning of the Committee for Public Services	53
1.3 Role of the Committee for Public Services	53
1.4 Description of group work	57

List of Figures

Figure 1: Chain of accountability in the municipality.....	9
Figure 2: Categories of Committees in the Municipal Assembly	10
Figure 3: Roles of municipal institutions on the drafting of municipal budget	23
Figure 4: Roles of municipal institutions in supervision of municipal finances.....	24
Figure 5. Roles of municipal institutions in overseeing municipal finances.....	24
Figure 6: The process of municipal budget planning	31
Figure 7: Steps to be taken during municipal budget planning	32
Figure 8: Inclusion of the Municipal Assembly in the budgeting process	33
Figure 9: Content of the documents for the municipal budget planning.....	34
Figure 10: Documents that must be addressed with during the municipal budget planning	35
Figure 11: Procurement process in Kosovo	39
Figure 12: Role of the Municipal Assembly in monitoring and overseeing the municipal budget.....	42
Figure 13: Content of the quarterly financial reports	43
Figure 14: Internal audit cycle and the role of the Municipal Assembly.....	46
Figure 15: Areas of responsibility of the Committee for Public Services	54
Figure 16: Documents that are reviewed by the Committee for Public Services and its potential partners....	56

Introduction: Purpose and Structure of the Handbook

This handbook intends to provide a summary of information for municipal assembly members on various issues related to their work and commitment in this position. The structure and content of the handbook were compiled based on a preliminary research, which aimed to identify the needs of assembly members for capacity building on various topics in the field of municipal finance management. The research included interviews with Mayors and Members of the Policy and Finance Committees (during the period 17 November to 7 December 2014) from 17 municipalities in Kosovo.

However, this handbook is useful for anyone who shows interest on the topics related to the competencies and duties of municipal assemblies and their members.

This handbook is divided into four separate chapters.

Chapter I – addresses the legal framework on local self-government in the Republic of Kosovo, starting from the country's constitution to the most important bylaws for the functioning of the local self-government in the country.

Chapter II – addresses the local democracy, where it briefly explains the functioning of the Municipal Assembly and pays special attention to the establishment and functioning of Municipal Assembly Committees, functioning of groups of Municipal assembly members, Municipal Assembly's cooperation with village councils, municipal assembly's communication with the public, as well as it addresses the elements of direct democracy in municipalities.

Chapter III – addresses the local government finance. Within this chapter, special attention is paid to the presentation of roles and responsibilities of the institutions in the budgetary process, municipal financing sources, municipal budget planning process, transparent budgeting, procurement, oversight of the municipal budget realization, as well as the audit.

Chapter IV – provides an overall overview on the functioning of the Committee for Public Services of the Municipal Assembly, including the presentation of the need for establishment of the Committee, development of daily activities, as well as the role and responsibilities of the Committee on Public Services in order to improve the quality in the delivery of public services by Municipalities.

Within the handbook, particular attention is paid to the role of the Municipal Assembly in general, and Municipal assembly members in particular, on all points discussed. Moreover, this handbook also provides guidelines for organizing special trainings in the field of local democracy, in the field of local self-government finances, as well as in the functioning of Committee on Public Services of the Municipal Assembly.

Chapter I

Legal framework on Local Self Government in Kosovo

Constitution of the Republic of Kosovo sets-out the general principles of local government (Article 23). According to this Article, the right of local self-government is guaranteed and is regulated by law. Local self-government is exercised by representative bodies elected through general elections. Article 24 regulates the local self-government organization and operation. This article defines the municipality as the basic unit of local government and provides that municipalities have the right to collect and spend their own revenues and receive funding from the central government in accordance with the law.

Law on Local Self-Government (Nr. 03/L-040) aims to establish a sustainable system of local self-government in the Republic of Kosovo. This law defines the competencies of Municipalities and general principles of municipal finances, as well as organization and functioning of municipal bodies. According to this law, the Municipal Assembly may adopt acts within the scope of its competencies (Such as the Statute of the Municipality, Rules of Procedure, Municipal Regulations and other acts necessary for efficient functioning of the Municipality. Moreover, according to this law, the Municipal Assembly members are entitled to request information from the Chairperson or Deputy Chairperson of the Committee.

Laws of the Republic of Kosovo in Albanian, Serbian and English can be found on the webpage of the Assembly of Kosovo. <http://www.kuvendikosoves.org>

The Law on Public Financial Management and Accountability (No. 03/L-048), as well as the Law on amending and supplementing of this Law (No. 04/L-194) governs the preparation, implementation and oversight of Kosovo budget, municipal budgets and the budgets of other public entities financed by public money. This law also defines the responsibilities of stakeholders involved in these processes at central and local level.

Law on Access to Public Documents (No. 03/L-215) guarantees the right of every citizen to access the documents retained, compiled or received by public institutions. This law regulates the procedures to be followed to ensure access to public documents and obligates public institutions, including municipalities, to reply to the requests for access to public documents within seven days.

Law on Local Government Finance (No. 03/L-049) regulates the manner of financing municipalities. According to this law, municipalities have the right to have sufficient financial resources to exercise their municipal competencies. Municipalities have the right to independently regulate and manage the financial resources of municipal own source revenues and those that are allocated to the municipality in the form of a general grant.

The law further provides that, in case of competencies delegated from the central level (such as cadastral records, civil registration, etc.) or enhanced own competencies (such as the provision of secondary health care in some municipalities with Serb majority), the Government should provide funds for exercising such competencies by the municipalities. The law also specifies the sources of own source revenues (such as, e.g. Property tax) and other revenues of municipalities (such as, e.g. the Government Grant for Health).

Annual Municipal Regulations on Taxes, Fees and Charges are annual documents which determine the amount of fees, charges and fines for utilities provided to natural and legal persons in the territory of the municipality. This regulation includes fees for issuing certificates and official documents, public services (e.g., Parking, vehicle registration, etc.), for compensation for land use (e.g., Public land before commercial buildings, etc.), work permits to conduct business activities, fees for construction and demolition of buildings, fines for violations of municipal regulations, etc. These regulations are approved by the Municipal Assembly, after being reviewed by the Committee on Policy and Finance, and after the latter sends its recommendations to the Assembly.

Annual Regulations on Property Tax are annual documents which set tax rates and criteria for determining the tax base for municipal tax in municipality, as well as the standards and procedures to be followed by the municipality on the occasion of the administration of this tax.

The Law on the Budget is drafted and adopted on annual basis. The Ministry of Finance (MF) drafts this law in coordination with budget organizations (including municipalities). Budget preparation process, and the role and responsibilities of municipalities in this respect, are addressed in the following relevant parts of this handbook.

Treasury Financial Rule (no. 01/2010) is a sub-legal act of this Law which establishes the principles of financial management and control of budget organizations, including municipalities. It defines the chain of accountability, where each participant has clear roles and responsibilities, there are clear performance targets and the capacity to fulfil the objectives, and should report for the output (measured in relation to the objectives set in advance), and should review performance and take actions to improve it if necessary.

The chain of accountability in the municipality under this Rule is shown in the diagram below (Figure 1). The Mayor of the municipality shall be elected by the people, and therefore he/she gives direct accountability to the people. The Mayor of the municipality leads the municipal management and its administration/ functions, therefore the Chief Financial Officer, Budget Director and Internal Auditor report to him/her.

The Municipal Assembly oversees the work of the Chairperson (municipality's executive body) and is directly accountable to the people. The roles of different institutions in the management of municipal finances and reporting lines are further discussed in more detail in subsequent sections.

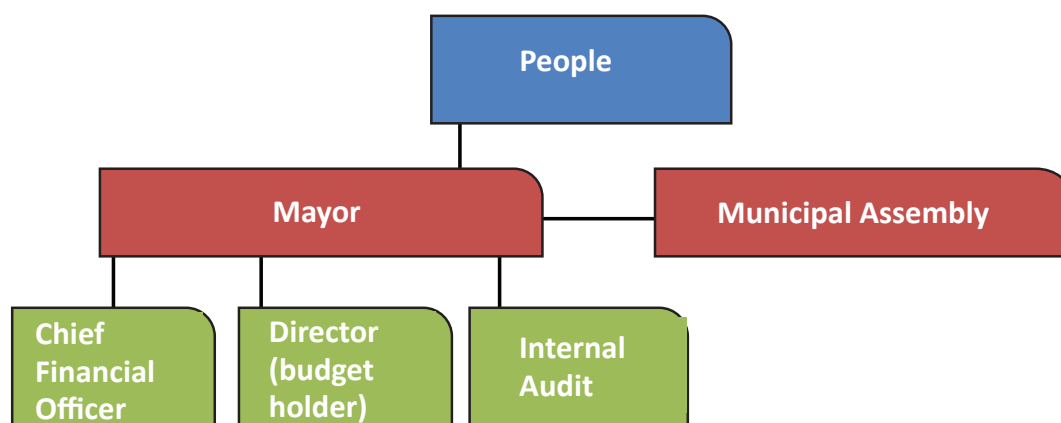


Figure 1: Chain of accountability in the municipality

Administrative Instruction on Transparency in Municipalities (No. 2008/09) regulates public participation in the meetings of the Municipal Assembly and its Committees, public meetings, obligation for public notice and public consultation prior to the adoption of municipal acts, public participation in decision-making and access to official municipal documents. According to this guideline, municipalities are required to, in addition to organizing at least two public meetings during the year, organize additional meetings on issues related to the municipal budget, economic development, the use of municipal property, spatial planning, investments, municipal revenues, etc.

Chapter II

Local Democracy

1. Municipal Assembly

A municipality is the basic unit of self-government in the local self-government system in the Republic of Kosovo, whereby the whole territory of the Republic of Kosovo is divided into 38 municipalities. The Municipal Assembly and the Mayor are the two main bodies of the municipality and both are elected separately and with direct votes by the citizens of the municipality.

Moreover, the competences of the Municipal Assembly and the Mayor are separated. The Municipal Assembly decides on the general policies in municipality, including adoption of the budget, special regulations, etc. The Mayor is responsible for implementing policies, with the help of sector directors. The Municipal Assembly is the highest body of the municipality consisting of its members who are elected directly by citizens and led by the Chairman who is selected by a majority vote of the municipal assembly members.

1.1 Committees of the Municipal Assembly

Municipal Assembly needs subsidiary bodies in order to ensure a detailed review of policies, strategic documents, decisions and regulations of the municipality, on the one hand, and for supervising the activities of the executive branch, on the other hand. Therefore, the Municipal Assembly establishes special committees helping it in fulfilling these obligations and in exercising of these competencies.

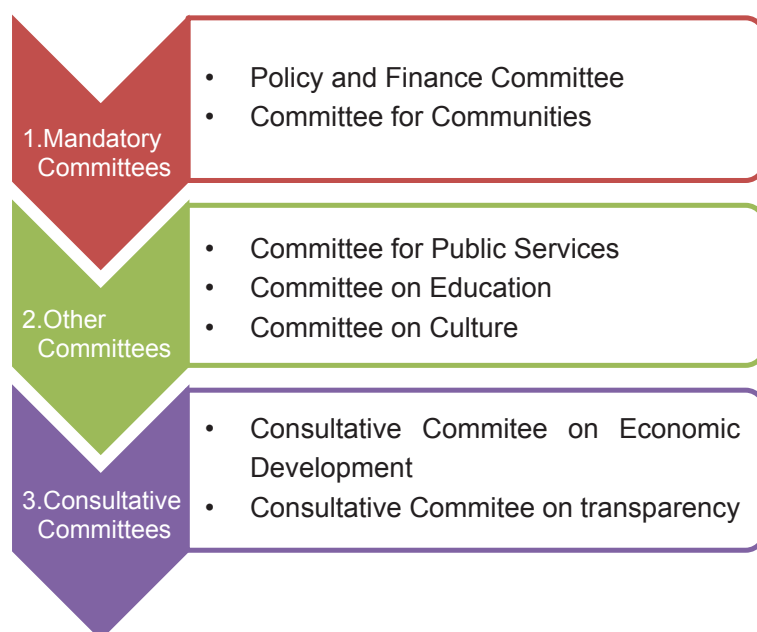


Figure 2: Categories of Committees in the Municipal Assembly

1. Mandatory Committees – The Municipal Assembly shall establish two standing committees: a) Policy and Finance Committee; and b) Communities Committee.

a. Policy and Finance Committee is considered as the main body of the Municipal Assembly that reviews almost all issues that are foreseen to be reviewed in the Municipal Assembly. Therefore, the Policy and Finance Committee is responsible to review:

- 1) All policies,
- 2) Fiscal and financial documents,
- 3) Plans, and initiatives including strategic planning documents,
- 4) Annual Medium Term Budget Framework,
- 5) Annual procurement plan,
- 6) Annual regulation on taxes, fees and charges,
- 7) Annual internal audit work plan,
- 8) Annual medium term budget and any changes to the budget during a fiscal year, as well as
- 9) Receive reports from the Mayor and submit recommendations for action to the Municipal Assembly.

In the process of establishing the Policy and Finance Committee, the Municipal Assembly shall ensure that certain criteria are met:

- 1) The maximum number of members of the Committee on Policy and Finance is 11, and the minimum number is 5 members (depending on the total number of Municipal assembly members).
- 2) The number of members from a political party in the Committee on Policy and Finance is determined by the number of members of the same political party in the Municipal Assembly.
- 3) A member of the Committee on Policy and Finances, upon changing the political party loses the mandate of the political party that has delegated him/her to the Committee on Budget and Finances.
- 4) In the absence of the Chairperson of the Municipal Assembly, who is also the Chair of Committee on Policy and Finance, the meetings of Policy and Finance Committee are chaired by the eldest member of this Committee.
- 5) 30% gender representation shall be ensured when establishing the Policy and Finance Committee.

b. Committee for Communities– is the second standing Committee of the Municipal Assembly, tasked to:

- 1) Review the compliance of municipal authorities with the applicable law.
- 2) Review all municipal policies, practices and activities to ensure that the rights and interests of communities are fully respected.

- 3) Recommend to the Municipal Assembly measures that should be taken to ensure the implementation of provisions dealing with communities needs to promote, express, preserve and develop their ethnic, cultural, religious and linguistic identity as well as to ensure adequate protection of the rights of communities within the municipality.

While establishing the Committee for Communities, the following must be ensured:

- 1) Each community living in the municipality has at least one representative in the Committee for Communities.
- 2) Most of the members of the Committee for Communities are also representatives of communities living in the municipality.
- 3) Most of the members of the Committee for Communities are also municipal assembly members

2. Other Committees – in addition to the standing committees, the Municipal Assembly may establish other Committees, whereby their number and type will be determined depending on the needs of the Municipal Assembly. These Committees are in many cases also called as permanent committees, professional committees or functional committees. The Municipal Assembly in principle, depending on the number and name of the Municipality departments, may simultaneously establish other Committees. In this sense, the Municipal Assembly may establish:

- | | |
|---------------------------------|--------------------------------------|
| a. Committee on Public Services | c. Committee on Health |
| b. Committee on Education | d. Committee on Urban Planning, etc. |

The legislation on local self-government, unlike the Mandatory Committees, has not determined the membership of these committees. Therefore, different forms of membership may be encountered in practice. For instance, while in one municipality only the municipal assembly members are members of these committees, in another municipality, members of these Committees are expert citizens (mostly members of political parties) of the respective fields. It would be desirable that only Municipality Assembly members become members of relevant committees, for the following three reasons:

- 1) With appointment of citizens as members of such committees, the political power of a member of the committee, who is also a member of the Municipal Assembly (and who has gone through direct elections with the votes of citizens), is equal to the power of a member who does not possess political power and is not a member of the Municipal Assembly. Such action has direct impact on the political power of the committee itself, especially in overseeing municipal government.
- 2) In a situation where all municipalities are facing financial problems, the Municipal Assembly should be careful with the number of members of these committees and perhaps also with the number of committees they establish. With the appointment of citizens as members of the committee, in addition to members who are also municipal assembly members, the financial costs needed to ensure the functionality of that committee is increased. For example, if the cost of a committee meeting composed of 5 members (all municipal assembly members) is 250 Euro, the cost for a meeting of a committee which has 7 members (assume that 2 of them are citizens) will be 350 Euro.

- 3) If the Municipal Assembly wants to establish a specific committee and considers that within its members there are no qualified persons in the respective profession and cannot fulfil the objectives and goals of the committee, then the Municipal Assembly may establish Consultative Committees.

3. Consultative Committees –Municipal Assembly shall establish consultative or sector-advisory committees in order to ensure citizen participation in municipal decision-making processes. The Municipal Assembly may even establish ad-hoc consultative or temporary committees on certain issues, whereby their mandate will end upon the completion of the matter established for. Hence, the Municipal Assembly may establish:

- a. Consultative Committee on Economic Development
- b. Consultative Committee on Transparency, etc.

In the process of establishing the Consultative Committees, the Municipal Assembly shall ensure that certain criteria are met:

- 1) Only citizens and civil society representatives from the relevant sector may be members of the Consultative Committee.
- 2) Only citizens of the respective municipality may be members of the Consultative Committee.
- 3) Members of the Consultative Committee shall be selected through an open competition and only after the fulfilment of the professional criteria.
- 4) Members of the Consultative Committee are selected by the selection panel established by the Municipal Assembly, whose members should be representatives of the Municipal Assembly and civil society.
- 5) 30 % gender representation shall be ensured when establishing a Consultative Committee.

Among the duties and responsibilities of consultative committees the following can be mentioned:

- 1) Proposing regulations;
- 2) Research;
- 3) Giving opinions and proposals to the Mayor, Assembly, Committees;
- 4) Presentation of citizens views;
- 5) Giving proposals for solving problems, etc.

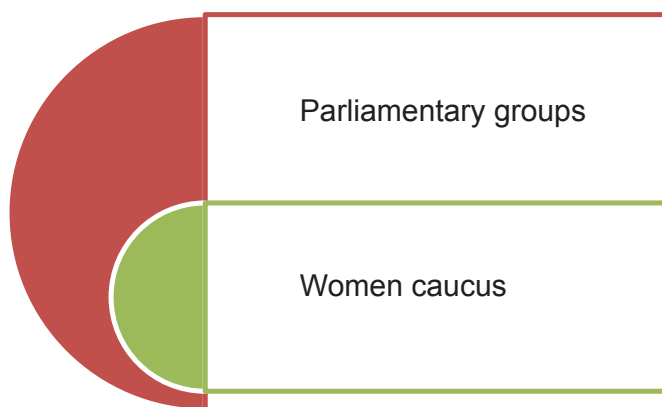
In addition to the elements presented above, it should be noted that the consultative committees shall have 5 to 9 members, and they have to organize at least four meetings per year and minutes shall be taken at each meeting. Consultative Committee meetings are convened by the Chairperson or 1/3 of the members, while they are chaired by the Chairperson or the eldest member. The term of members to the Consultative Committee is 3 years, where 1/3 of the members are selected every year. A citizen may be member of the Consultative Committee for maximum two consecutive terms.

With regard to all categories of the Municipal Assembly committees, it is important to emphasize some additional elements. **First**, each member of the Municipal Assembly may address the members at any of the Municipal Assembly Committee, although he/she is not a member of that Committee, but does not have the right to vote. Moreover, he/she may propose the Chairperson of the Committee to discuss any matter that is the responsibility of the Committee. **Second**, similar to all meetings of the Municipal Assembly, during the meetings of all Municipal Assembly Committees minutes shall be taken in accordance with the legislation on use of languages as well. **Third**, as in all meetings of the Municipal Assembly, as well as in meetings of all Municipal Assembly Committees, citizens shall be notified 7 working days prior to regular meetings or 3 working days prior to the extraordinary meetings, by virtue of a public notice posted in the most frequented places, printed and via the electronic media and the official municipal website.

1.2 Groups of Municipal Assembly members

For the purpose of increasing Municipal Assemblies' effectiveness, in addition to establishing committees, the establishment and operation of groups of the Municipal Assembly members is also important. Unfortunately, the legislation on local self-government does not provide any instrument for the establishment and operation of groups of municipal assemblies, thus allowing the emerging of different models in the municipalities in terms of procedures for establishment, membership, operation and decision-making of assembly groups throughout municipalities. However, there are basically two types of groups of municipal assembly members: 1. Groups of political parties (parliamentary groups); and 2. Women caucus (municipal assembly members).

1. Groups of political parties (parliamentary groups) – represent the group of Municipal Assembly members having the common or related goals and objectives and who have a common agenda which they intend to jointly implement. These groups can gather around themselves members of a political party, but there are many cases when a parliamentary group is comprised of two or more political parties. Depending on the objectives and goals set, as well as the number of members and political parties that are part of them, parliamentary groups may appear as a very tight and influential in decision-making coalition. On the other hand, the multiplicity of political parties that are part of a parliamentary group may be the reason why such coalitions are not that strong and in most cases end up as short-term coalitions based on specific matters.



- **Structure (hierarchy) of the group** – each parliamentary group should have its leader who represents the group. This directly affects the creation of a chain of decision-making within the group and facilitates the introduction of the parliamentary group's standings.
- **Rules of Procedure** – as for any other organized structure, the parliamentary groups should work based on an internal regulation which determines all necessary elements for the functioning of the parliamentary group.
- **Regular meetings** – parliamentary groups should hold regular meetings, in which the standings of the group are determined in advance based on the agenda set to be discussed at the meeting of the Municipal Assembly. This helps in avoiding long discussions and the politicization of issues in the Assembly.
- **Minutes** – meetings of the parliamentary groups should be recorded through minutes. This approach ensures consistency in the group attitudes and transparency in its work.

The parliamentary groups should discuss any concerns or items on the agenda of the meeting of the Municipal Assembly before those issues and items are discussed in the Assembly, i.e. before the meeting of the Municipal Assembly. The group should try to reach internal consensus regarding each topic which will be discussed in the assembly. However, the parliamentary groups should not under any circumstances serve as a mechanism which violates the freedom of thought of a group member. No doubt that each member of the Municipal Assembly, whether belonging to the parliamentary group or not, has the right to the presentation of his/her views at the meeting of the Municipal Assembly on each point of the agenda. Furthermore, the assembly member has the right to request additional items of the agenda at the regular meeting of the Municipal Assembly.

An important factor leading to the success of the parliamentary group are the forms of communication used by the group. Municipal Assembly debates are the classic form of presenting the views of the parliamentary group about a particular issue. Equally, important is the introduction of the parliamentary group's opinions through written or electronic media, and, of course, the use of social networks as modern forms of communication with the public. Parliamentary group should have regular communication with the voters through various forms of communication, in order to convey the message of the parliamentary group to the citizens. This form of communication serves to parliamentary group as a platform of promoting the policies of a political entity towards the voters.

2. Women caucus – given the fact that at least 30% of the municipal assembly members are women, the importance of having women in decision making process in the Municipal Assembly can be easily understood. In most cases, the women that are members of municipal assemblies establish special women groups (women caucus) within these institutions. The primary goal of establishing women caucus is always the advancement and empowerment of women in the municipality in general, and women in the Municipal Assembly, in particular. Other goals of women caucus are increased women's participation in the decision-making, protecting and promoting the interests of women, and further emancipation of women. Women caucus are essentially groups of municipal assembly members consisted of women only. In some cases, part of the women caucus are also women who are not members of Municipal Assembly, such as Officials for Gender Equality, women representative of civil society, women's forums of political parties, etc.

Similar to the parliamentary groups, pre-requisites also apply for women caucus that should be met to enable normal operation of the women group:

- **Structure (hierarchy) of the group** – women caucus should have a head to represent the group. This directly affects the creation of a chain of decision-making within the group and facilitates the introduction of the parliamentary group's attitudes.
- **Rules of Procedure** – women caucus must work based on an internal regulation, which determines all necessary elements for the functioning of women caucus.
- **Regular meetings** – women caucus should hold regular meetings, whereby the stances of the group would be determined in advance with regard to the agenda set to be discussed at the meeting of the Municipal Assembly. They should adhere to this principle, especially when the agenda foresees issues that directly affect women of the municipality, such as the municipal budget, property tax regulation, the regulation on fees, several strategic documents, etc.
- **Minutes** – meetings of the women caucus should be evidenced through the minutes of the meeting. This approach ensures consistency in the group's standings and transparency in its work.

Role of Municipal Assembly member

The level of individual commitment of assembly members has a large impact on its overall efficiency. Among the elements that define the “activism” of a member of the Municipal Assembly may be mentioned:

- 1) commitment to representing the citizen's interests,
- 2) presenting citizens' concerns, requests and issues,
- 3) submitting questions to the executive,
- 4) supervision of the implementation of capital investment,
- 5) Supervising the implementation of the budget, etc.

In order to achieve the level of commitment that the citizens expect from the municipal assembly members, each member must adhere to its core principles of conduct and engagement:

- 6) Contribute through the provision of information,
- 7) Request additional information from the executive,
- 8) Have a constructive behaviour,
- 9) Take notes,
- 10) Not repeat the arguments,
- 11) Participate in the discussion only when the floor is given,
- 12) Adhere to the agenda,
- 13) Avoid insults and offences,
- 14) Maintain discipline.

The area in which women could potentially engage is significantly broad. These groups initially commit to researching and finding the women position, then provide recommendations for addressing the problems faced by women, review proposals and initiate local plans for gender equality, as well as propose necessary measures for implementation of health, cultural, education programs and gender issues. Women caucus cooperates and coordinates activities with the Women Caucus of the Assembly of Kosovo and other municipalities, with the Agency for Gender Equality and with all other mechanisms that promote gender equality. The women caucus can organize public meetings with

women caucus, women's NGOs, institutions and other stakeholders, and organize educational and advocacy campaigns, carry out research, analyses and surveys and other similar activities.

Forms of communication used by women caucus have a significant impact on its performance and results. One of the forms of communicating of the women caucus stands are debates in the Municipal Assembly; in this context, it is necessary to increase engagement and participation in discussions of women municipal assembly members. Presentation of women caucus standpoints in printed and electronic media and direct communication with the voters has a great impact in conveying the message to all citizens.

1.3 Municipal Assembly and Village Councils

The so-called sub-municipal structure of governance organization was and continues to be among the safest forms of bringing citizens closer to the decision-making processes in the municipality. In addition, this structure can efficiently perform some of the works that are competence of the municipalities and the implementation of which may be difficult to municipalities. The legal framework of local self-government of Kosovo, although not addressing many of its elements, provides the basic framework on which the cooperation between municipal and sub-municipal organization levels can be shaped.

The sub municipal level of government organization in Kosovo has different titles: in certain places it is known as the local community, in others as local council, and as the village council. However, it is important that municipalities throughout Kosovo have the right to cooperate with such councils. Such action should be followed by formal approval of the Municipal Assembly, and this step should be preceded by a fairly complex process of election of village councils or local communities.

The municipal cooperation with the village councils or local communities is implemented through an agreement which the municipality concludes with the villages, settlements and urban neighbourhoods. Such an agreement must be approved by the Municipal Assembly as the highest decision making body in the municipality. Municipalities have the right to enter into agreements with the villages, neighbourhoods or settlements within their territory to provide services closer to citizens. Upon the approval by the municipality, villages, settlements and urban neighbourhoods, on their own or in a combined manner, may carry out activities that fall under the responsibilities and competencies of the municipality. In this case, municipalities shall provide sufficient resources to the villages, settlements and urban neighbourhoods.

Subject of the cooperation agreement between the municipality and the village councils or local communities may be the municipalities' own competencies, including, inter alia:

- Urban and rural planning;
- Water supply, regulation of sewage;
- Public health;
- Local environmental protection;
- Tourism;
- Open spaces and cemeteries;
- Cultural and sporting activities, etc.

Additionally, the role of village councils or local communities is mainly related to review of issues that are of interest to that local area; drafting and approving the council's work plan and internal rules of operation; organizing, monitoring and planning of development plans and programs of that local area; organizing meetings of citizens with municipal officials; and other similar matters. However, funding of these mechanisms remains one of the biggest challenges to the functioning of village councils or local communities in Kosovo. Considering that these bodies are not recognized as a legal category under the municipal government, the funding of operation of these bodies remains an insurmountable problem. Therefore, municipalities are obliged to find different ways with the sole purpose of making the village councils or local communities functional. Funding of these mechanisms can be done through self-funding by the residents, donor funding, joint funding or funding by the municipality. However, funding from the municipality cannot be done in the form of salary payment or daily allowance for chairs or members of village councils or local communities.

The role of the Municipal Assembly member

Functioning of village councils or local communities gives lots of possibilities to the Municipal Assembly members.

First of all, these bodies provide the following to the Municipal Assembly members:

- 1) Opportunity for direct communication with the citizens;
- 2) Providing information on citizens requests, issues and recommendations of;
- 3) Mobilization of citizens on advocacy issues;
- 4) Involvement of citizens in the budgeting process;
- 5) Opportunity to expand the impact of Municipal Assembly members;
- 6) Possibility for increased oversight of executive work;
- 7) Possibility for increased supervision of implementation of capital investment; etc.

1.4 Public communication

One of the main pillars of the local self-government system in Kosovo is the municipal transparency. It appears as an obligation which the local authorities must adhere to in almost every one of their own actions. Direct communication of local authorities with the public, in this context, remains an indispensable tool of local transparency.

Communication of local authorities with the public can be categorized into three levels:

1. Public meetings – are meetings that municipalities are obliged to hold at least twice a year. In these meetings, residents are informed by the municipality leaders on the municipal activities, and may the same may also ask questions and make proposals to municipal leaders regarding municipal competencies.

2. Public consultations – are meetings that municipalities should organize before the Municipal Assembly takes decision on issues of general interest such as the Municipal Assembly regulations, development plans and other strategic documents. Public consultations should be organized by the proposer of an act. The act proposing body actively participates in the consultation, and explains the contents of the document to the public and highlights the proposals of the public during the consultation. In addition, the act proposing body must inform the Municipal Assembly about the proposals given during public discussion including the rejected proposals, as well as, those taken into account. Furthermore the Municipal Assembly, also based on the proposals given during the public discussion by the public, takes the final decision about the content of the act.

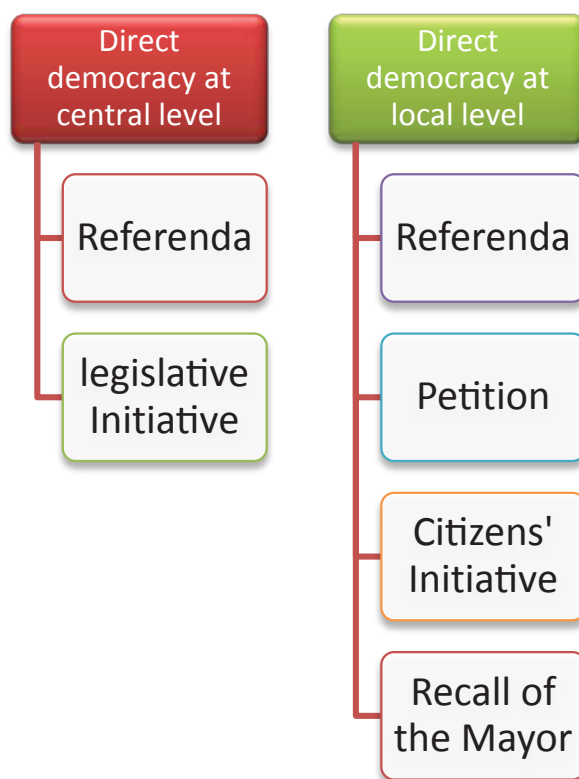
3. Public hearings – are meetings that municipalities should organize for the purpose of receiving the residents' demands about the municipal budget documents. Municipalities should organize such meetings for the municipal budget and the mid-term expenditure framework.

In order to guarantee the desired quality in organizing these public activities, municipal leaders should ensure that the time and place of organizing these activities are, above all, suitable for the public itself. Thus, schools, cultural centres, sports facilities or similar facilities of public character are most suitable for organizing meetings, consultations or public hearings. Municipal facilities should remain the last options for organizing such public activities. We must not forget the fact that municipal officials have the obligation and duty to "approach" the citizens and not the other way around.

1.5 Direct democracy

The concept of direct democracy in Kosovo is applied in a very low degree. The cases when citizens decide on matters affecting their interests through direct involvement in decision-making are almost non-existent. In our country, we have to do more with the implementation of the concept of representative democracy, where citizens delegate the right to decide on their behalf to the representatives elected by them.

The implementation of direct democracy has many positive effects to society, because first and foremost ensures citizen's direct participation in decision making processes. This form of democracy also allows citizens to be directly informed about activities and decisions of public authorities, since the citizens themselves are involved in those processes. Ultimately, by applying direct democracy, the implementation of decisions is greatly facilitated and the space for expression of dissent or dissatisfaction by citizens is minimized.



Implementation of the concept of direct democracy also carries risks. First of all, it is about the difficulty of addressing and regulating the legal aspects of the implementation of direct democracy. Also, in a decision-making process, where the concept of direct democracy applies, the financial cost of the decision making process itself does in fact increase. As a result, there may be delays in the decision making process. Although the concept of direct democracy is very little applied in Kosovo, the national legislation provides some enforcement mechanisms which would enable an advanced form of democracy in Kosovo.

Central government level provides for two mechanisms: referendum and legislative initiative. The Referendum at country level is announced by the Assembly of Kosovo and the responsibility to organize the referendum falls over the authority organizing the elections, namely the Central Elections Commission. However, the basic legislation of the Republic of Kosovo cannot be subject to referendum. On the other hand, ten thousand citizens of the Republic of Kosovo may take legislative initiatives seeking the approval of a law by the Assembly.

Even at local government level are provided several mechanisms of direct democracy.

Referendum – Citizens of a municipality are entitled to request that a regulation adopted by the Municipal Assembly is subjected to referendum. The request must be submitted to the Chairperson of the Municipal Assembly, within 30 days from the date of adoption of the regulation, and the same must be signed by 10% of registered voters in that municipality.

Petition - Any person or organization with an interest in the municipality is entitled to present a petition to the Municipal Assembly about any matter falling within the area of responsibility and competence of the municipality. The Municipal Assembly shall consider the petition in accordance with the Municipal Statute and Rules of Procedure of the Municipal Assembly. The Municipal Assembly shall review the request within 30 days after receiving the petition.

Citizens' initiative – Citizens may take initiatives to propose municipal-level regulations for adoption by the municipal assembly or by voting of citizens. The proposers submit the proposed draft regulation to the chairperson of municipal assembly. The proposed draft regulation must be signed by 15% of registered voters in order to be reviewed by the municipal assembly. The Municipal assembly is obliged to review the proposed regulation within 60 days after receiving it.

Recall of the Mayor – The residents of a municipality are entitled to pass a request asking for the mayor to be removed from office. Such a request must be signed by 20% of the registered voters and submitted to the Chairperson of the Municipal Assembly, who shall refer the matter to the appropriate institution for the organization of the vote. If a majority of registered voters vote in favour of the Mayor's removal, new mayoral elections shall take place in accordance with the law on elections.

1.6

Questions	Answers
Policy and Finance Committee: How to improve the Municipality's performance in property tax collection?	Revenues from property tax are very important to the municipality. Details of determining, invoicing and collecting the property tax are determined by law. The Municipal Assembly is responsible for approving the Regulation on property tax. Municipal department of property tax is responsible for all other procedures. Municipal Assembly can have an active role in this process. Group members are expected to identify the forms and modalities of enhancing the performance of municipal property tax collection, ranging from property evaluation, (re)registration of property, property tax collection, conditioning, etc.
Committee for Public Services: How to oversee public services in your municipality?	The municipality is responsible for providing a large number of public services, including waste management, construction of roads, sidewalks, sewage, road maintenance, squares, inspection, etc. Committee for Public Services, among other things, is responsible for overseeing the provision of these public services by the municipality. Members of the group should analyze and identify possible areas of oversight, forms and modalities of oversight, as well as identify the capacities and needs of the committee to exercise oversight.
Women caucus: How to empower women businesses in your municipality?	Municipalities have limited power in terms of development of private business activity. This includes businesses run by women. However, municipal regulations on taxes, fees and fines in many cases can indirectly be a burden or relief for these businesses. Members of the group must identify which parts of the Municipal Regulation on taxes, fees and fines are inadequate for businesses run by women, and provide alternatives to regulate specific areas in order to foster the strengthening of women's businesses.

• Policy and Finance Committee: What are the problems and mechanisms of increased control over the executive?	Revenues from property tax are very important to the municipality. Details of determining, invoicing and collecting the property tax are determined by law. The Municipal Assembly is responsible for approving the Regulation on property tax. Municipal department of property tax is responsible for all other procedures. Municipal Assembly can have an active role in this process. Group members are expected to identify the forms and modalities of enhancing the performance of municipal property tax collection, ranging from property evaluation, (re)registration of property, property tax collection, conditioning, etc.
• Women caucus: How to enhance women participation in decision-making processes in your municipality?	The municipality is responsible for providing a large number of public services, including waste management, construction of roads, sidewalks, sewage, road maintenance, squares, inspection, etc. Committee for Public Services, among other things, is responsible for overseeing the provision of these public services by the municipality. Members of the group should analyze and identify possible areas of oversight, forms and modalities of oversight, as well as identify the capacities and needs of the committee to exercise oversight.
• What are the issues of the Assembly members during their communication with citizens and what are the mechanisms for their improvement?	Municipalities have limited power in terms of development of private business activity. This includes businesses run by women. However, municipal regulations on taxes, fees and fines in many cases can indirectly be a burden or relief for these businesses. Members of the group must identify which parts of the Municipal Regulation on taxes, fees and fines are inadequate for businesses run by women, and provide alternatives to regulate specific areas in order to foster the strengthening of women's businesses.

Chapter III

Municipal finances

1. Roles of institutions in municipal finances management

Roles of institutions in municipal finances management are regulated by the Law on Public Financial Management and Accountability and Law on Local Self-Government. The following sections present the roles of municipal institutions (section 3.1) and central institutions (section 3.2).

1.1 Municipal Institutions

The Municipal Assembly in general and the Policy and Finance Committee in particular, have great responsibilities in the municipal finances planning and overseeing phases. At the planning phase, the Policy and Finance Committee reviews important documents such as the Municipal Budget, Municipal Medium Term Budget Framework, Procurement Plan etc., and gives recommendations for action to the Municipal Assembly. Similarly, at the phase of municipal finance oversight, this committee reviews the Mayor's reports and proposed changes to the budget, and gives recommendations to the Municipal Assembly

The **Municipal Assembly**, based on the recommendations of the Policy and Finance Committee, reviews and, if there is consent, adopts key documents related to municipal finances management, such as:

- annual work plan;
- municipal annual regulation on taxes, fees and charges;
- municipal medium term budget framework;
- municipal budget and budget changes;
- municipal investment plan;
- procurement plan;
- financial reports received by the Mayor; etc.

Roles of Municipal Institutions in the processes of budget preparation and implementation, and supervision of municipal finances are presented in the diagrams below (respectively figures 3, 4 and 5).



Figure 3: Roles of municipal institutions on the drafting of municipal budget

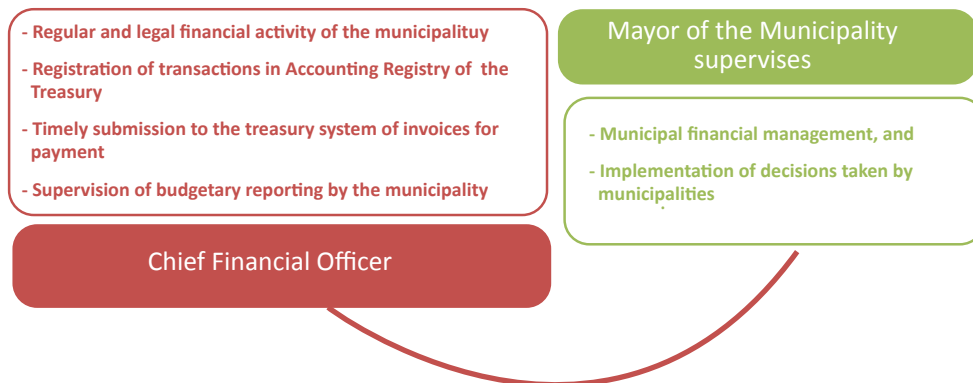


Figure 4: Roles of municipal institutions in supervision of municipal finances

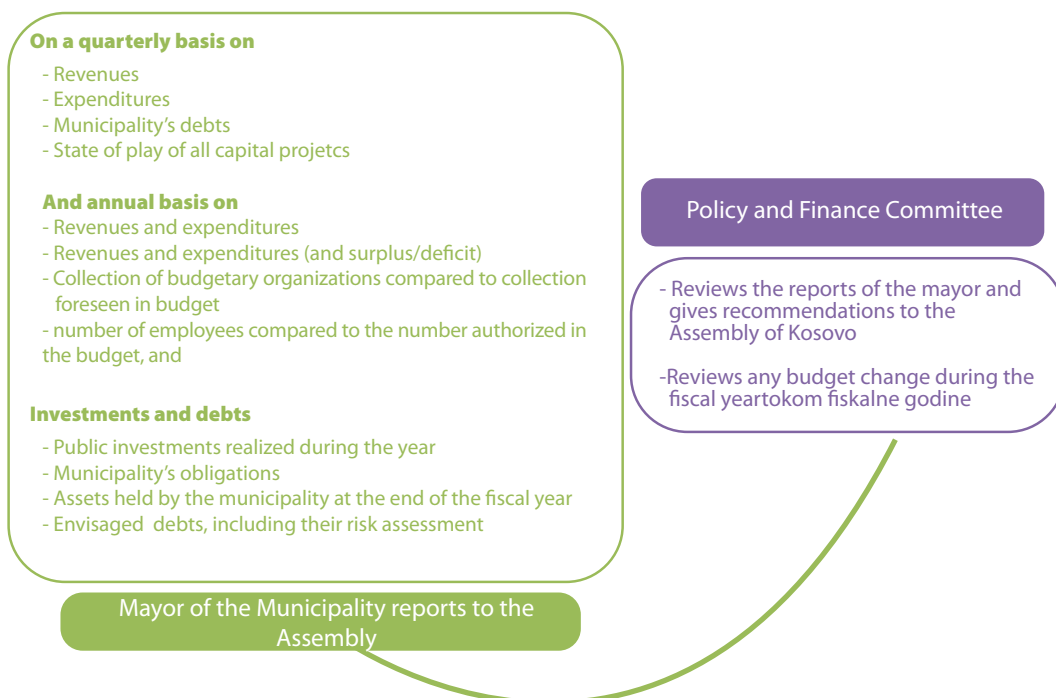


Figure 5: Roles of municipal institutions in overseeing municipal finances

1.2 Central institutions

Department of Municipal Budget is department within the Ministry of Finance that handles municipal finances. This department is involved in the processes of:

- Planning municipal finances
 - Preparing a draft-budget for municipalities;
 - Preparing the part of Municipal Medium Term Expenditure Framework (MTEF).
- Implementation of municipal finances:
 - Assists municipalities in budget implementation;
 - Reviews and evaluates requests for changes in budget appropriations;
 - Analyzes and provides recommendations on transfers, reallocations and other submissions dealing with budget appropriations;
 - Manages the Budget Development Management System (BDMS) and Public Investment Programme (PIP) or other systems used by municipalities; etc.

Analysts of the municipal budget within this Department cooperate with municipal officials on all matters of municipal financial management. For example, they receive requests from municipalities and submit the same for further proceeding; inform and advise municipalities in order to respect the legal framework and decisions made at the ministerial level; inform and give advices to the municipalities in case of funds deficit in economic categories; etc.

Grants Committee is an intergovernmental institution established by the Law on Local Government Finance. This Committee consists of seven members: the Prime Minister, Minister of Finance, another minister (elected annually) and four mayors (randomly selected on annual basis, but under the condition that they may come from municipalities of national minorities). The main responsibilities of this committee are:

- Review the grants allocation formula every three years;
- Annually define the grant formula, with an open system (health and education);
- Review the appeals by municipalities regarding such funding formulas and their proposals for capital expenditure;
- Recommend the amount of additional funding for municipalities which have been given enhanced powers; etc.

2. Municipalities funding resources

2.1 Own source revenues

Own Source Revenues of the municipalities are set by the Law on Local Government Finance, as follows¹:

- Immovable Property Tax (currently applied to buildings, but from 2017 will be gradually expanded, thereby including land as well);
- Business licence fee;
- Professional Business License Fee;
- Motor Vehicle Fee;
- Municipal Administrative Fees;
- Permit fees for the Construction and Demolition of Buildings and Other Structures;
- Fees for Issuing Certificates and Official Documents;
- Regulatory charges for Infrastructure Development and Preservation;
- Traffic fines;
- Penalties for offences against municipal regulations;
- Rental Income;
- Education and Health Co-payments.

The majority of above revenue categories are direct revenues, meaning that the same are collected and managed by the municipal administration. On the other hand, some of them (such as traffic fines) are indirect revenues, meaning that such revenues are collected by relevant ministries or agencies at central level, and then transferred to the account of the concerned municipality. Regardless of the form of collection, all municipal own source revenues must be deposited in the own source revenues sub-account of the relevant municipality in Kosovo's budget, within the Treasury account.

Imposing of taxes, fees and fines, and their value is regulated annually by each municipality by virtue of the Regulation on Taxes, Fees and Charges, which must be approved by the Municipal Assembly. However, values and methods of using some of the taxes, fees and fines must be in accordance with criteria and procedures laid down in the laws on the respective fields. Therefore, in accordance with the Law (No. 03/L-204) on Tax on Immovable Property, the tax base on Property Tax is based on market value, while the tax rate the municipality can apply, may be at the range of 0.05% to 1% of this value. Similarly, the amount of traffic fines is determined by the Law (No. 02/L-70) on Road Traffic Safety, although they are considered as own source revenues of the municipality in which the punishment is imposed.

According to the Law on Local Government Finance, Fees for Issuing Certificates and Official Documents and the Administrative Fees cannot be set at a level that exceeds the cost for provision of such document or service (including the cost of work, materials and equipment used for this purpose). The law also specifies that all co-payments, fees and charges for municipal health and education services are revenues dedicated to respective institutions that collect them.

¹ In addition to the listed resources, the law stipulates that municipalities can collect other revenues based on a law or agreement with central authorities.

Advantages of funding through own-source revenues is that (i) their destination is not set in advance, therefore the municipality may use them in the way considered to best serve the fulfilment of needs of the citizens; and (ii) unlike government grants (discussed in the following sections), funds from such revenues are transferred into the next year budget for the respective municipality, if not used within the fiscal year when they are collected, meaning that citizens can rest assured that taxes and municipal charges paid by them will be spent in their municipality.

Participation of own source revenues in the Kosovo municipalities budgets currently is about 10-20%, and property tax is the main contributor within those revenues. Own source revenues are typically used for infrastructure investments (e.g., pavement and repair of roads, schools, playgrounds, city lighting, etc.), but also for construction of schools and libraries, etc.

Municipal Regulations on Taxes, Fees and Charges, as well as Regulations on Property Tax can be found in the pages of respective municipalities, which can be accessed at the website <http://kk.rks-gov.net/>

Information about property taxes, including the manner of spending the revenues from this tax by municipalities can be found at <http://tatimineprone-rks.org/>

The results of recent years' investment with these revenues for each municipality can be found at <http://tatimineprone-rks.org/al/INVESTMENTS>

Municipal regulations on taxes, fees and charges, as well as regulations on property tax can be found in the pages of respective municipalities, which can be accessed from the website <http://kk.rks-gov.net/>

Information about property taxes, including the manner of spending the revenues from this tax by municipalities can be found at <http://tatimineprone-rks.org/>

The results of recent years' investment with these revenues for each municipality can be found at <http://tatimineprone-rks.org/al/INVESTMENTS>.

Taking into account the importance of own source revenues, Box 1 below summarizes some advices on what Municipal Assembly members can do to increase the level of own source revenues.

Box 1: What can you do to promote own source revenues?

As a Municipal Assembly member you can:

Carefully review relevant documents proposed by local governments, such as:

- Municipal Regulation on Taxes, Fees and Charges,
- Municipal Regulation on Property Tax,
- Planning of own source revenues of the municipality.

During the review of the above documents, think particularly about the reasonableness and potential economic effects of:

- amount of taxes, fees and charges,
- tax rate and criteria for assessment of property, etc.

Inform citizens regularly about:

- the fact that revenues collected from taxes and municipal charges paid by them, will necessarily be spent in their own municipality,
- implementation of own source revenues funded projects, in order for them to see tangible results of tax payment,
- specific potential projects that could be financed by own source revenues if they make regular payments.

Regularly oversee the work of municipality inspectorates, with special emphasis on trends of:

- involvement of taxpayers,
- level of invoicing,
- level of collection of revenues compared to invoicing,
- measures taken to collect debts, etc.

Regularly monitor the work of the Property Tax Inspectorate, as a key source of revenues, e. g., about:

- registration of new and existing properties,
- correct assessment of properties and tax invoicing
- exercise of measures for fulfillment of collection and forced collection of property tax, etc.

2.2 Operating Grants

2.2.1 Grant for Primary Health Care

Grant for Primary Health Care is a closed system grant, whose size is based on the number of population (normalized) and the standards set by the Ministry of Health. Normalization of the number of the population takes into account the gender and age structure of the population, and the number of elderly persons and those with special medical needs. For 2015, the calculation of the grant for Primary Health Care is done as follows:

The method of calculation and final amounts of operational grants can be found in the decisions of the Grants Committee. The decisions of this Committee should be published on the website of the Ministry of Finance: <https://mf.rks-gov.net/sq-al/Komisioni-Granteve/Komisioni-i-Granteve/Dokumentet>

Grant for Primary Health Care = Number of population (normalized) x (2.5 Visits per capita x per Visit + €3.5 Services per capita x €3.9 for Service)

2.2.2 Grant for pre-university education

Grant for pre-university education is a closed system grant, whose size is based on the number of students enrolled and standards provided by the Ministry of Education, Science and Technology. Moreover, this grant's formula takes into account the national curriculum, education for special needs students, operational expenses (excluding salaries), and standard size of the classroom. For ethnic minority students and schools in rural areas, higher funding is provided per student, taking into account the small number of classrooms (consequently the highest student-teacher ratio). The calculation of the grant for pre-university education is as follows:

Grant for pre-university education = Teachers' salaries + Administrative and support staff salaries + Goods and Services + Capital Expenditures

2.2.3 General grant

For the purpose of funding other municipal competencies, the Law on Local Government Finance foresees a general closed system grant (i.e. limited). The amount of the General Grant shall be ten percent (10%) of budgeted central government total revenues, excluding (i) revenue from the sale of assets, (ii) other extraordinary revenue, (iii) dedicated revenue and (iv) proceeds from borrowing.

Allocation of this grant to municipalities aims to ensure the stability of municipal revenue, promote equality between municipalities, as well as enable access to public services for each municipality, and minority communities in relevant municipalities.

Therefore, the allocation of this grant to municipalities is based on several criteria:

- For the purpose of balancing the differences between municipalities, with regard to the capacity of collecting revenues (i.e. the disadvantage of small municipalities), an annual lump sum of € 140,000 per year, minus € 1 per capita, is initially allocated to each municipality.

- The remaining amount is then divided between individual municipalities based on several criteria:
 - 89% based on the overall population;
 - 3% based on the number of minority population;
 - 2% for municipalities, most of whose population consists of ethnic minorities;
 - 6% based on the geographical size of municipalities.

Unlike the grants for health and education, which are allocated specifically for such services, the way of spending the general grant is at the discretion of the municipality itself.

2.3 Other funding sources

Transfers for delegated competencies are the transfer of competencies from the ministries to municipalities in terms of discharging functions delegated by the central level:

- Cadastral records;
- Civil registration;
- Voter registration;
- Business registration and licensing;
- Distribution of social assistance payments (excluding pensions); and
- Protection of forests in the territory of the municipality and issuing of licenses for tree logging.

Grants for enhanced competencies, are grants given to municipalities whose competences have been enhanced under the Law on Local Government:

- For municipalities of North Mitrovica, Gračanica/Graçanicë and Štrpce/Shtërpçë: enhanced competences for provision of secondary health care, including registration and licensing of health care institutions, recruitment, payment of salaries and training of staff and administrators.
- For the municipality of North Mitrovica: competencies for university education, including registration and licensing of educational institutions, recruitment, payment of salaries and training of educational instructors and administrators.
- For all municipalities with Serbian majority population, competences to discharge the responsibility on cultural matters and enhanced participatory rights in the selection of local police station commanders.

These grants are separated from the general grant and, similar to the grants for health and education, are only allocated for enhanced competencies and cannot be spent for other activities.

Extraordinary grants are allocated to municipalities in cases of emergency, namely occurrences that have a serious impact on the municipality (such as natural disasters), in order to help the municipality financially cope with such occurrences.

Borrowing as a form of funding municipal investment, is allowed pursuant to the Law on Local Government Finance. This law sets some further restrictions on borrowing of the municipality, such as: the municipality is not allowed to be funded through international debt, the amount of debt should

be covered by the collateral owned by the municipality and may not exceed 50% of municipal own revenues during the past year, etc. The demand for borrowing by the municipality must be approved by the Municipal Assembly and authorized by the Minister of Finance.

Financial assistance from the Republic of Serbia is allowed pursuant to the Law on Local Government Finance and the Law on Public Financial Management and Accountability. The latter defines the municipality's financial assistance from the Republic of Serbia as dedicated revenues of that municipality, and obliges the municipalities to use this assistance only for purposes directly related to the exercise of municipal competencies. These revenues must be deposited in an official bank account in accordance with the requirements set out in the LPFMA or to an account in a commercial bank certified by the Central Bank of Kosovo. If financial assistance is deposited in a commercial bank, it must be registered by the municipality in the Treasury Accounting Record in accordance with the Rules for Financial Management and Control. Financial assistance from the Republic of Serbia does not affect the size of municipal government grants.

3. Process of municipal budget planning

Municipal budget is planned within a very dynamic and complex calendar. This process involves central institutions, the Kosovo Assembly, the Government and the Ministry of Finance, as well as local government institutions, such as the Mayor and the Municipal Assembly. Moreover, the citizens of each respective municipality are an unavoidable part of the budget planning process.

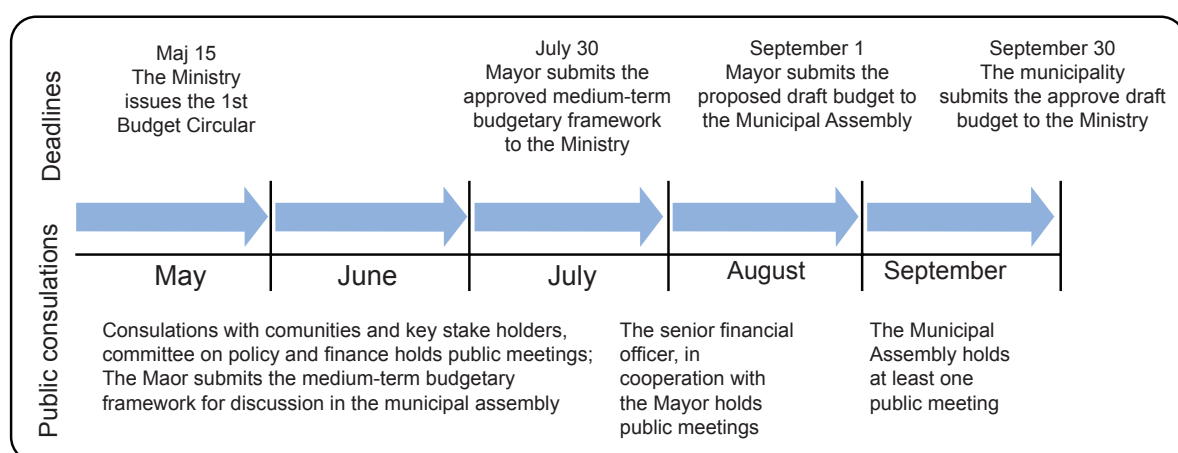


Figure 6: The process of municipal budget planning

Calendar of municipal budget planning provides a uniform direction and structure for the budgetary process and provides clarity for all participants of the process with regard to what to expect and what is required from them in each step of the budgetary process. This process provides the specific (deadlines, actions, responsibilities) to be respected by each party involved in the process to manage and participate in the budget process and at the same time, provides continuity and focuses on meeting the methodological and procedural requirements.

Dynamics of the budget planning process are expressed through continuous engagement of budgetary organizations to effectively fulfil certain responsibilities deriving from the Law on Public Financial Management and Accountability. They should have a continuous process of planning, budgeting and evaluation. Therefore, budget organizations should start planning their annual budget as early as possible in the relevant year.

The starting point of the budget planning process is considered to be **30 April**, whereby prior to this date, the Government of Kosovo shall submit the **Medium Term Expenditure Framework to the Assembly of Kosovo**. During this period, the **meetings of the Grants Committee** are held and the general framework of the municipal budget planning is set. Furthermore, prior to 15th of May, the Ministry of Finance is obliged to issue the **1st Budget Circular**. Furthermore, the municipality must, until 30 June, submit to the Ministry of Finance the **Medium Term Budget Framework (MTBF)** approved by the Municipal Assembly.

There are two types of budget circulars:

- Budget circulars issued by the Ministry of Finance;
- Internal budget circulars of municipalities.

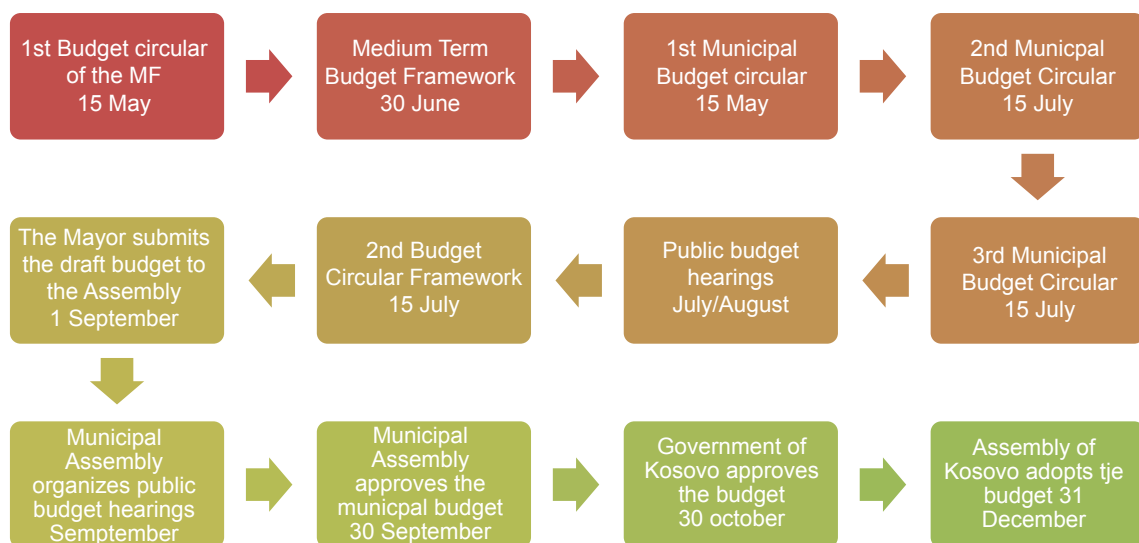


Figure 7: Steps to be taken during municipal budget planning

The process of municipal budget planning continues with the submission by the CFO of the **1st Internal Municipal Budget Circular** to each municipal department, whereby departments or municipal directorates are required to prepare budget proposals and submit them to the CFO. Furthermore, the CFO shall submit the **2nd Internal Municipal Budget Circular** to the departments, which contains information and instructions on spending limits, as well as the **3rd Internal Municipal Budget Circular**, which contains the timetable for organizing budget hearings.

Ministry of Finance shall, not later than 15 August, issue the **2nd Budget Circular** which provides the final budget instructions and final grant levels

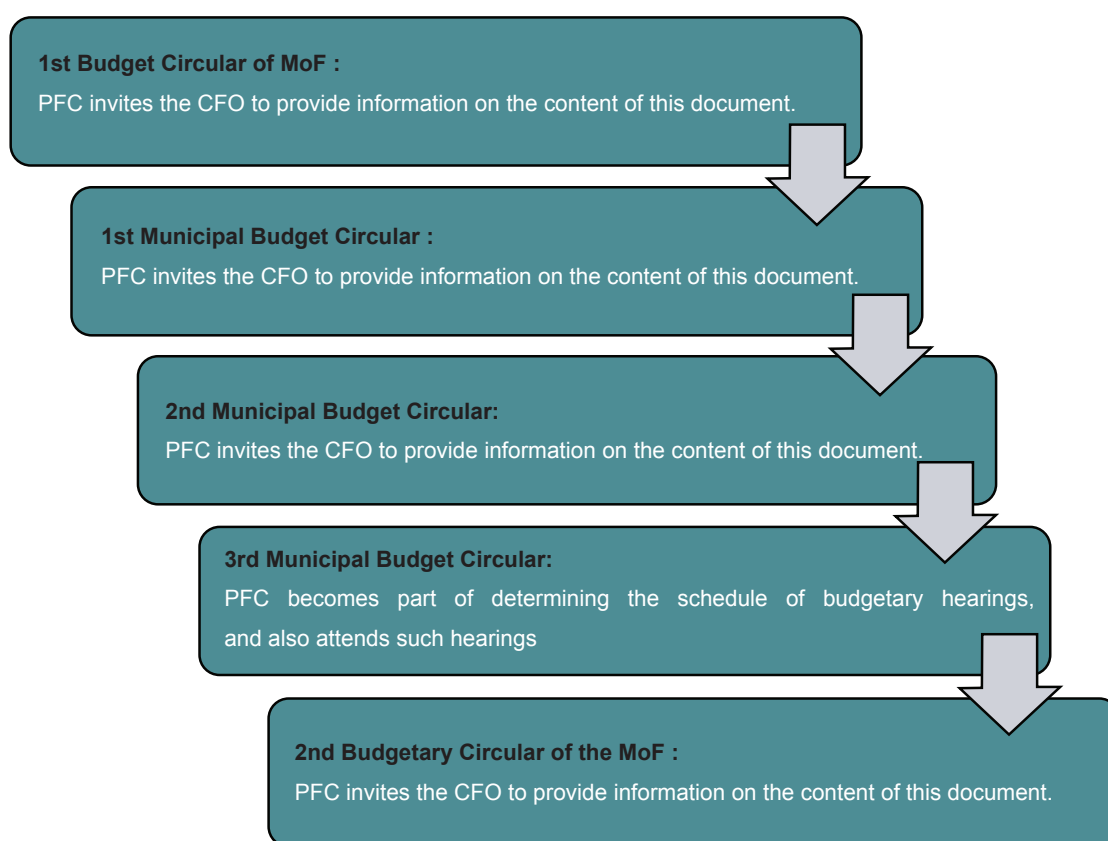


Figure 8: Inclusion of the Municipal Assembly in the budgeting process

Following its adoption, the Mayor is obliged to submit, prior to 01 September, to the Municipal Assembly **the draft budget for next year. The Municipal Assembly shall adopt the municipal budget for next year and submit it to the Ministry of Finance prior to 30th of September.**

The budget planning process continues with other procedures that are implemented in the **Government**, which after adoption of the consolidated draft-budget of Kosovo and the Draft law on budget appropriations, **submits these documents to the Assembly of Kosovo no later than 31 October** of that fiscal year.

Further, **the Assembly of Kosovo shall adopt the budget** through special procedures, for the next fiscal year, until 31st of December.

In addition to all these procedures and timeframes, as a result of inadequate budget planning, the budget review process is performed. The decision to undertake such action, and the timeframe for its accomplishment, is issued by special instructions from the Ministry of Finance.

3.1 Inclusion of Municipal Assembly in municipal budget planning

Based on the above, at first could be concluded that the Municipal Assembly does not have any vital role in the process of municipal budget planning, and that the same is involved in this process only through adoption of the Medium Term Budget Framework (until 30 June) and municipal budget (until 30 September).

Participation of the Municipal Assembly and its members in other phases of this process is of great importance for three basic reasons:

First: Municipal assembly members should have detailed information with regard to the entire process and not only about the final versions of the document of MTBF and municipal budget, since each step of the municipal budget planning process has great influence in the process as a whole;

Second: A 30 days' timeframe, from 01 September to 30 September, is not sufficient for municipal assembly members to ensure that the draft budget received from the Mayor complies with the requirements of the citizens of the municipality.

Third: Municipal assembly members should be part of the entire budget planning cycle. To ensure such a thing, the Municipal Assembly shall request the consideration of budgetary materials and budget documents in its mechanisms. In this context, the Municipal Assembly shall invite the Chief Financial Officer, within the respective timeframes, to provide municipal assembly members with information on:

- 1st Budget Circular of the Ministry of Finance;
- 1st Municipal Budget Circular;
- 2nd Municipal Budget Circular;
- 3rd Municipal Budget Circular; and
- 2nd Budget Circular of the Ministry of Finance.

At the same time, the municipal assembly members can find these documents at the Ministry of Finance and the Budget and Finance Directorate of their municipality.

1st Budget Circular of the MF

- Procedures to be followed from budgetary organizations in preparing the draft budget and its request for budget appropriation;
- Information to be addressed on the draft budget and on the request for budget appropriation;
- The format in which the draft budget and the request for budget appropriation should be prepared;
- The date by which the budget organization must be complete and submit to the Ministry the draft budget and the request for budget appropriation.

1st Municipal Budget Circular

- Municipal departments or directorates shall prepare budget proposals and submit them to CFO.

2nd Municipal Budget Circular

- Information and instructions on spending limits applicable to the department/directorate;
- Procedures to followed from the department in preparing the draft budget and the request for budget appropriation;
- Data which shall be presented in the project budget and in the request for budget appropriation;
- Details about the format in which the draft budget and the request for budget appropriation shall be prepared; and
- The deadline for the department to complete and submit to the CFO of the draft budget and the request for budget appropriation.

3rd Municipal Budget Circular

- The agenda for the organization of budget hearings shall be determined.

2nd Budget Circular of the MF

- Provides final instructions budgetary and final grant levels.

Figure 9: Content of the documents for the municipal budget planning

3.2 Municipal documents to be addressed during budget planning

During the municipal budget planning process, the municipal assembly members must analyze and review the documents approved by the assembly. This is done for the purpose of identifying actions foreseen in the documents in question, which have financial implications for the municipality. As such, the concerned actions and financial cost for their implementation should be addressed in the municipal budget. On the contrary, the document approved by the Municipal Assembly and the actions foreseen, will remain unaddressed and unaccomplished.

Documents that must be reviewed at this phase by the municipal assembly members are:

- Municipal and urban development plans;
- Regulatory plans;
- Different sector strategies (e.g. on education, repatriation, reintegration of communities, etc.);
- Action plans (e.g. on transparency, youth, etc.);
- Municipal regulations, etc.

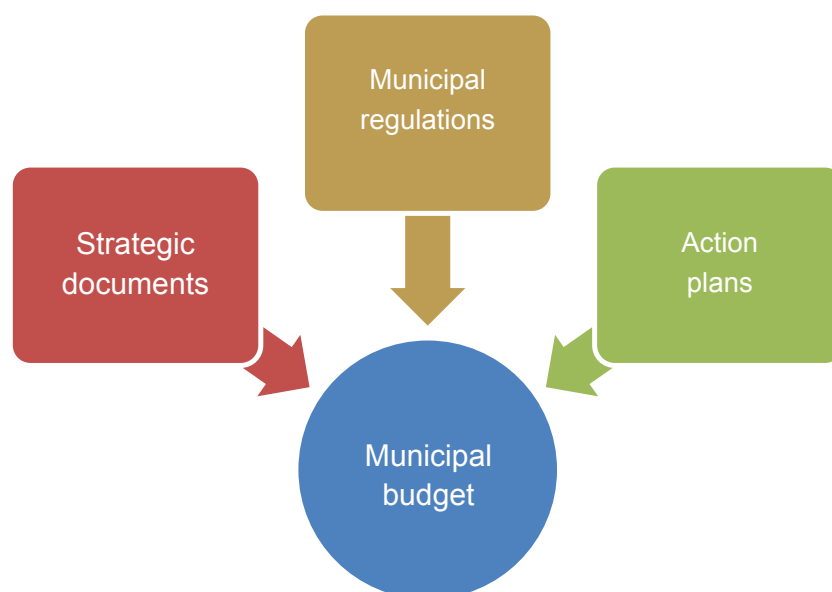


Figure 10: Documents that must be addressed with during the municipal budget planning

4. Targeted, participatory and transparent budgeting

4.1 Targeted budgeting

Targeted budgeting represents the concept of budgeting that takes into account the specific needs of certain and marginalized groups of society. The aim of this concept is to address specific problems through a special intervention for mitigating or solving such problems.

Specific requirements of people with special needs can be considered as one of targeted budgeting examples. Construction of sidewalk slopes, enabling access to public institutions' buildings for persons with disabilities, special signs on sidewalks for blind persons and many other examples can be mentioned in this context.

Targeted budgeting can also be applied for many other groups of particular importance for the municipality, such as addressing environment issues, as well as issues in many other areas. Such concept could be applied to women, youth, elderly, etc. The concept of targeted budgeting does not necessarily imply allocation of direct funds to any of these groups. It is more related to the analysis of specific needs for certain society groups in implementing specific projects funded from the municipal budget.

Some examples:

- During the construction of sidewalks, must be considered the needs of persons with disabilities, blind persons, the elderly, etc.
- While constructing schools, clinics or other facilities of public nature, special slopes must be built, in order to enable access for persons with disabilities.
- Elimination of potential risks, which could endanger the lives of citizens (e.g. floods, landslides, river beds, air pollution, etc.), should be considered a priority during the identification of capital investment projects.



Under the concept of targeted budgeting, the important parts of budgeting is the accurate planning of needs for addressing the problem, accurate planning of activities to be undertaken in order to address and avoid the problem, accurate identification of financial costs to execute activities, as well as advocacy. The proper addresses for further advocacy may be the Mayor, the director responsible for the relevant field, the Chairperson of the Municipal Assembly, the council committees or even the municipal assembly members themselves, also including the central level institutions.

4.2 Participatory budgeting

Participatory budgeting is a complementary concept of the targeted budgeting, because without participatory budgeting we would not have targeted budgeting. In this view, participatory implies the participation of different society groups and categories in the process of budget planning. After all, one cannot understand the needs of different society groups without including them in the budget planning process as well.

Proper implementation of the participatory budgeting concept requires some actions by the municipality authorities, whereby the role of the Municipal Assembly members in the implementation of those actions can be very significant. Participatory budgeting must be conducted in the phase of public budget hearings. Therefore, in order for this stage to be successful in terms of including many citizens in the budget planning process, hearings should be organized with different groups of citizens and in:

- Municipality's urban and rural areas;
- Adequate spaces for the citizens;
- Appropriate time for citizens.

When it comes to the successful organization of hearings, it must be noted that timely information of citizens for public hearings through different information channels, as well as preparation and publi-

cation of reports for these hearings, is of great importance. The role of Municipal Assembly members is very important in all these phases, particularly monitoring the implementation of these principles, and exercising public and political pressure to competent officials for their implementation.

4.3 Transparent budgeting

Transparent budgeting means allowing public access in all phases of the budgeting process, from the planning phase to the realization phase of the municipal budget. In this view, publication of all documents related to the phase of municipal budget planning, at least on the website of the Municipality, is of great importance. Additionally, the publication of periodic reports on the implementation of the municipal budget is also vital for transparent budgeting.

Municipal assembly members play an important role in the transparent budgeting process as well. This role derives from the fact that they could and should monitor the publication of the concerned documents on the website of the municipality, and also exert public and political pressure for this purpose.

Principles of good budgeting, which should be taken into account by each municipality are:

- Respect of the legal framework,
- Capital investments pursuant to citizens' requests,
- Transparency,
- Citizen participatory planning,
- Accountability,
- Successful budget implementation,
- Regular audit,
- Performance Evaluation, and
- Stability.

Transparency in the budget drafting process, as well as in the municipal budget implementation process directly increases citizens' confidence in the municipality. Transparency in the budget planning process will affect, even indirectly, in citizens' inclusions in the decision making process in the municipality. This process will allow them to at least familiarize with the municipality's plans and priorities and have the opportunity to present their recommendations and requests. This will directly increase the quality of the municipal budget, and its impact on addressing citizens' concerns and requests.

On the other hand, transparency in the municipal budget implementation process serves as a tool for informing citizens regarding municipal financing sources, as well as about categories and amounts spent by the municipality. Information makes citizen part of processes that take place in the municipality, and serve to the increase of municipal leadership accountability towards citizens.

5. Procurement

5.1 Regulatory institutions

Institutions regulating public procurement in the Republic of Kosovo are as follows:

Public Procurement Regulatory Commission (PPRC) is an independent regulatory agency established under the Law on Public Procurement (no. 04/L-042). The president and members of PPRC are nominated by the Government and appointed by the Assembly for a five years term. PPRC is responsible for the development, operation and general supervision of the public procurement system in Kosovo.

Central Procurement Agency (CPA) is a body established under the Law on Public Procurement. CPA is administered by a director for a three years term. The Minister of Finances can assign CPA as the contracting body for conducting a specific procurement due to the professional expertise, cost effectiveness or efficiency. Upon a proposal by the Minister of Finances, the Government shall establish a list of common goods, whereby their procurement is assigned to the CPA. The municipality may assign the CPA to conduct a procurement activity on its behalf or may require CPA assistance in conducting a procurement activity.

Procurement Review Body (PRB) is an independent administrative reviews body, which consists of five members appointed in a five years term. The President and members of the PRB shall be nominated by the Government and appointed by the Assembly based on the recommendation made by an independent selection body established by the Assembly. PRB is responsible for implementing the procurement review procedures under the Law on Public Procurement.

5.2 Procurement process

According to the Law on Public Procurement, all public procurement should be conducted according to the following principles:

- **Cost-Effectiveness and Efficiency** – The municipality is obligated to ensure that public funds and resources are used in the most efficient and cost-effective manner, always taking into account the purpose and subject of procurement.
- **Equal treatment/Non-Discrimination** – The municipality shall treat economic operators equally and non-discriminatorily and shall act in a transparent way.

Before initiating any procurement activity, the Chief Administrative Officer (CAO) should ensure that a formal needs assessment is carried out, and if the needs assessment justifies the conduct of the procurement activities, the Chief Financial Officer (CFO) should make sure that funds are available for the relevant procurement, in a sufficient amount to meet the obligations that may arise as a result of the procurement in question during the current year. For each procurement activity of the municipality, the CAO shall appoint one person to serve as the Authorizing Officer for that procurement activity.

The public procurement process consists of 8 main steps:

Procurement forecast - No less than sixty (60) days prior to the beginning of each fiscal year, the municipality shall prepare and provide to the CPA a preliminary procurement forecast that identifies all supplies, services and works that the municipality intends to procure over the course of the fiscal year. Such forecast shall specify the estimated general value of procurement by product and service classification that the municipality intends to procure over the fiscal year; in the case of works contracts, the essential characteristics of each work contract that the municipality intends to award over the fiscal year. Within fifteen (15) days after the announcement of the approval of the budget for a fiscal year, the municipality shall prepare and provide to the CPA the final procurement forecast.

Value estimation and contract classification is the second step in the procurement process. The estimated value of a public contract shall be estimated prior to the initiation of procurement procedure. This type of estimates should be realistic and reasonable for the estimated contract in terms of efficiency, cost-effectiveness, and transparent and fair use of public funds and resources.

Setting of the procurement procedure is the third step in the procurement process. The estimated value of the requirement is used as the main criterion for determining the procurement procedure. In addition, the circumstances of the requirement can also be used as additional criteria for determining the procurement procedure. The types of procurement procedures are presented in section 6.3.

Preparation of tender dossier represents the fourth step in the procurement process. A tender dossier must be created for each estimated contract or design contest, unless the contract is of minimal value. Tender dossiers and design contest dossiers are prepared by using relevant standard forms adopted by the PPRC. Structure of the tender dossier consists of three main parts: information for bidders; draft contracts; and the tender form.

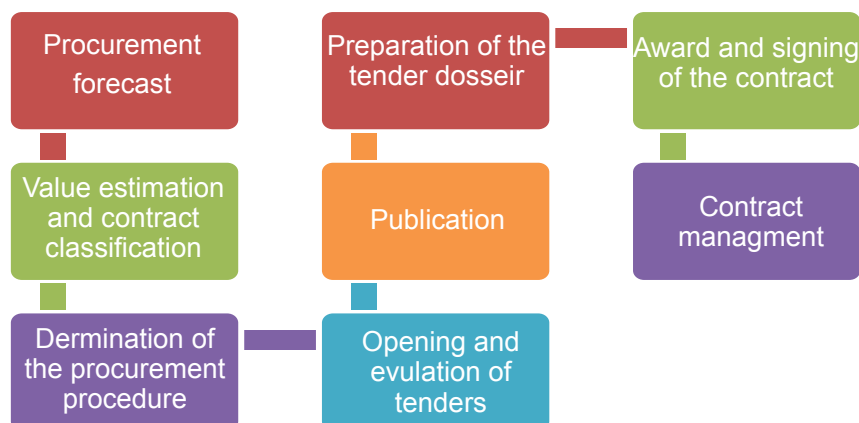


Figure 11: Procurement process in Kosovo

Publication is the fifth step in the procurement process and constitutes one of the key mechanisms for ensuring transparency. There are 5 types of notices: prior notice; the contract notice; contract award notice; cancellation notice; and notice for cancellation of contract award.

Opening and evaluation of tenders represents the sixth step in the procurement process. Tenders received are only opened publicly. The municipality must specify in the contract notice and in the tender dossier the place and the time of opening of tenders. The opening of tenders is carried out by the relevant procurement officer, who shall read aloud the name and location of the bidder, and the total tender price. The municipality must establish an evaluation committee for offers.

Contract is awarded to the economic operator who has submitted an eligible bid with the lowest price or the most economically advantageous tender on the basis of criteria and weight specified in the tender dossier.

Contract monitoring, according to the Law on Public Procurement, is carried out by the PPRC. Contract management commences when the contract is signed and continues until after the expiry of guarantees. PPRC monitors if the contract is implemented in accordance with the terms of the contract.

5.3 Procedures for filing complaints

Economic operators or bidders affected by any decision of the Contracting Authority (the municipality) have the right to file a complaint. Complaints for procurement procedures must be submitted to the PRB within ten days after the date of receiving the notice on the award of the concerned contract

or the notice on the results of the contest. If the PRB determines that the complaint has been filed within the time limit and is complete, then the President of PRB, following the proposal of the Head of Secretariat, authorizes a review expert from the Unit of Complaint Review and also establishes the Review Panel to review the procurement process of the activity, and the validity of allegations alleged in the complaint. The review expert after reviewing all procurement documents in question must provide a written assessment for the procurement activity. Within 4 days after the decision of the PRB, the municipality must serve the review expert, the review panel and the complainant with its decision on the matters enclosed in the complaint. No later than fifteen days after the deadline set by law, the PRB shall render its final decision in writing, together with a written statement on the factual and legal bases justifying such a decision and any order required to give effect to such decision.

5.4 Types of procurement procedures

Open procedures should be applied by the municipality while implementing activities that aim to award a public contract, unless the use of other procurement procedures is authorized by the legal provisions. A characteristic of the open procedure is that anyone, regardless of qualification and capacity, can bid for contract.

Restricted procedures are procurement procedures in which all economic operators may request to participate and where only those economic operators invited by the Contracting Authority may submit a bid.

Negotiated procedures after publication of a contract notice to conduct the procurement activity may be employed by the municipality in exceptional cases, if due to the nature of certain insurance, banking and investment, management, consultancy or other intellectual services is impossible to establish contract specifications in a manner that would permit the award of the contract by selecting the best tender under the rules governing open or restricted procedures or the nature of the services or the risks attaching thereto, do not permit prior overall pricing.

Negotiated procedures without prior publication of a contract notice may be used by municipalities to conduct a procurement activity having as its object the award of any public contract if: for objective and compelling technical or artistic reasons, the contract may be awarded only to a particular economic operator; for reasons of protection of intellectual or industrial property right or other exclusive rights, the contract may be awarded only to a particular economic operator; for reasons of extreme urgency brought about by objectively verifiable events that could not be foreseen by the municipality.

Price Quotation Procedures may be used to conduct a procurement activity having as its object the award of a minimal or low value work, supply or service contract if the work contract consists only of repair or maintenance or, in case of the supply or services, the concerned supplies or services are readily available for the municipality, or the concerned supplies or services do not need to be specially produced or customized in order to satisfy the requirements of the municipality, and if there is an established market for such supplies or services.

Procedures for minimal value contracts may be used for any public contract the estimated value of which is less than EUR 1,000. With the issuance of purchase orders regarding the minimum value procurement, the municipality must provide an effective competition, transparency and high efficiency of the use of public funds.

5.5 Cash flow plan

Cash flow plan contains information on the scheduled time of committing funds and expenditures. The treasury allows allocation of funds only based on the expenditures and commitments plan. Within thirty days following the adoption of the Law on Budget of the Republic of Kosovo, the municipality shall prepare and submit the cash flow plan to the Treasury, distributed throughout the fiscal year across the sub-programs and expenditures of economic categories. Cash flow plan for the economic category of capital expenditures shall be prepared in details by municipalities for each capital project. Preparation of cash flow for the economic category of wages and salaries should be based on the dynamics of the planned employment for each month, adhering to the approved number of staff and budget appropriations for each sub-program under the Law on Budget of the Republic of Kosovo. The planning of cash flows for the following economic categories: goods and services, utilities, subsidies and transfers, and capital expenditures, should be done pursuant to relevant planning for committing and spending funds.

Considering the numerous problems related to the procurement process in general, and capital investments in particular, which have been repeatedly raised by the Office of the Auditor General, and taking into account that a significant percentage of municipal budget is spent on capital investments (for 2014, according to the budget Law of the Republic of Kosovo, 33% of the municipal budget is allocated for capital investments).

Below are provided some advices on what Municipal Assembly members can do to improve the quality of the procurement process in general:

- Ensure that the Policy and Finance Committee reviews the annual procurement plan, in accordance with the Law on Local Self-Government;
- Ensure that the budget, particularly the one allocated to capital investments, is implemented according to the plan, considering that the low budget realization will result in funding, or burdening the next year budget, with the current year projects, as well as overloading of a period of high volume of work increases the risk of failure in procurement activities and payments;
- Ensure that procurement procedures in the municipality are in accordance with the requirements of the Law on public procurement, and other relevant bylaws;
- Ensure that criteria set-out in the tender dossier by municipalities are respected;
- Request updated reports on the status of capital investments, in order to identify delays in implementation of projects under the terms provided in the contract and, in such cases, take the necessary measures;
- Ensure that payments to economic operators are carried out in a timely manner.

Law No. 04 / L-042 on Public Procurement in Republic of Kosovo and Law No. 04 / L-237 on amending and supplementing the Law on public procurement can be found on the website the Kosovo Assembly <http://www.kuvendikosoves.org/> and on the website of PPRC: <https://krpp.rks-gov.net/>

Regulation No. 03/2014 on allocation of funds can be found on the website of the Ministry of Finance: <https://mf.rks-gov.net/sq-al/>

Administrative instructions for public procurement can be found on the website of PPRC: <https://krpp.rks-gov.net/>

6. Monitoring and overseeing municipal budget

The municipal budget monitoring and oversight is carried out in three main pillars. The first and most important pillar is the Municipal Assembly, which is the highest local government body, and at the same time is the legally authorized to supervise service provision by the municipal executive. The second supervising pillar is the internal audit, which is responsible for reviewing expenditure and minimizing opportunities for fraud and misuse of funds. Finally, the third supervising pillar is the external audit, which is carried out by the Office of the Auditor General. The following part presents the role of the Municipal Assembly in monitoring and overseeing the municipal budget, whereas Part 9 introduces the role of internal and external audit in monitoring and overseeing municipal budget.

6.1 Role of the Municipal Assembly in overseeing the budget

The Municipal Assembly is legally authorized to use different mechanisms for discharging its tasks of monitoring and overseeing the municipal budget. One of the key mechanisms is the financial reporting carried out by the Mayor of the Municipality. Additionally, the Municipal Assembly may use other mechanisms, which are presented in Figure 11 below.

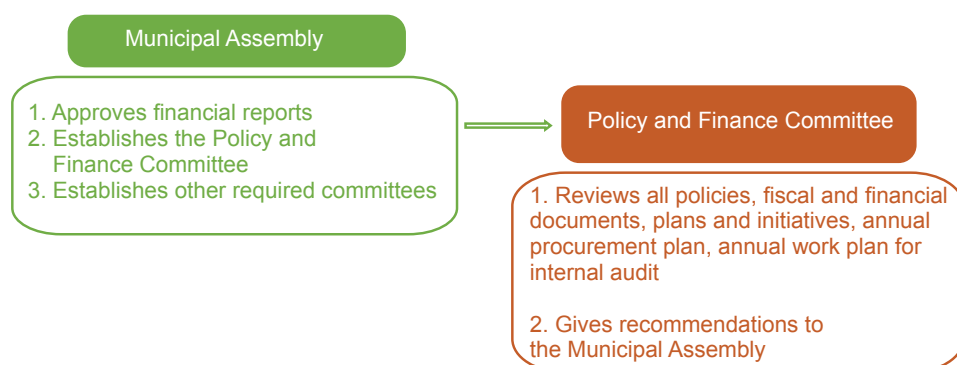


Figure 12: Role of the Municipal Assembly in monitoring and overseeing the municipal budget

Financial reporting, being one of the key municipal budget monitoring and overseeing mechanisms, aims to objectively inform about the progress and relevant indicators for the fulfilment of the fundraising plan by sources, fulfilment of obligations planned under programs, dynamic of funds spent based on the nature of expenses and defined budget categories, cash flow, and other indicators that have affected the overall outcomes for the reporting period. Financial reports shall be prepared in accordance with IPSAS (International public sector accounting standards) based on

cash, meaning that transactions and events are recognized only when the municipality receives or pays in cash. The municipality reports all transactions through the Treasury Single Account, since it does not operate with bank accounts. The Government of Republic of Kosovo governs and manages expenditures and revenues of all budget organizations through the Treasury Single Account. After approving the payment by the municipality, the Treasury transfers the funds to the beneficiaries on behalf of the municipality.

Based on requests for interim and annual reporting and based on the provisions of Articles 45.4, 46.1 and 46.2 of the Law on Public Financial Management and Accountability, the Mayor shall submit these quarterly reports to the Municipal Assembly:

Revenue and expenditure report	Statement of factual revenues and expenditures
	Discussion on adhering to the deficit ceiling, including the causes of deviations and funding of deficits, if any, or causes of budget surpluses and investment of such surpluses, if any.
	Actual revenues of the municipality, identified by type, compared to relevant provisions which are included in the budget.
	Actual expenditures for each category of expenditures, compared to budgetary appropriation and the factual expenditures for that category during the previous calendar year
	Defined actual revenues received identified by type, and actual expenditures, by classification, from budget appropriations to dedicated revenues
	The factual number of permanent and temporary employees of the municipality, compared to numbers authorized in the budget
	Actual payments of interest or amounts in the nature of interest on debt, and payment of the capital amount of debt
	Details about expenditures from budget appropriations for extraordinary expenses
	Details about the modifications made in budget appropriation
Data on investments and obligations	Details regarding investments of public money completed during the fiscal year
	Details of any liability described in Articles 50 or 51 of the Law on Public Financial Management and Accountability
	Complete calculation of assets, which is carried out by budget organizations at the end of the fiscal year.
	Assessing all contingent liabilities, including assessing the risk of these contingent obligations
	All delayed expenditures
	A plan discussing fiscal adjustments to compensate an excessive deficit or to re-set the deficit ceiling after an increase of that ceiling
Data on capital investment	Summary of the status of all capital investment projects
Report on audit findings	A report on actions taken and proposed regarding the findings and recommendations of the Auditor General in the annual audit report of the financial statement

Figure 13: Content of the quarterly financial reports

While reviewing the financial reports, the Municipal Assembly members should pay particular attention to the identification of discrepancies between the planning and implementation of the budget (discrepancies mean exceeding the budget or non-accomplishment of the dynamic plan).

Report on receipts and payments include the total revenues and expenditures in cash, divided by economic categories. In accordance with IPSAS, in cases when the reporting entity does not control cash, this report presents fund sources and the use of funds. The amount presented as a source of funds is the actual amount of expenses incurred through the Treasury Single Account and presents the source of funds spent. Detailed explanations shall be given for each item reported in the revenue and expenditure report. These explanations can be found by referring to the numbers next to each economic category in the report.

Budget execution report provides information on the initial budget by the Law on Budget, on the final budget under the Kosovo Financial Management Information System (KFMIS), on budget implementation and comparison of the final budget with its realization. Law on Public Financial Management and Accountability and the Law on Budget Appropriations allow budget adjustments throughout the year. Allowed adjustments include own source revenues transferred from previous years, authorized transfers between programs and changes in the approved budget with the mid-year review. Below is given an example of budget execution report.

Disclosure of liabilities (unpaid municipal invoices) is required by the Law on Public Financial Management and Accountability. The municipality must report all its liabilities at the end of the reporting period, including all unpaid invoices and contingent liabilities. The municipality is not allowed to assume liabilities during the current fiscal year in the amounts that exceed the allocated funds. Inadequate budget planning and exceeding of budget may result in non-fulfilment of the organization's objectives and inability to finance current year liabilities. Also, exceeding the time limit of 30 calendar days in payments does not comply with the requirements of the Law on Public Financial Management and Accountability. Municipal Assembly shall, at its meetings, require detailed reports of unpaid invoices, identify invoices that have passed the 30 days' time-limit for payment, ask for clarification from the Mayor, and take other necessary steps to ensure payment of invoices.

Disclosure of municipality assets is a requirement of the Law on Public Financial Management and Accountability. The municipality must disclose all assets under its ownership at the end of the reporting period. Reports on assets which must be submitted by the municipalities are:

- Statement of non-financial capital and non-capital assets and stocks;
- Statement of accounts receivables; and
- Statement of unjustified advances

Considering that the majority of municipalities in Kosovo have problems with the accuracy of the asset list, the issue that has been repeatedly raised in the external audit reports is that the Municipal Assembly must pay particular attention to asset report. It should require from the executive to submit updated lists of municipal assets and request from the municipality to allocate additional resources for the registration, verification and evaluation of municipality assets, and to ensure that registration and presentation of assets is done continuously in financial statements. On the other hand, the municipality must keep records of revenues collected and the amounts invoiced and uncollected.

Accounts receivable must be disclosed in the financial statements the relevant table by type of revenues. Also, data on payments from third parties, amounts of accounts receivable and contingent liabilities must be updated and reviewed regularly to ensure the accuracy and completeness of such disclosures in the financial statements.

Unexpended balance of budgetary organization own source revenues shall be reported by the municipality according to the Law on Public Financial Management and Accountability. Municipality shall report the amount of revenues transferred from the previous year, and the amount collected during the fiscal year, which were available for spending during the reporting period. Unexpended balance shall be disclosed in the table.

Disclosure of budgetary changes during the fiscal year is a requirement of the Law on Public Financial Management and Accountability. The budget approved at the beginning of the year for budgetary organizations, may undergo changes in accordance with the Law on Public Financial Management and Accountability. These changes must be reflected in the financial statements in the form of an analysis of differences between the initial and final budget by economic categories.

The ratio of the number of employees' within the municipality must be reported by the municipality, as well as changes of this number during the fiscal year. The number of employees shall be reported according to the municipality programs. The report of actions taken for implementing the recommendations of previous audit constitutes the final part to be disclosed in the financial report as required by the Law on Public Financial Management and Accountability.

The report of actions taken to implement the recommendations of previous audit constitutes the final part to be disclosed in the financial report as required by the Law on Public Financial Management and Accountability.

Relevant laws can be found in the website of the Assembly of the Republic of Kosovo: <http://www.kuvendikosoves.org>

Regulation No. 03/2013 on annual financial statements of budgetary organizations, can be found in the website of the Ministry of Finance: <https://mf.rks-gov.net>

Taking into consideration the important role of the Municipal Assembly in monitoring and overseeing the municipal budget, the Municipal Assembly members may:

- Request regular updates on the process of preparing and executing the municipal budget and budgets for different capital investment projects;
- Request detailed financial reports instead of generalized reports which do not provide required data for a fair evaluation;
- Ensure that financial statements for framework contracts on goods and services, as well as on capital investment, are detailed and include planned budget for each project, the amount of project contracted as well as the amount under which the project is executed. In order to ensure transparency in monitoring the municipal budget, the amount of works performed by the contractor (the final amount of the project) should also separately include the difference in the final amount as a result of changes in projects conditions after the award of the contract.

7. Audit

7.1 Internal audit

The role of internal audit is to independently ensure that risk management, governance and internal audits of an organization are operating effectively. According to the Law No. 02/L-74 on Internal Audit, each budgetary organization should establish the internal audit unit and ensure that its operations, data and its management and control systems are subject to a comprehensive internal audit at least once a year. The purpose of these audits is to determine the level of implementation of laws, regulations and other relevant bylaws. Internal audit helps public sector entities by:

- Assessing compliance with laws, regulations, internal rules and contracts, in order to be accountable to the public;
- Identifying, assessing and managing risks;
- Assessing the credibility and comprehensiveness of financial and other information;
- Assessing the efficiency, effectiveness and economization of operations;
- Minimizing the fraud opportunities, misappropriation and abuse of funds; and,
- Providing recommendations for improvement of actions.

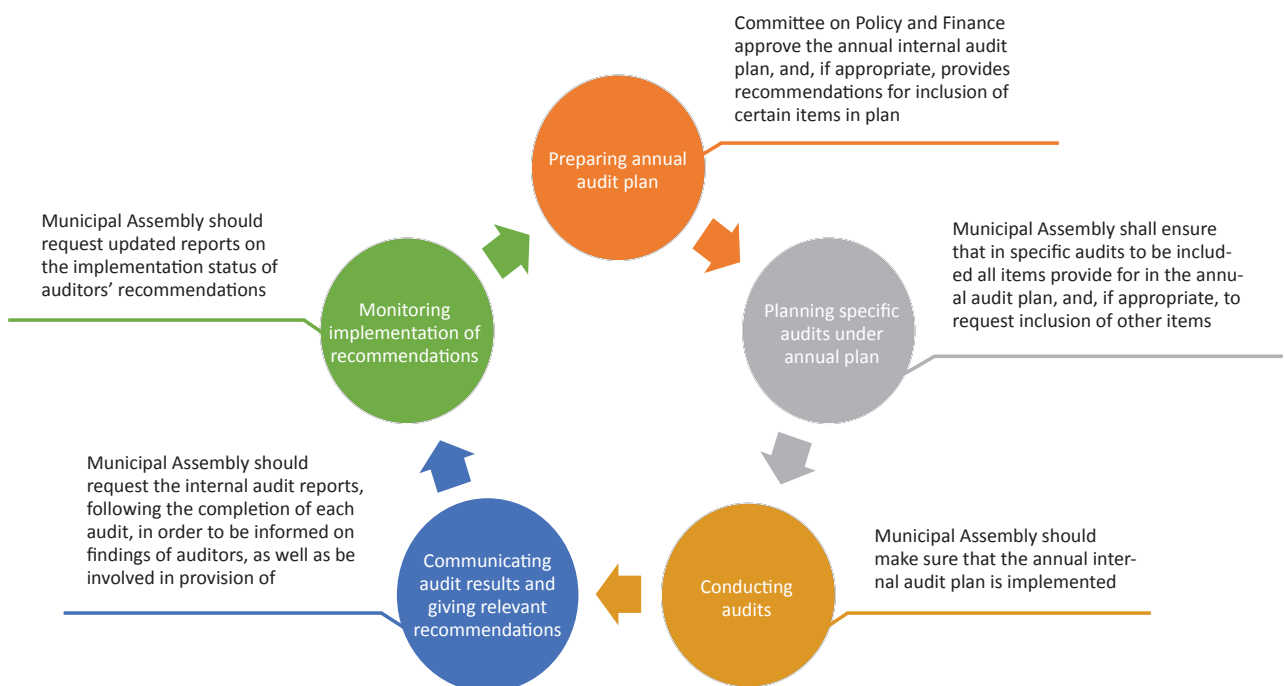


Figure 14: Internal audit cycle and the role of the Municipal Assembly

All auditors shall conduct internal audits in accordance with the following principles:

Legality – Audits shall be in full compliance with applicable law, rules, standards and practices;

Integrity – Audits shall be conducted in a professional manner and in accordance with all applicable legal requirements. The auditors shall strictly avoid all conflicts of interest and shall not allow any kind of personal considerations to influence the manner in which he/she conducts the internal audit;

Impartiality and objectivity – Audits shall be conducted with a high level of professionalism. They shall prepare conclusions based on balanced tests and assessments, not allowing their work to be influenced in any manner by their own personal interests or the interests of any other person;

Confidentiality – Auditors shall respect the values and ownership of information they acquire and shall not disclose such information to any person, unless specifically required by the law;

Competency – Each auditor shall possess and use professional knowledge, skills and experience required for conduct such audit in a professional manner;

Independence – Auditors shall be independent from the activities being audited or from the persons responsible or involved, either directly or indirectly, in such activities.

7.2 External audit

7.2.1 Office of the Auditor General

The third phase of the municipal budget oversight is carried out by the Office of the Auditor General. Office of the Auditor General consists of the Auditor General and the staff of the audit office. Auditor General is appointed by the Assembly of the Republic of Kosovo for a five years term. He/she shall have the required qualifications and characteristics to perform his duty (have high moral values, and to be impartial and honest). The Auditor General shall have complete discretion on exercising his/her duties and powers. While, the internal audit performs audits within the municipality and is responsible before the government, the Auditor General is authorized to audit all budgetary organizations and other entities in Kosovo, that are either more than 50% publicly owned or receive funding from, or provide dividends or other non-tax revenues to the Kosovo Consolidated Budget. The Auditor General is responsible to the Assembly of the Republic of Kosovo. The Auditor General shall provide to the Assembly of the Republic of Kosovo a report on audits conducted in each audited entity no later than 31 August of each year. Audit reports shall be made available to the public. The Auditor General is entitled to engage persons, entities or international organizations to assist in conducting audits. He/she may delegate all audits of entities, provided that the person, organization or the entity to which this function is delegated to complies with all legal guidelines of the Auditor General.

7.2.2 Definition of the external audit

External audit is an independent control of financial statements of an entity, which aims to give an opinion on whether the financial statements reflect the real and fair situation of the financial aspect of operations for the reporting period, and whether they are in compliance with reporting standards of accounting and financial standards adopted.

The forms of opinions on financial statements as defined in ISSAI 200² are as following:

- **Qualified opinion**

When the auditor disagrees with, or is uncertain, whether one or more specific elements of financial statements are free of errors;

- **Adverse opinion**

When the effect of an error is material and pervasive in the financial statements to the point that qualification of the report cannot be done;

- **Disclaimer of opinion**

When the auditor is unable to establish an opinion on the financial statements as a whole due to an uncertainty or essential or comprehensive restriction of the scope;

- **Unqualified opinion**

An unqualified opinion is given when the auditor is satisfied in all material terms, as follows:

- No material misstatements;
- Statements comply with statutory requirements and relevant regulations;
- Financial statements contain appropriate information disclosures regarding all material matters;

- **Emphasis of the matter**

Drawing the reader's attention to a matter disclosed in the financial statements. Emphasising an issue does affect the auditor's opinion.

In order to give a specific opinion on financial statements, auditors shall:

- Assess the risk;
- Plan audit procedures;
- Conduct the audit procedures;
- Assess the outcomes;
- Express the opinion.

In addition to the audit report, whereby the auditors' express their opinion on financial statements, the external audits shall, in accordance with reporting standards, prepare the final management letter for the audited entity. The management letter is a report including all conclusions that the external auditors have reached on the activities or financial situation of the audited entity, information relating to the implementation of financial reporting, as well as a specific statement on the internal control system. Furthermore, the management letter contains specific findings that have resulted from the audit, the impact of those findings on activities of the municipality, their risk, recommendations for addressing them, and management's comments relating to the findings in question. Following the completion of audits and receiving of report and management letter, the municipality shall take measures to address the external auditor's recommendations. It should assign an action plan for each auditor's findings. The action plan shall include strategies selected to address the recommendations and findings, as well as the deadline for implementation and the indicators that will be used to identify the successful implementation.

² ISSAI or international standards of Supreme Audit Institutions are issued by the International Organisation of Supreme Audit Institutions (INTOSAI).

Addressing of recommendations, be it from the Office of the Auditor General or from the independent auditors, is still at low level in Kosovo municipalities. From a large number of recommendations concluded in 38 municipalities of Kosovo, only about 1/3 of them have been fully addressed and less than 1/3 has been partially addressed.

Taking into account the importance of external audit and findings of external auditors, below you can find several advices on what municipal assembly members can do to increase the efficiency of external audit in the municipality:

- During the audit process, if the Municipal Assembly members are aware of any problem or issue that may be of interest to the work of external auditors, they should ask for meetings with the auditors and raise these issues before them;
- Municipal Assembly members shall ensure an action plan for each finding of the external auditors, which shall contain the set strategy, the person responsible and the deadline for addressing the finding;
- Ensure that actions plans are implemented within the set timelines.

External Audit Reports can be found at:

- The Office of the Mayor;
- The Audit Unit Office at the Municipality;
- The Audit Committee;

After publication by the Office of the Auditor General, on the website of the Office of the Auditor General: <http://www.oag-rks.org/>

Internal Audit Reports can be found at:

- The Audit Unit Office at the Municipality;
- The Audit Committee;

Law no. 03/L-128 on internal audit can be found in the website of the Assembly of the Republic of Kosovo at: <http://www.kuvendikosoves.org/>

Law 03/L-075 on the Establishment of the Office of the Auditor General of Kosovo and the Audit Office of Kosovo can be found in the website of the Office of the Auditor General at: <http://www.oag-rks.org/>

7.3 Description of group work

Question	Response
How can Municipal Assembly affect the increase of own source revenues?	Own source revenues of the municipality are revenues that directly affect the number of capital investment projects to be implemented in the municipality. Higher revenues mean more capital projects can be implemented in that municipality. In this regard, the Municipal Assembly, as a representative body of the citizens, could have a major impact and role on increasing the municipality's own source revenues. Group members shall identify possible actions to be taken by the Municipal Assembly, which would cause the increase of the municipality's own source revenues.
How can Municipal Assembly oversee the collection of own source revenues?	The process of monitoring and controlling the collection has a significant impact on the scale of own source revenues collection in a municipality. Close monitoring and control of own source revenues collection process will result in increased discipline of the municipal administration, thus contributing to increased level of collection of own source revenues of the municipality. Group members shall identify methods for exercising oversight and control on the effectiveness of municipal executive body in collection of own source revenues of the municipality.
What are the actions which should be taken to increase own source revenues?	Taking into consideration the role and effect of own source revenues in conducting and implementing public investments, municipalities can, and should, take concrete actions to increase the own source revenues. Various international and domestic practices provide a number of models and actions that could result with an increase of such own source revenues. Group members shall identify specific actions, whose implementation will enable the increase of own source revenues of the municipality.
Day II	
Prioritize 5 capital investment projects that are in the interest of the Municipal Assembly for three years.	Municipal assembly members are continuously challenged by the high number of citizens' requests for addressing their problems, concerns and requests. Municipalities have no real financial opportunity to address all these citizens' concerns during a fiscal year. Therefore, municipal assemblies are obliged to prioritize these requests and give priority to the more serious situations. Group members shall identify 5 capital investment projects that will be addressed. The total amount available is 600.000 Euros. The following requests are: repairing the roof of the school 200.000 Euros, construction of sewage of a village 100.000 Euros, construction of water supply network in a neighbourhood 250.000 Euros, removing black spots in one of the main roads 150.000 Euros, construction of FMC in the largest village 300.000 Euros, construction of infrastructure in the industrial zone 350.000 Euro

Plan daily allowances for PFC, Committee for Public Services and women caucus, for three years.	The Municipal Assembly is continuously facing shortage of funds on covering the required expenditures for its normal functioning as well as normal functioning of assembly bodies. A number of the committees established by the assembly remain inoperative due to lack of payments of daily allowances for members of these committees or other bodies of the Municipal Assembly. In most cases these problems arise due to inadequate planning of the Municipal Assembly budget. Group members shall identify required expenditures for payment of daily allowances to these bodies of the Municipal Assembly during a fiscal year.
Plan the fulfilment of other needs of the Municipal Assembly.	The Municipal Assembly takes very little care for addressing its shortages in the process of drafting and adopting the municipal budget. Consequently, the Municipal Assembly each year faces similar problems which have significant impact on the quality and efficiency of assembly. Group members shall identify gaps and problems faced by the Municipal Assembly and schedule required actions and expenditures on fulfilment of Municipal Assembly needs.

Chapter IV

Committee for Public Services

1. Committee for Public Services

1.1 Reasons for establishing this committee

Almost all municipal competencies in fact do include service provision to citizens. The principle of subsidiarity, a basic principle of the European Charter of Local Self-Government, requires that services to citizens are provided by the level of government that is closest to citizens. For the purpose of providing citizens' with services in a more successful manner, municipalities have established special directorates for public services. Through such directorates, municipalities mainly exercise their own competencies in the fields of public services, such as infrastructure, waste management, environmental protection, road maintenance and many other services. However, there are cases when certain public services are also provided by other directorates and cases when the Directorate of Public Service is divided into several directorates (i.e. Directorate for Infrastructure).

The performance of the Directorate of Public Services in a municipality is, to a great extent, the denominator of the overall performance of a municipality. Therefore, it is highly important that the work of Directorates of Public Services and other Directorates that provide public services is at the appropriate level. In addition to being committed, it is very important to monitor and oversee the work of relevant directorates. The legal framework on local self-government stipulates that directors are appointed and discharged by the Mayor, which in a way makes municipal directors Mayor's advisors. Therefore, in this context the monitoring and oversight of directors of municipal directorates by the Mayor of the municipality is essential for assessing the engagement and quality of public service delivery.

Nevertheless, the Municipal Assembly being the highest municipal body, can and should also play a role in monitoring and overseeing the work of the Directorate of Public Services and other directorates whose operations are related to the provision of public services. After all, one of the main duties and competencies of municipal assemblies is to oversee the work of the municipality's executive body. Therefore, a greater involvement by the Municipal Assembly in overseeing the work of the Mayor and municipal directorates is correlated to a higher possibility of enhanced performance in the execution of activities by the concerned officials and better results as well, particularly in terms of public services delivery.

Advanced parliamentary practices depict the challenges faced by the assembly, both at local and central level government, in overseeing the work of executive bodies. Hence, this raises the need of establishing smaller groups of assembly members with expertise in relevant areas, which ensure closer and more quality performance oversight over certain units of the executive body. In the same vein, municipal assemblies should establish specific committees to ensure closer oversight of the work of municipal directorates. Thus, in order to closely oversee the delivery of public services by the Directorate of Public Services, the Municipal Assembly should establish the Committee for Public Services. It is desirable that this committee consists of Municipal Assembly delegates with appropriate experience and knowledge on public services delivery. The same applies to other municipal sectors, such as education, health, urbanism, etc.

1.2 Functioning of the Committee for Public Services

As in any other similar body, the Committee for Public Services selects its Chairperson from the ranks of its members. Duties of the Chairperson of the Committee for Public Services consist of invoking committee meetings, proposing the agenda for committee meetings, chairing the meetings, managing voting procedures, and representing the Committee for Public Services.

The Chairperson of the Committee for Public Services shall also ensure compliance with legal obligations, particularly those related to transparency. Therefore, invitations for the meetings of this Committee should be sent to its members 7 working days prior to the meetings. In addition, the public should also be notified about the meeting. In both cases, the notice on the meeting should include:

- Meeting time,
- Meeting agenda,
- Meeting venue,
- Meeting materials.

The Chairperson of the Committee for Public Services, in cooperation with the Support Office of the Municipal Assembly and the Municipal Office of Public Communications, takes care of the publication of decisions and minutes of the Committee for Public Services meetings in the municipality's website, as well as citizens' participation in committee meetings and organization of public meetings.

It is worth mentioning the channels for communicating the opinions and recommendations of the Committee for Public Services. Meetings with the President of the Municipal Assembly constitute the primary mechanism which should be used by the members and the Chairperson of the Committee for Public Services. Municipal Assembly debates, meetings with relevant directorates, meetings with political parties and communicating with the media, represent other channels that can be used by the Committee for Public Services for communicating its opinions or recommendations.

1.3 Role of the Committee for Public Services

Municipal assemblies play a very limited role in public services, since the same are unable to influence the services delivery process. The establishment of the Committee for Public Services paves the way for the Municipal Assembly to increase its influence on processes related to public services in the municipality, enabling the municipal assembly to oversee the quality of public service delivery by the municipality and other relevant mechanisms, as well as allowing the increase of oversight in implementation of capital investments. The establishment of the Committee for Public Services gives more space to direct communication with citizens and collecting information on their requests, problems and recommendations.

The role of the Committee for Public Services is to engage in improving public services delivery at municipality level. The Municipal Assembly, through this Committee, shall give its contribution to ensure that quality services are delivered to citizens.

In technical terms, members of the Committee for Public Services are not the ones delivering these public services to citizens, meaning that they do not conduct the road maintenance, public lighting or any other service. The Committee for Public Services primarily focuses on two essential duties: a) revision and approval of policies, regulations and other strategic documents related to public services; and b) oversight of public services delivery by the municipal executive body and relevant public service delivery companies.

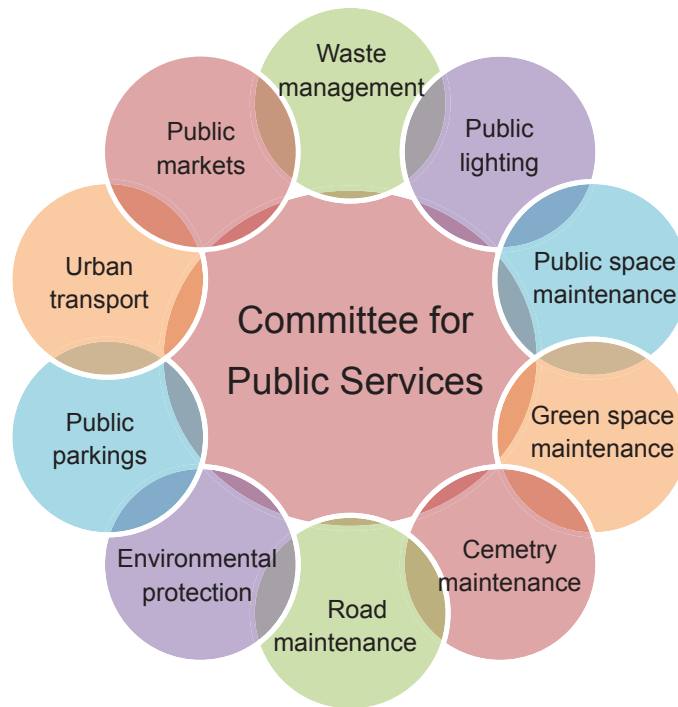


Figure 15: Areas of responsibility of the Committee for Public Services

a. Reviewing and approval of public services documents

The Municipal Assembly is responsible for reviewing and approving of all plans, regulations and other strategic documents of the municipality, including those related to public services. The Committee for Public Services is responsible for reviewing all these documents before the same are reviewed by the Municipal Assembly. The Committee should serve as a supporting and guiding mechanism to the Assembly with regard to decision that should be taken by the Assembly for a certain document. The Committee should, from a professional perspective, provide comments and suggestions on the content of concerned documents.

Documents with a direct impact on the municipality's public services, which should be reviewed by the Committee for Public Services include:

- 1) Regulation on municipal taxes, fees and fines;
- 2) Regulation on environmental protection;
- 3) Regulation on public services;
- 4) Regulation on funeral services;
- 5) Regulation on veterinary inspection;
- 6) Regulation on hunting;
- 7) Regulation on use of stone and gravel;
- 8) Regulation on road transport and taxi svices;
- 9) Regulation on local public transport;
- 10) Waste management plan;
- 11) Emergency management plan, etc.

Oversight of public services

The Municipal Assembly is responsible for overseeing the work of the municipality's executive body, as well as the work of the Mayor and municipal directorates. This oversight also includes the Directorate of Public Services and other municipal directorates whose scope of work is related to public services (Directorate of Inspectorate, Directorate of Infrastructure, Directorate of Finance, etc.). The Committee for Public Services should also oversee public municipal and regional enterprises and private companies that provide certain segments of public services (including waste management, public transport, district heating, public and green space management, etc.).

There is a very important principle for ensuring the functioning and effectiveness of the Committee for Public Services. The work of this Committee and its relations to other bodies, institutions and organizations is based on the principle of partnership. Consequently, it is essential that the Committee for Public Services establishes partnership with:

- 1) The Municipal Assembly;
- 2) Other committees of the Municipal Assembly;
- 3) The Mayor;
- 4) Directorate for Public Services;
- 5) Directorate of Inspection;
- 6) Directorate of Finance;
- 7) Regional (and municipal) public companies on;
 - a. Waste;
 - b. Water;
 - c. District heating;
 - d. Bus stations;
 - e. Public transport, etc.;
- 8) Political parties;
- 9) Competent ministries;
- 10) Committees of the Assembly of Kosovo;
- 11) Village councils and leaders;
- 12) Tender-awarded companies for public service provision, etc.

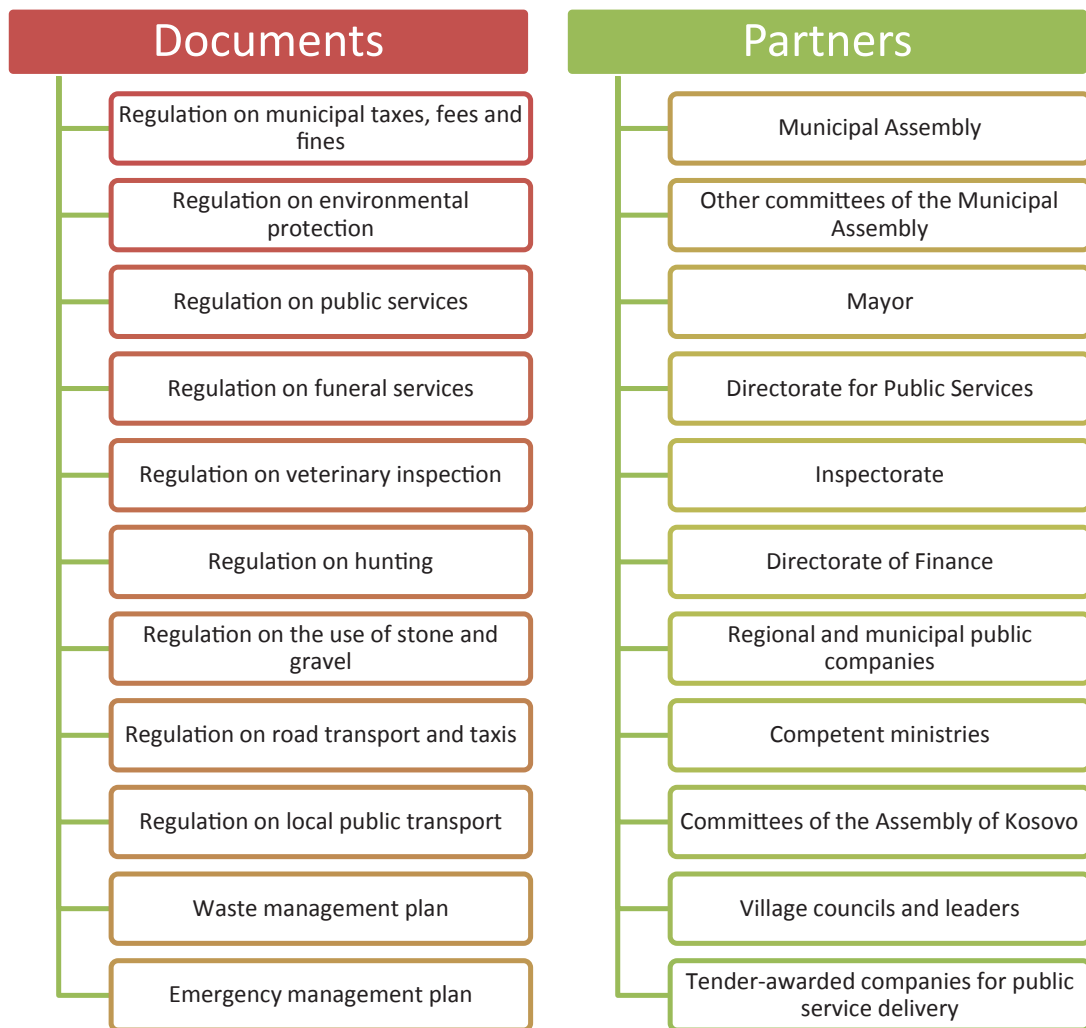


Figure 16: Documents that are reviewed by the Committee for Public Services and its potential partners

1.4 Description of group work

Task	Description
Identify the needs of the Committee for Public Services	In most Municipal Assemblies, the Committee for Public Services has been established during their last mandate. These assemblies and committees are creating a new practice of local government functioning in Kosovo. The establishment of the Committee for Public Services is yet another step towards empowerment of municipal assemblies. However, to justify its establishment, the members of the committee should show increased commitment to achieving its obligations and goals. In fact, the Committee for Public Services is established to support the Assembly in the area of public services, review documents, regulations and strategies from the area of public services, and oversee the work of relevant municipal directorates in public service delivery, including public and private companies providing public services. Discharging the above responsibilities and functions requires fulfilment of several preconditions, without which it is difficult for the Committee for Public Services to achieve its goals. Group members should identify the needs of the Committee for Public Services, which should be fulfilled, to ensure its normal functioning, compliance with its obligations and achievement of its goals.

